Income Investors: This Dividend Has Doubled in 5 Years

Description

Dividends are a great way to add regular income to your portfolio, but dividends that grow are even more valuable. If a company grows its dividend, that means the longer you hold money in the stock, the more of a return you will end up getting. For example, a dividend that increases by 10% every year will see its payout double after a little more than seven years if it were to continue at that pace.

A strong, growing dividend is one way you can earn a strong return and not have to rely on the stock appreciating in price. However, there are no guarantees the dividend will continue growing at the same rate, but a company that shows it is committed to growth will likely continue to do so unless the company's financial performance dictates otherwise.

One company that employs a strong dividend-growth model is **Enbridge Inc.** (TSX:ENB)(NYSE:ENB). Currently, the stock yields an annual return of over 4.6% that is paid out quarterly. The company's most recent dividend of $0.61 per share has increased from $0.53 last year for growth of over 15%. The year prior, the dividend grew by almost 14%, and by 32% the year before that. In 2012, the quarterly dividend paid $0.2825 per share, meaning it has climbed by over 115% since then for a compounded annual growth rate of 16.6%.

If the company can continue to grow its dividend at this pace, then it would take just five years for the total dividend to double. It may seem concerning to invest in a company that is involved in oil and gas since oil prices have been on the decline, but Enbridge is not just an oil and gas company. Enbridge has invested in renewable energy and plans to expand that segment of its business. Being more diversified than a regular oil and gas company has allowed Enbridge to weather the storm better than others involved in the industry.

Consider that the peak price of Enbridge in the past five years came in April 2015 at $65.50, when the oil price was far from its peak. At that time, the price of oil had already dropped to under $60, and yet Enbridge's stock price was climbing. In 2014, when oil prices peaked, Enbridge's stock was actually lower than it would be in 2015. This suggests that despite what the price of oil does, Enbridge won't be hit as hard as others in the industry. The company's diversification strategy gives it the strength to absorb the fluctuating oil prices.

Enbridge saw a peak in revenues in 2014, with sales totaling $37 billion, which subsequently dropped to $33 billion in the following year. In 2016, however, sales increased 2%, up to $34 billion. The company's quarterly revenue has grown for three consecutive periods.

The company's payout ratio in 2016 was high at 93% and up from 2015's 84.5%. However, with continued revenue and profit growth, the company should be able to accommodate its growing dividend. The company has taken pride in growing its payouts for the past 20 years and, as of the latest annual report, it's expected to be able to continue to do so through to 2024.

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