Enbridge Inc. May Be Just the Thing Income Investors Need

Description

One problem with the stock market is how irrational it is. Last year, any company associated with the energy sector saw its share price drop significantly. For investors who take advantage of irrational behavior, there was a lot of money to be made. One company that was unfairly impacted was **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), and investors who bought low certainly know this.

Enbridge is a pipeline company (though it does a few other things as well). Said another way, it's a tollbooth for oil companies. If you want to transport oil, you pay Enbridge. But Enbridge doesn't actually care what the price of oil is; it charges a flat per-barrel fee. Because of that, 95% of its cash flow is supported by long-term agreements.

This means that so long as its investment-grade clients continue to pump oil, it's going to continue to generate money.

Fortunately, the future of Enbridge looks incredibly bright.

It has plenty of capital projects planned that are going to provide significant growth to cash flow, which is the most important number when analyzing dividend growth. In October 2015 it unveiled its strategic plan, which was a five-year strategy from 2015 through 2019. This included $24 billion in commercially secured projects and an additional $14 billion in what the company called "risked potential capital projects."

These sorts of products are expected to contribute significant growth to earnings per share (EPS). Management expects that EPS will have 11-13% compound annual growth. Further, it expects that cash flow per share will have 15-18% compound annual growth through 2019 should this strategy work.

But Enbridge isn't stopping there…

While it certainly doesn't generate a significant amount of its earnings from its tollbooth business, Enbridge isn't only focused on that. It's been investing heavily in the wind-power business.

Last November it bought the New Creek Wind Project in West Virginia. Its capital expenditure on the project has been $200 million, but when it launches in December of this year, it’ll provide 103 megawatts–power for 23,000 homes.

News also broke in the beginning of August that Enbridge had won the right to buy a 49.9% stake in the **EnBW** offshore wind project for approximately $2.9 billion. This wind park will generate nearly 500 MW of clean energy, which will provide enough power for 560,000 homes in Europe. Couple this with many of its other recent acquisitions in wind power, and business is booming.

All of this leads me to my thesis that cash flow is not going to be a problem for Enbridge. It is able to pay nearly 4% in yield, which comes out to $0.53/share a quarter. That alone is impressive, but it’s the future growth that has me interested. Management believes that because of its cash flow growth, it’ll be able to grow the dividend by an average of 10-12% every year through 2019. And since it has already increased the dividend every year for the past 21 years, I’m confident it will be able to pull this off.

So if you’re looking for a dividend-paying company that generates the bulk of its revenue from a tollbooth-like business, plus has investments in diversified green-energy production, you can’t go wrong with Enbridge.

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Date
2025/08/25
Date Created
2016/08/18
Author
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