RRSP Investors: Earn 6% Dividend Yield From This Top Stock

Description

For RRSP investors who plan to buy and hold stocks in their portfolios, there's nothing better than a high dividend yield from a quality stock.

I usually don't recommend stocks that support payouts that compromise the quality of the companies' balance sheets. Often, an abnormally high dividend yield is a sign of trouble in the making. When investors don't trust the long-term viability of a company or its cash flows, they usually punish the stock, sending the dividend yields soaring.

That's not always the case, however. Sometimes, short-term uncertainty and a challenging operating environment also play a part in depressing a share price and opening a window for long-term investors to lock in juicy dividend yields.

Calgary-based Enbridge Inc. (TSX:ENB)(NYSE:ENB) is experiencing a similar situation as the company struggles to convince the market that there's nothing wrong with future growth — and that its high dividend yield is safe.

While announcing its fourth-quarter earnings on February 16, Enbridge reported record oil shipping volumes in December, thereby helping the largest pipeline operator in North America earn an adjusted net income of $1.01 billion, or $0.61 per common share, beating out analyst expectations of $0.56 cents per share of adjusted earnings.

"This has been a transformational year for our company," said Al Monaco, President and Chief Executive Officer of Enbridge. "With the Spectra Energy assets now in the fold, we have successfully delivered on our strategy to rebalance our business mix with best-in-class natural gas transmission assets and further enhance and extend our growth potential."

Rising debt

However, investors remain nervous about the future if you look at the performance of Enbridge's shares in the past 12 months; they've lost about one quarter of their value. The biggest drag on the company's share comes from the fact that Enbridge has a huge debt load; as the borrowing costs rise, the company will find it tough to grow its dividends.

When downgrading Enbridge's debt to one notch above the junk level, Moody's Investors Service said in December that debt levels will not fall quickly enough for Enbridge to retain its previous credit rating. In total, Enbridge's long-term debt stood at $61.4-billion at the end of September.

Moody's said Enbridge must achieve a debt-to-EBITDA (earnings before taxes, depreciation, and amortization) ratio of 5.5 times for a sustained period to retain its previous rating.

The bottom line

Despite the negative momentum and a challenging operating environment, the company brought $12 billion of growth projects into service in 2017, with an additional $22 billion of secured growth projects expected to come into service through 2020.

I believe Enbridge's $2.68 a share annual dividend is safe. The company seems to be accelerating its earlier announced $10-billion asset sale plan, which will help the company to reduce its debt and improve its credit rating.

Trading at $42.95 a share and with an annual dividend yield now touching 6%, Enbridge stock looks like a steal if you plan to hold this name in your RRSP portfolio. In addition to this high yield, the company also plans to grow its payout by 10% each year through 2020.

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