Does Enbridge Inc. Stock Deserve a Place in Your RRSP After a 24% Plunge?

Description

As the deadline for the Registered Retirement Savings Plan (RRSP) contribution approaches, it's a good time to look into Canada's top dividend stocks and see if there are any bargains you can consider for this year.

One such stock that is trading at an extremely attractive level is North America's largest pipeline operator, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB). This stock is down ~24% during the past one year after facing a persistent downward pressure.

One of the biggest contributors in Enbridge stock's dismal performance has been rising interest rates in North America. A higher borrowing cost diminishes the investment appeal of bond-like utilities when compared to fixed-income investments.

The Bank of Canada's bullish stance on interest rates has boosted bond yields, and expectations are that the central bank will raise the borrowing cost again in 2018 after its three hikes since last summer.

Energy infrastructure companies are capital intensive, meaning they have to borrow more frequently from the capital markets to fund their massive development plans. Higher borrowing costs eat up their margins.

But I think this pullback in Enbridge stock offers a great entry point for long-term investors who want to add quality dividend stocks to their RRSP portfolios. Here are my top two reasons which support my bullish call on Enbridge.

Wide economic moat

Enbridge is a dominant player in North America's energy markets, operating the world's longest crude oil and liquids transportation system, transporting 28% of the crude oil produced in North America.

The company is also a leader in the gathering, transportation, processing, and storage of natural gas, moving approximately 23% of all natural gas consumed in the U.S. Enbridge's energy portfolio includes wind, solar, and geothermal projects, with nearly 3,000 megawatts (MW) of net renewable generation and power transmission capacity.

This scale is a huge competitive advantage for Enbridge. The world's most successful value investor, Warren Buffett, coined the term "economic moat" to describe the power of such companies. And I think Enbridge fits nicely into this category.

Solid dividend history

There is no doubt that Enbridge is treading in rough waters at the start of 2018. Investors' general dislike of utility stocks when bond yields are climbing will continue to keep this stock depressed.

But I think this is also a good time to pick Enbridge's very juicy dividend yield of 5.6%, as the company remains one of the best dividend stocks for long-term investors.

Trading at $43.06, Enbridge pays the quarterly dividend of $0.671. This translates into $2.684 per share on an annualized basis. Over the past 20 years, the dividend has grown at an average compound annual growth rate of 11.7%.

Enbridge plans to raise its dividend payouts 10% each year through 2020, as it undertakes massive growth projects following its acquisition of Spectra Energy last year.

The bottom line

Trading close to the 52-week low, Enbridge stock is a great buy for long-term investors to earn steady income. There is no doubt that the ongoing bearish spell has spooked many investors, and they don't want to invest in the rate-sensitive stocks such as Enbridge. But I think the company's long-term value remains intact, and it is a good candidate for any RRSP portfolio.

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