Income Investors: A Canadian Dividend Deal to Consider Today

Description

Canadian dividend stocks have been under pressure recently, and that is providing income investors with a chance to pick up some top-quality names at attractive prices.

What's going on?

Concerns about rising interest rates have some investors moving out of the Canadian dividend sector, especially in certain telecom, REIT, utility, and pipeline stocks.

As interest rates move higher, the return an investor can get from a GIC or a government bond normally moves in step. This tends to close the gap between the yield from safe investments and the yield investors are getting from higher-risk assets, including dividend stocks.

The higher rates go, the more likely it is that people will shift funds out of stocks and in to lower-risk holdings.

Are we getting ahead of ourselves?

Markets tend to overshoot, and that might be the case we are seeing with the sell-off in income stocks.

Interest rates might have finally bottomed, but the Bank of Canada is not likely to raise rates significantly, or quickly, given the potential negative impact on over-leveraged Canadian borrowers.

As a result, dividend yields above 4% should still be considered attractive, especially after some of the premium has come off many of the top stocks.

Let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see why it might be an interesting pick.

Acquisition

Enbridge completed its acquisition of Spectra Energy earlier this year in a deal that created North America's largest energy infrastructure company.

Spectra added strategic natural gas assets to complement Enbridge's heavy focus on liquids pipelines, and the newly combined company now has $27 billion in commercially secured projects in the capital plan, as well as another $48 billion in risk-weighted developments.

That's a healthy backlog in a tough energy environment.

Reliable income

Enbridge isn't an oil or gas producer, it simply moves the product from the point of production to the end user and charges a fee for the service. This means the changes in commodity prices have little direct impact on the company's revenue stream.

Most contracts are long-term agreements with industry heavyweights that will continue to produce regardless of the fluctuations in the commodity prices.

Dividend growth

As the new assets are completed and go into service, Enbridge expects cash flow to grow enough to support annual dividend increases of at least 10% through 2024.

That might sound ambitious, but Enbridge has a long track record of raising its dividends, and there is little reason to doubt the guidance.

The current dividend provides a yield of 4.7%.

Should you buy?

Enbridge is trading near its 12-month lows and is down 9% in the past six months. If you are looking for a dividend-growth stock to stick in your income portfolio for the next 10 years, Enbridge looks attractive today.

Interest rates will move higher, but Enbridge's dividend-growth should help offset any downward pressure on the stock that could result.

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aswalker