Why I Bought More of This Dividend Growth Stock

Description

Dividend investors often want stability. They choose dividend stocks because they want to generate stable income no matter what the stock price does.

Smart dividend investors are cognizant of value, too. They aim to buy dividend stocks, which are priced at a margin of safety. The stock I'm about to reveal not only offers good value but also offers safe, growing dividends.

In fact, I believe in its long-term dividend-generating capability so much that I added to my position recently despite the noticeable pullback of the stock. (Sometimes investors feel uneasy when their holdings fall in price, but if you picked a stock that has strong fundamentals, you should see it as a buying opportunity when the stock falls lower.)

Enbridge Inc. (TSX:ENB)(NYSE:ENB) stock has pulled back +23% in the last 12 months. This is partly due to interest rate increases, as energy infrastructure companies such as Enbridge tend to have large debt levels.

It's also partly due to the company reducing its growth forecast. Previously, the company intended to grow its dividend by 10-12% per year. Since then, the company has toned down its dividend growth target.

It's also a result of the Spectra Energy Corp. acquisition causing some dilution in the stock; however, the dilution is expected to recover over time. The acquisition increased the scale and diversity of Enbridge's business by adding a natural gas transmission and mid-stream business.

This business moves ~20% of all natural gas in the United States, which serves key supply basins and markets. Enbridge now has the world's longest crude oil and liquids transportation system, which operates in Canada and the U.S.

Enbridge has a good chance of upside

To get a sense of how attractive the stock is, investors can observe the analyst consensus' 12-month target on Enbridge. The consensus from **Thomson Reuters'** target is $56.50 per share, which represents +32% upside in the near term.

I'm not saying that the stock will appreciate to that price in the next 12 months, though it very well could. All I'm saying is that the stock offers a good margin of safety. Enbridge therefore has a good chance of upside.

Enbridge's dividend is still intact

The pressure on the stock price has pushed Enbridge's yield to nearly 6.3%. Although the company lowered its dividend growth guidance to 8-10% per year, it's still very good growth for a stable, industry leader. Assuming that the lower end of that target materializes, we're looking at a yield on cost of 7.9% three years out based on the recent quotation of less than $43 per share.

Investor takeaway

We can't avoid the volatility of stock prices. However, we can invest in safe dividend stocks when they're down so that we get a higher yield to begin with. Enbridge currently offers a compelling 6.3% dividend and expects to increase its dividend by 8-10% per year for the next few years. That's why I bought some shares of this stock: will you join me?

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