This 6.2% Yield Is One of the Safest on the TSX

Description

While dividend yield and growth are often two of the most widely considered aspects of buying and holding an income security for the long-term, dividend safety is a topic that can often be forgotten by investors. As with any investment, attempting to gauge the risk-adjusted future earnings of a company is a far more important task than just measuring expected future earnings. With increased volatility comes increased risk, and while some investments may seem great on a short-term basis (cryptocurrency, cannabis firms, tech darlings), having a portfolio of companies that offer slow-and-steady returns over time is often much more valuable for investors who cannot afford large short-term swings in the market value of their holdings (i.e., retirees).

In this article, I'm going to discuss an excellent equity option for income-focused investors looking for a relatively safe 6.2% yield, which is expected to grow over time, with significant capital appreciation potential.

Enbridge under-appreciated by the market

The commodities space has been hit very hard in recent years, and for better or worse, energy infrastructure companies have been thrown into the commodities bucket and largely kicked to the curb by investors looking elsewhere for long-term opportunities.

I would argue that while many headwinds prevail in the Canadian oil & gas sector overall and the recent sell-off has been warranted for many Canadian oil & gas producers, Canadian energy infrastructure companies such as **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) have been unfairly categorized with a similar high-risk profile. Fundamentally, Enbridge has worked hard to improve its balance sheet and maintain its identity as a double-digit dividend grower, recently selling assets to meet its dividend growth objective during the company's last quarterly earnings report.

Enbridge's proven track record of delivering annual dividend increases in the double-digit range is one goal that has been scrutinized by the market, given the fact that the company was forced to sell assets to make this a reality recently. The fact remains, however, that Enbridge has billions of dollars of investment scheduled to build out the company's pipeline infrastructure and grow earnings over time.

With the majority of said future capacity already spoken for, short-term asset sales should not be projected out into the future, as many analysts have pointed to the fact that the company's dividend and its future double-digit distribution increases should be considered safe barring any significant shocks.

That said, given the large yield offered by Enbridge, the fact that we are now in a rising interest rate environment has contributed to the recent sell-off as investors have sought to reduce exposure to bonds and bond proxies as rates rise. Although rates are likely to continue to rise for the near future, I anticipate that central banks will hit a ceiling with respect to how high interest rates can go before stabilizing rates at a "normalized long-term level."

Drowning out the noise and focusing on fundamentals, yield, and safety, it is hard to argue against a company such as Enbridge for a long-term hold in any portfolio.

Stay Foolish, my friends.

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