Enbridge Inc.: A Top-Tier Income Stock

Description

I like business models that are predictable because they make for amazing dividend stocks. That's why I like real estate with monthly rent payments, software as a service with subscription fees, and pipelines because they are just like toll roads, except with oil with gas. **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) might just be the perfect pipeline business for you to invest in.

The best part, though, is that you can pick these shares up for about 10% less than what they were trading at the end of April. Any time a top-notch company experiences a pullback that is only temporary, buy the dip.

Business is booming. In Q2, Enbridge's adjusted EBIT was $1.713 billion — up from $1.09 billion a year prior. Enbridge's available cash flow from operations (ACFFO) saw a big boost as well from $868 million to $1.32 billion.

This growth is, in part, thanks to this being the first full quarter since Enbridge and Spectra merged. Management is projecting that full-year EBIT could be anywhere from $7.2 to $7.6 billion with ACFFO of $3.60-3.90.

Nevertheless, some investors might be a little frustrated. Although ACFFO is increasing significantly, because of the merger, there are more shares of Enbridge. Although it's frustrating, the combined companies will return far more to investors than the two separate ones.

Here's why:

In 2017, the company will have invested $13 billion into low-risk projects that will boost growth. In 2018, it'll invest an additional $6 billion. And in 2019, it'll add another $13 billion. These projects are important because they directly impact distribution and transport. The more pipeline there is, the more oil and gas that can be transported, thus the more revenue and cash flow.

On top of this, there is an additional $48 billion in long-term development projects that, although not yet being worked on, could add even more growth potential to the business.

The point here is, because these two companies merged, there are tens of billions of dollars in growth opportunities that, separately, they just wouldn’t have had. That’s the key; the growth makes the combined entities greater than the parts.

And that’s important because Enbridge is, like I said, a top-tier income stock. It currently yields 4.75%, which is good for a quarterly dividend of $0.48. In the first half of 2017, the dividend increased by 15%. Even better, over the past 10 years, Enbridge has increased the dividend by at least 10% every year.

Between now and 2024, management forecasts yearly dividend increases between 10% and 12%. With a payout ratio somewhere between 50% and 60%, there’s little reason why these dividend boosts won’t occur.

Energy transportation is a must. Pipelines act like toll booths, generating per-barrel fees irrespective of energy prices. These fees allow for predictable earnings and cash flows. Finally, these expected cash flow can be immediately paid out to investors in an ever-growing dividend. And with a yield as high as Enbridge’s, you’re getting solid income.

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