Enbridge Inc.: A Classic Buy-the-Dip Stock

Description

Being a stock picker is tough. Even if you’ve done all the right research, you might wind up buying the stock too early and watching as the stock loses value — it’s almost always in the short term, but it still hurts.

One way to prevent that from happening is to take advantage of dips in the price to pick up shares. This helps you average down your cost per share and boosts your yield.

Enbridge Inc. (TSX:ENB)(NYSE:ENB), the largest energy infrastructure company in North America, is currently a classic buy-the-dip stock. And for investors that are looking to earn income and gain exposure to an insanely strong company, I believe you can’t do much better than Enbridge.

Since the end of April, the stock is down by nearly 13%. A big reason that it has suffered is that it had a rough first quarter. Its available cash flow from operations (ACFFO) dropped by $1.03, or 18%, per share compared to Q1 2016.

There were two reasons this happened, all because of its merger with Spectra Energy. First, the merger resulted in far more outstanding shares, diluting how much cash flow is available per share. And second, the combined entity has more debt, so interest payments ate into more of the cash flow.

However, this merger is a big win for Enbridge. Management expects adjusted profits before interest and taxes to be anywhere from $7.2 to $7.6 billion — up from $4.7 billion in 2016. And as the years progress, I expect profit to continue growing primarily because the company has so many great growth opportunities.

By 2019, Enbridge expects to launch $26 billion in short-term projects. And on its long-term development pipeline, there is an additional $48 billion. The major projects are the replacement of Line 3, which will transport 375,000 barrels per day; the Norlite project, which will transport 130,000 barrels per day; and the Bakken pipeline system, which is a massive 470,000-barrel-per-day project.

This growth enables one primary thing: massive dividends.

Over the past 10 years, the company has increased its dividend by at least double digits, which makes it one of the best dividend-growth stocks on the market. Going forward, it expects to continue doing that. Between now through 2024, management forecasts dividend growth of anywhere from 10% to 12%. And with the current payout ratio between 50% and 60%, I am confident this dividend growth will occur.

On top of that, because of the nature of its business, the cash flow is ultimately very predictable. There are many other companies that promise insane dividend growth, but then business cycles ruin it — Enbridge doesn't have that problem.

With shares down over the past few months and no real understanding of where the bottom is, buying the dip is a perfectly viable strategy to start picking up shares and creating a powerful position. If shares go lower, continue to average in. But, with a stock that is yielding nearly 5% already and is due for double-digit increases for many years in the future, waiting on the sidelines would be a bad decision.

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