Why Enbridge Inc. (TSX:ENB) Is the Must-Own Dividend Stock of 2019

Description

Don't look now, but **Enbridge** (TSX:ENB)(NYSE:ENB) stock is off to the races again with shares surging around 20% since the bottom hit on Christmas Eve.

While the big up move was remarkable, from a longer-term perspective, Enbridge stock is still down in the ditch, with shares being off 28% from peak levels hit in 2015. The dividend currently yields a bountiful 6.2%, and with 10% in annual dividend hikes likely in the cards over the next five years out, Enbridge appears to be a must-own stock, as it's the perfect blend of long-term dividend growth and relative value.

Now, it's quite possible that Enbridge stock could continue surging sharply in 2019 thanks to a number of catalysts on the horizon, most notably further progress on the Line 3 replacement project, but investors should realize that there could be major bumps in the road between here and the path back to $65. Simply put, Enbridge is a name that's only suitable for those investors who are comfortable with taking on short-term pain for long-term gain.

Why could 2019 be the year Enbridge makes a bang?

Management has made a considerable amount of progress with the Line 3 replacement project, a major source of sustainable growth and a likely supporter of further double-digit dividend hikes through the early 2020s. In addition, Enbridge's $1.8 billion in recently announced projects (like the Gray Oak Pipeline) will be a huge booster of confidence for long-term income investors who may be skeptical over the company's ability to continue supporting such generous annual dividend hikes.

The highly regulated nature of Enbridge's pipeline operations, however, allows management to a degree of certainty when it comes to forecasting future cash flows. This makes it a lot easier for management to adequately juggle long-term growth initiatives, deleveraging initiatives, and rewarding its shareholders when the balance sheet gets tight. Although Enbridge's financial flexibility may be suspect today, once fully approved, contracted projects will result in cash flow streams that are comparable to that of blue-chip renewable energy utilities.

Further, new pipeline projects come with a fair amount of regulatory hurdles. But once the obstacles are passed, they serve as a barrier to entry for other competitors who'll have a just as hard, if not harder time passing such regulatory hurdles. In other words, once Enbridge jumps a hurdle, the bar is raised for the competition. As more progress is made with newly announced projects and the Line 3 replacement, I suspect that Enbridge will continue on its upward trajectory.

Foolish takeaway on Enbridge

As Enbridge continues to execute on its new strategic plan, I believe there will be plenty of room for the stock to run, as the bar is currently very low. There are plenty of uncertainties over the near-term, but given the catalysts that'll come into play over the next few years, the cheap valuation, and the swollen dividend yield, I think the risk-reward trade-off is more than favourable for those patient enough to hang in there.

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Date
2025/06/30
Date Created
2019/01/22
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