My Top Stock Pick for 2018: Value Investing

Description

The past year has seen many incredible names move in the right direction and reward investors extremely well. Companies such as **Canadian Pacific Railway Limited** have increased by close to 20%, as the value of these unique assets have become fully valued — so much so, in fact, that investors need to turn away from many of these high-quality names, as they are much too expensive to be considered.

Sitting in the "high-quality" basket are shares of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB). At a price of almost $50 per share, Enbridge shares have experienced a technical bottom near the $43 mark and have since resumed their move forward. Never have the encouraging words "onwards and upwards" been so true in the financial markets. The company, which delivers power to households and businesses, is one of the most defensive names, as the revenues and dividends will be the least effected of any company during an economic slump.

The investment rationale for this value-oriented name is the current dividend yield, which, at a quarterly payment of $0.671 per share, equates to a yield of almost 5.5%. With this fresh increase, it is expected that the market will take this under consideration over time and shares will move up accordingly.

Investors have the choice of taking on the risk of owning a defensive security (and receiving income of 5.5%), or the other option, which is less risky, is to purchase a government of Canada 10-year bond, which currently offers a 2% return.

In order to secure this recent dividend increase, the company announced that it would be selling close to $3 billion of non-core assets. In an additional show of stability, the company also announced that it had identified close to $10 billion of non-core assets, of which, plans for the difference (the $7 billion) are yet to be concretely set in stone.

The sustainability of the dividend is something else!

For three quarters of the 2017 fiscal year, the company's dividend represented ~$1.9 billion, which was no more than 60% of net income and 36.4% of cash from operations. What makes this name even more attractive is the benefit of growing by shrinking.

Although it may not seem intuitive to most, the truth is that many companies have increased their return on equity and per-share metrics by shrinking the footprint of the company.

An excellent example of this is the case of **American International Group Inc.** (NYSE:AIG), which has seen its share count shrink from 1,464 million for the fiscal year ending December 31, 2013 to a current number of less than 900 million shares. By retiring its own shares, the company was successful in reducing the numerous lines of business in which it operated and has been able to focus on its core businesses.

With the potential to reduce the total share count and focus on its core business, investors need to strongly consider shares of Enbridge as the best value-oriented investment for 2018.

Happy New Year!

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