Should You Buy Enbridge Inc. (TSX:ENB) for Your TFSA Retirement Fund?

Description

Canadian savers are searching for ways to set aside adequate cash to fund a comfortable retirement.

One popular option involves holding top-quality dividend-growth stocks inside a Tax-Free Savings Account (TFSA). The strategy makes sense, especially when the distributions are invested in new shares to take advantage of the power of compounding. Over time, a modest initial investment can become a significant nest egg, and all the capital gains are yours to keep when the time comes to cash out.

Let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see if it deserves to be on your buy list.

Growth

Enbridge bought Spectra Energy last year in a $37 billion deal that created North America's largest energy infrastructure company. Spectra added important gas infrastructure assets to complement Enbridge's heavy focus on liquids pipelines, and also provided a nice boost to the capital plan.

Enbridge is currently working through $22 billion in near-term development projects, with $7 billion scheduled for completion in 2018, and the remainder expected to see commercial service by the end of 2021.

Dividends

As the new assets begin to generate revenue, cash flow should increase enough to support continued dividend growth. Enbridge raised the 2018 distribution by 10%, and investors have enjoyed a compound annual dividend-growth rate of 11% over the past 23 years.

The stock is down amid a broad pullback in the energy infrastructure sector, giving investors a chance to pick up Enbridge at an attractive price and secure a 6.7% yield.

Strategy shift

Enbridge is undergoing a strategy shift that will focus on regulated pipeline and utility businesses. As a result, Enbridge has identified $10 billion in non-core assets it plans to sell. Agreements are already in place to monetize $3.2 billion of the portfolio.

Proceeds are being used to reduce debt and shore up the balance sheet.

Risks

Rising interest rates have the market concerned that investors will dump go-to dividend stocks, such as Enbridge, in favour of fixed-income alternatives. Higher rates also bump up debt costs, reducing cash flow available for distributions. Finally, strong opposition to large pipeline projects could impact long-term growth opportunities.

These are all valid points for investors to keep in mind when evaluating Enbridge, but the pullback in the stock price from $53 per share a year ago to the current price of $40 might be overdone.

Should you buy?

The existing dividend looks safe, and there is a good chance Enbridge will continue to increase the payout at a decent rate in the medium term. Additional volatility should be expected in the near term, but buy-and-hold TFSA savers might want to pick up a few shares while the stock remains out of favour.

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