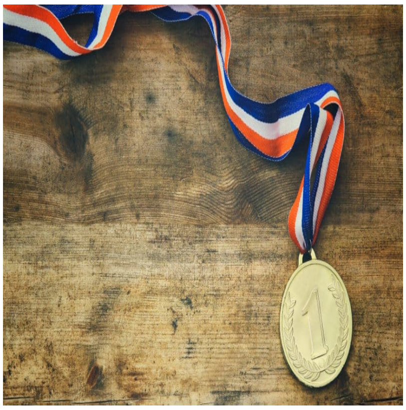

This “A-Grade” Dividend Stock Could Pole-Vault Over its Lowered Bar

Description

While it’s never a good idea to buy the stock of a company that’s a perennial loser, it is a smart strategy to purchase shares of a “down-but-not-out” company that’s unjustly hated by pessimists on Wall or Bay Street. It’s these unloved dogs that have the lowest expectations from analysts, or in other words, the bar has been set ridiculously low, such that it wouldn’t take much for a firm to pole-vault over consensus estimates.

In other words, betting on a C student getting a B or higher will have a much higher payout than betting on a straight-A student who won’t be able to impress, even if they continued to post “perfect” results moving forward. And by betting on that A student, you could also be in for a disaster if, goodness forbid, that student brought home a B or lower!

Now, I’m not suggesting that you should buy the losers than keep on losing or firms that are caught on the wrong side of a secular trend. Instead, I’d encourage you to look for prior straight-A students that have recently posted several B’s or C’s, inspiring most folks on the Street to “reset” or lower their expectations for B’s or C’s moving forward. The probability of a prior straight-A student getting out of their slump is considerably higher than that of a C or D student who’s never shown the capability of achieving an A.

Consider **Enbridge** (TSX:ENB)(NYSE:ENB) — a former A student turned D student over the past few years. Analysts have lowered the bar such that it won’t take much to awe analysts and inspire a sustained move higher.

It seems like such a long time ago that Enbridge stock was considered a dividend darling that was able to offer investors the best of both worlds in the form of capital gains and a generous, growing dividend. Today, Enbridge is down 27% from its all-time high with a 6.11% dividend yield that’s going to continue to be hiked by 10% every single year through 2021, when management will likely renew its dividend-growth commitment to investors.

The good news is that Enbridge is no longer a falling knife, as shares have fluctuated around the low $40 levels for nearly a year. With potential catalysts in store over the medium term (such as the Line 3 replacement), Enbridge could easily surprise investors with an upside surprise, as most analysts now expect very little from the now financially stressed firm that appears to be between a rock and a hard place.

Foolish takeaway

At the time of writing, Enbridge trades at 18.8 times next year's expected earnings, which is substantially lower than the five-year industry average and historical average P/E multiples of 59.2 and 28.4, respectively.

Given management is moving forward with its strategic plan, with catalysts that could be a boon for the stock over the next three years, I'd say today's depressed valuation is well worth the price of admission, especially for those who value big and safe dividends.

Stay hungry. Stay Foolish.

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