Enbridge Inc. (TSX: ENB) Is My Top Stock to Buy in May

Description

When the volatility spikes and the risks to economic growth grow, there are a few assets that could provide fleeing investors a safe-haven. Companies that provide basic and essential services, such as **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) are among the defensive assets.

If you're planning to cut your risks when the markets are increasingly becoming hostage to the U.S.-China trade war, Enbridge stock is certainly one such stock to buy. Here are my two top reasons that justify Enbridge as a top defensive stock.

Enbridge's growing dividend

Enbridge is a good stock to hold on to when the economic headwinds are gathering pace. The company runs the largest network of pipelines in North America, manages energy storage facilities and provides gas and electricity to a large number of customers in the region.

The portfolio of these critical assets help the company to earn steadily growing cash flows, which it uses to pay dividends to shareholders. A regular stream of income helps investors to ride through the economic downturn when assets prices plunge and capital gains wipe out.

Enbridge pays $0.7375 a share quarterly dividend with an annual dividend yield of 6% on the current price. The payout is forecast to rise 10% per year.

Enbridge offers long-term value because of the company's development projects that will further boost its cash flow potential. One near-term powerful catalyst is the company's Line 3 pipeline replacement. Construction is not expected to begin until the second half of 2020, but when it does, it will provide more upside to investors.

Favourable rate environment

Enbridge stock remained under the selling pressure in 2018, pressured by Bank of Canada's five rate hikes. Increasing rates diminish the appeal for dividend stocks and investors move their funds to relatively safe government bonds.

But the latest reports from the economic front in Canada and escalating trade wars that risk pushing the global economy into a recession make Enbridge a more attractive bet if you want to play safe.

Its stock surged about 2% on May 13 when the major indexes came under intense selling pressure as both U.S. and China announced to raise tariffs on imports. This move to the upside shows that how Enbridge can benefit if risks to economic growth grow.

Over the past one year, Enbridge has also accelerated its restructuring plan, selling assets, focusing on its core strengths and paying down its debt. These measures are likely to benefit long-term investors whose aim is to earn steadily growing income.

Bottom line

Trading at $50.30 at the time of writing, Enbridge stock has already jumped about 20% this year, making some investors nervous about the future upside potential. In my view, Enbridge stock could hit its five year high of $66.14 if interest-rate decline and the global economy slips into a recession due to trade wars.

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