Why Is Enbridge Inc. a Top Stock?

Description

Last year was challenging for energy companies as we saw record low oil and gas prices and energy investments fall by 35% in North America.

Then there's **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), which continued to weather the storm and even brought online $8 billion worth of projects last year. Actually, its shares have rebounded from a low and appreciated 15% year to date.

Other than its midstream business, Enbridge also has a renewable power-generation business that helps stabilize its business performance.

The New Creek Wind Project in West Virginia, which is anticipated to be in service in the fourth quarter, will bring Enbridge's generating capacity to almost 2,000 megawatts.

Tends to outperform

Over the three-year, five-year, and 10-year periods that ended in 2015, Enbridge outperformed the market (i.e., the S&P/TSX Composite Index) in total returns by 0.7%, 11.4%, and 8.8%, respectively.

However, Enbridge underperformed by a large margin (-12.1%) last year. The whole industry has been experiencing hardship, which might indicate it's an excellent time to invest in Enbridge for the long haul.

Dividends

Although capital appreciation was a major contributor in Enbridge's total returns, its dividend played a meaningful role as well. Enbridge tends to pay an above-average yield that grows at an above-average rate compared with the market.

Enbridge has paid dividends for more than 60 years, and it has raised its dividend every year for the last 21 years.

Since 2006 Enbridge has hiked its dividend at an average rate of 14% per year. And the company believes it can continue to grow its dividend per share at an average rate of 10-12% per year through 2019 via new projects and growth from the existing business.

Cash flow stability

As an energy infrastructure company, Enbridge's profitability isn't reliant on commodity prices. For example, 95% of Enbridge's cash flow is supported by long-term agreements.

Additionally, 95% of its cash flow is generated from investment-grade clients, or additional security is obtained to mitigate the risk of default on receivables.

Lastly, less than 5% of its earnings are subject to market price risks including commodity, interest, and foreign exchange.

Growth

From 2015 to 2019, Enbridge has a $26 billion capital program in place. Along with the base business, these projects are expected to generate cash flows that would support double-digit dividend growth through 2019.

Enbridge has $10 billion of projects already in service, including $1.8 billion that came into service this year. In the next year $4 billion of projects are expected to go online.

Enbridge also secured the Rampion Wind project in the United Kingdom, which is expected to be in service in 2018. This is a strategic step for Enbridge to enter the international market.

Conclusion

At $53, Enbridge yields 4%. Being conservative, if the company's low-end dividend-growth estimate of 10% per year materializes, investors buying Enbridge today can expect a yield on cost of 5.3%.

With an above-average yield and expected double-digit growth, Enbridge is a top candidate for income, income growth, and total returns.

CATEGORY

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

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