Enbridge Inc.: A Smart Dividend Stock Going into 2017?

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) has always been a stock I have found interesting because of the company's unique business model. While it is entirely dependent on oil companies for its business, it's never been dependent on high prices to generate revenue because it operates as a toll booth.

In essence, oil companies pay Enbridge a flat per-barrel fee for access to its network of pipelines. Whether the price of oil is US$50 or US$100, the companies still have to pay to transport the crude.

And because of that predictable toll-booth-like business, its profits are predictable, which allows it to grow the dividend that investors receive. In my opinion, Enbridge is an incredibly smart stock to own for those looking for income.

Enbridge is working to acquire **Spectra Energy Corp.** (NYSE:SE), a natural gas pipeline. Should this deal go through, the combined companies would be the largest energy infrastructure company in North America.

All told, management projects that annual run-rate synergies will be in the ball park of $540 million. Being able to grow a company while cutting costs is a solid way to divert free cash flow to dividends.

The Spectra acquisition gives Enbridge exposure to natural gas in a way it has never had it before. And thanks to development projects, management believes that Spectra will be able to generate a 3-5% compound annual growth rate (CAGR) between now and 2025.

On the topic of development projects, between the two companies, there is $74 billion in secure project and risked-development inventory in the coming years. And there is $26 billion that is currently in execution that will be ready to launch by 2019.

By adding this huge network of quality projects to the network, the company is going to be able to consistently generate growing cash flows that should ultimately result in a perpetually growing dividend.

One project waiting for government approval that should help the company quite significantly is its Line 3 pipeline replacement. Although it will cost $7.5 billion, this helps the company in two ways.

First, it increases capacity from 390,000 barrels per day to 760,000 barrels, which was its original capacity. Second, the company will have to spend $1.1 billion in maintenance on the line in the next year with more to come in future years. If Enbridge can instead invest that money in a new pipeline that will increase capacity, it'd be a net positive for the company.

So let's talk dividends…

If the above acquisition actually goes through, management expects to increase the dividend in 2017 by 15% because the deal is accretive immediately.

Both Enbridge and Spectra shareholders have expressed overwhelming support for the acquisition, which is a good sign. Enbridge is currently working through the regulatory hassle of proving that this won't be a negative for consumers, but management is confident that the deal can be closed in the first quarter of 2017.

However, even if the deal doesn't go through, management has talked about increasing the dividend by anywhere from 10% to 12% per year through 2019. And if its development projects can all get approved and launched, the dividend could continue to grow for many more years to come.

All in all, I am quite confident that Enbridge will be able to increase its dividend. For investors that want a stable and secure yield that grows, I say buying Enbridge is a no-brainer.

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