Enbridge Inc.: A Must-Own Dividend Stock

Description

If a company is able to accurately predict how much cash is going to flow into its bank account, it can comfortably allocate a percentage of that as dividends to its investors. There are few businesses that have as much predictability as **Enbridge Inc.** (TSX:ENB)(NYSE:ENB).

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At its core, Enbridge is like a toll booth, transporting oil and natural gas for large energy companies. And since it charges a flat fee per unit of energy rather than basing the price on the where the commodity is trading, it is not nearly as affected by fluctuating energy prices as the actual producers are.

Enbridge is also taking full advantage of its scale to rapidly grow its network and expand into other businesses. Enbridge merged with Spectra Energy Corp. in March. This merger resulted in the combined companies being the largest energy infrastructure company in North America with an enterprise value of $165 million.

Here's why I like this deal so much.

Enbridge was focused predominantly on the oil business, and it had done great with that business. Spectra Energy, on the other hand, was focused predominantly on the natural gas business. But the businesses aren't that different, so by combining, they can achieve synergies through scale. By the end of 2018, Enbridge expects to generate annual synergies of $540 million.

Another reason I'm fond of this deal is because of the growth prospects both companies have. Enbridge now has $74 billion in secure projects and risked-development inventory between oil and natural gas. Over the coming years, we'll see billions of dollars in projects come online, which will only increase cash flow for the business.

What is particularly appealing to me is that Enbridge is taking its long-term pricing models and expanding into wind generation. In February, it bought 50% of the Hohe See Offshore Wind Project. Enbridge's total investment for the 497-megawatt project is $1.7 billion, and it is expected to come online in late 2019. For 20 years, the energy generated will receive long-term fixed pricing. In 2018, the 400-megawatt Rampion wind project should come online; Enbridge owns 24.9%.

All of this long-term pricing has made Enbridge a must-own dividend stock. Currently, it yields 4.14%, which is good for $0.583 per share on a quarterly basis. For the past 21 years, the dividend has been increased by an average annualized rate of 10.6%, which is absolutely mind blowing.

But here's what should really excite you: between now and 2024, management expects to increase the dividend by 10-12% annually. When the acquisition was finalized, the company increased the yield by 10%; however, the company had discussed the dividend being increased by 15% over what the 2016 dividend was, so I imagine there could be another smaller dividend hike planned for later this year.

Ultimately, this investment makes perfect sense for those that need a strong income generator. Because of its scale, enormous development portfolio, the diversification into wind power generation, and the overall predictable nature of its business, Enbridge is an amazing way to get a strong quarterly dividend that will be significantly higher in the next eight years.

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