2 Dividend-Growth Stocks With Big Upside Potential

Description

The recent downturn in the market is giving investors a rare opportunity to pick up some of Canada's top dividend-growth stocks at very attractive prices.

Here are the reasons why I think **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) are attractive choices right now.

Enbridge

The downturn in the oil market has led to an exodus out of the broader energy sector, and Enbridge has not been spared.

While the pain is probably warranted for some of the highly leveraged producers, I think the sell-off is overdone in the pipeline sector. This is especially true for Enbridge.

Why?

Enbridge is not a producer. It simply transports oil and natural gas and charges a fee for providing the service. As a result, the price of the actual commodity has little direct impact on Enbridge's revenue.

The market is concerned that budget cuts by energy companies will put a dent in Enbridge's growth prospects. This makes sense if energy prices are destined to remain at current levels for several years, but most market observers expect an eventual rebound.

In the meantime, Enbridge is not hurting for work. The company has a backlog of $38 billion in infrastructure projects with $25 billion targeted for completion by 2019. This means there is ample room for revenue and cash flow growth while the markets work through its rough patch.

Enbridge plans to raise its dividend by 14% per year through 2019. Investors who buy the stock now already get an attractive 4.8% yield, and the distribution hikes over the next three years will push that even higher.

At some point oil prices will recover and investors will rush back into the sector. When that happens, Enbridge's shareholders could see a big gain.

Royal Bank

Last year Royal Bank earned just under $10 billion in profits. That's pretty good considering the bank is supposed to be battling strong economic headwinds.

Despite the solid results, Royal Bank's shares are down more than 12% in the past 12 months, driven by concerns about exposure to energy companies and the risk of a housing meltdown.

In the Q4 2015 report the bank said its drawn exposure to energy companies represented just 1.6% of its total loan book, so the direct oil risk is limited.

As for housing, Royal Bank finished fiscal 2015 with $205 billion in Canadian residential mortgages on its books. Uninsured loans represent 62% of the portfolio and the loan-to-value ratio on that component is 55%. This means the housing market would have to fall off a cliff for Royal Bank to take a material hit. That is possible, but most analysts expect a gradual pullback in house prices, so there shouldn't be too much concern.

Royal Bank has increased its dividend by a compound annual growth rate of 10% over the past 10 years. The increases might not be as large in the near term, but investors should see the strong trend continue. The stock pays a quarterly dividend of $0.79 per share that yields 4.7%.

Royal Bank has been a great wealth generator for long-term shareholders, and the stock rarely goes on sale. Right now investors have an opportunity to pick up the name at a very attractive 10 times earnings.

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1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
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1. Editor's Choice

TICKERS GLOBAL

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2. NYSE:RY (Royal Bank of Canada)
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