There Is a Much Better Option Than Enbridge Inc. for Dividend Investors

Description

There's little doubt about the long-term success of a dividend-growth approach to investing—not only do dividends make up a big portion of returns (Blackrock, for example, claims that over the past 100 years, dividends were responsible for 90% of U.S. stock returns), but stocks that have a steady record of growing dividends tend to outperform those that do not.

Canada has had no shortage of dividend-growth names, but given that the TSX is largely made up of energy, materials, and financial names, many of Canada's best-performing dividend-growth names had exposure either indirectly or directly to commodities and, in particular, oil.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is an excellent example. Over the past 10 years, Enbridge has grown its dividend at a compound annual growth rate (CAGR) of 14%. It has increased its dividend steadily for 21 years straight, and investors also benefited from massive share-price appreciation over the same period.

Going forward, however, there is good reason to believe Enbridge will not repeat the same performance (nor will its Canadian pipeline peers). This means investors will need to look elsewhere for the low-risk dividend and earnings-growth pipeline names provided. There is no better alternative than **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP).

Oil sands growth is set to plateau

Enbridge's ability to drive steady double-digit earnings and dividend growth was due to the fact that oil sands production grew rapidly over the past decade. Going forward, however, the runway for oil sands production growth is limited. This means that the need for oil infrastructure will be also be limited.

Between now and 2020, the Canadian Association of Petroleum Producers (CAPP) sees Canadian oil sands production growing by about 800,000 barrels per day from 2.3 million barrels per day in 2015 to 3.1 million barrels per day until 2020. This growth comes largely from projects that are already under construction.

After 2020, however, the growth outlook looks grim. Originally, CAPP saw oil sands production growing by nearly million barrels per day from 2020 to 2030; however, their newly revised forecast sees oil sands growth basically stalling in 2020 at about 3.1 million barrels per day.

While Enbridge still has a solid growth outlook for the next four years (annual cash flow growth of 12-14%), its long-term outlook is not as rosy, and Enbridge admits this. From 2019 to 2024, in a situation where there is no new growth capital, Enbridge sees its cash flow growing at only 3% annually.

Brookfield Infrastructure Partners is a better alternative

The main appeal of Enbridge is that being an energy infrastructure company, Enbridge benefits from long-term contracts with customers that that are often cost-of-service based (where Enbridge is guaranteed to out-earn its costs), government regulated (which limits competition), or based on take-or-pay contracts where Enbridge has limited volume risk.

Brookfield Infrastructure Partners offers investors this same low-risk profile, but with much better asset and geographic diversification. This asset and geographic diversification gives Brookfield a massive long-term runway of opportunities to deploy capital.

Currently, Brookfield owns pipeline assets, railroads, toll roads, ports, and transmission and communication towers. These assets are in demand, face limited competition, and are irreplaceable. Cash flows are governed by long-term contracts and are often regulated by governments, which limits competition and locks in returns.

This business model has been working. Brookfield has grown its dividend distribution at a CAGR of 12% since 2009 and sees it growing consistently by 5-9% annually going forward; 2016 should see growth above 10%.

Unlike Enbridge, Brookfield has massive, long-term opportunities to deploy capital to drive growth. A recent report by Standard & Poor’s indicates that significant global investments in infrastructure are necessary due to under investment and growth from emerging markets, and constraints on government budgets means there is a huge need for private capital.

Brookfield currently has exposure to North America, Europe, Australia, South America, and is currently focusing on expanding into Asia. This will allow Brookfield to be where the opportunities are and take advantage of markets where assets are selling for cheap.

CATEGORY

1. Dividend Stocks
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1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:ENB (Enbridge Inc.)
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