A Top Dividend Stock That Could Prove a Good Buy in 2019

Description

This year has been one of the toughest for pipeline operators and energy producers. Amid the wild swings of oil prices, Canada's top energy companies also faced an unprecedented glut as the shortage of pipeline capacity kept the prices of their commodity depressed.

Enbridge Inc. (TSX:ENB)(NYSE:ENB), North America's largest pipeline operator, wasn't immune to these issues. The company also faced criticism from analysts and short-sellers, who targeted the company as its debt ballooned after its acquisition of Spectra Energy in 2017, raising red flags and prompting credit agencies to cut the company's credit rating.

But there are some positive indications that Enbridge will be able to overcome its internal challenges in 2019 and restore investor confidence.

Portfolio rebalancing

Enbridge is quickly re-aligning its portfolio of assets to generate cash and cut its mounting debt that reached over $60 billion after Spectra acquisition. As part of its restructuring, the company is selling assets and becoming a pure regulated pipeline/utility.

Its recent deals include a $4.31-billion sale for its Canadian natural gas gathering and processing business, the $1.75-billion sale of a 49% interest in North American onshore renewable power assets, its interests in two German offshore wind projects to the Canada Pension Plan Investment Board, and a US$1.1 billion deal to divest its U.S. midstream business.

Macro environment favouring Enbridge

Another reason to get bullish on utility stocks in 2019 is that those macro factors that pushed their stock values lower in 2018 are reversing and becoming more favourable. A growing threat of a global recession is likely to force the central banks to move on the sidelines in 2019 and help improve the appeal of these bond-type securities that pay regular dividends.

With an annual dividend yield of 7%, Enbridge is among the top dividends stocks in North America with over six decades of history of rewarding investors. Due to these fast-changing macro conditions and the company's improving debt profile, investors are coming back and buying Enbridge stock.

During the past three months, when the benchmark **S&P/TSX Composite Index** plunged more than 12%, Enbridge stock withstood the selling pressure much better, as it shares fell just 4%.

That said, I don't see a very strong rebound in Enbridge shares next year. As part of its 2018-2020 funding plan, management intends to issue another $6 billion in stock and hybrid securities — a move that will dilute the existing shareholdings. That means investors will have to be patient and continue to hold this top dividend stock that's undergoing through some major restructuring.

Bottom line

Trading at $42.63 at writing with an annual dividend yield of 7%, I think Enbridge stock offers a good risk/reward for long-term investors. The company has a huge growth portfolio, strengthened by its recent Spectra acquisition that will support its projected 10% growth in dividends.

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