How Dividends Can Help You

Description

The yields of dividend-growth stocks help indicate if the stocks are good buys or not. Historically, **Enbridge Inc.'s** (TSX:ENB)(NYSE:ENB) yield seldom reaches 5.5%. The last time it did that was back in 2000.

Dividend yield sets a floor for the share price

So, when the stock reached that yield recently at the ~$44 per share level, I added to my position. Guess what? The stock hiked its dividend by 10% soon after that, and it recovered to a level such that it now yields, not surprisingly, close to 5.5%. In other words, the 5.5% yield sets a strong floor for the stock.

Now, the yield indicator should only be used for companies that have track records of growing their dividends. We don't see dividend-growth stocks with yields of, say, 10% lying around. That's because as they increase their dividends, their share prices appreciate, too. This is just what we saw happen at Enbridge.

Enbridge has increased its dividend for 21 consecutive years. And management confirmed that it will grow the company's dividend by 10% per year through 2020.

The Street consensus from **Thomson Reuters** has a 12-month price target of $58.40 per share on the stock, which represents ~18% upside potential from the recent quotation of ~$49.30 per share. Throwing in the dividend, the near-term total returns could be close to 24%.

I also used the dividend-reinvestment plan (DRIP) for the most recent dividend because the shares were cheap. The company generously gave a 2% discount from the average market price for the dividend-reinvestment purchase. DRIPs are a great way for long-term investors to invest and lower their costs, because they are free to use.

How DRIPs help

Another stock I bought recently through a DRIP is **Altagas Ltd.** (TSX:ALA). Since Altagas pays a monthly dividend, the compounding effect is stronger.

Some investors don't view dividend re-investments as investing their own money because dividends are generated from the investments themselves. However, I see it differently. You could have used the dividends for other purposes, such as paying the bills or going out for a nice dinner with family and friends. The dividends would otherwise have been *your money* to use at your discretion if you haven't reinvested it.

I think Altagas is cheap for the long term. In the near term, there's an overhang on the stock due to the huge **WGL Holdings** acquisition that management expects to close by mid-2018.

If investors can see through the near-term depression of the stock, they can get a ~7.6% yield today, while they wait for price appreciation. The Street consensus from Reuters has a 12-month price target of $32.70 per share on the stock, which represents ~13% upside potential from the recent quotation of ~$28.80 per share. Throwing in the dividend, the near-term total returns could be close to 21% in the near term.

Altagas's dividend-growth track record hasn't been nearly as long as Enbridge's. Altagas has only increased its dividend for five consecutive years. However, it's operating cash flow more than covers its dividend.

Moreover, the company just hiked its dividend by almost 4.3% this month. And if Altagas successfully acquires WGL, management anticipates it can grow its dividend by 8-10% per year from 2019 to 2021. So, perhaps next year, we'll see any dividend hike of ~4%.

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