Enbridge (TSX:ENB): Why This High-Yield Stock Could Turn Your TFSA Into a Cash Cow

Description

Enbridge (TSX:ENB)(NYSE:ENB) is one of the finest energy stocks on the TSX. As the operator of a large and extensive oil and LNG transportation system, it has a highly diversified business that can withstand a decline in the price of oil. Over the past four years, which have seen the price of oil swing up and down dramatically, Enbridge has grown year in and year out.

This fact bodes particularly well for Enbridge's value as a dividend stock.

Many Canadian investors are aware that Enbridge pays a dividend that yields around 6%. What most don't know is that Enbridge also has excellent growth figures, which make its dividend more sustainable than high yielders usually are. To understand why that's the case, we need to look at Enbridge's recent financial performance.

Financial performance

Recently, Enbridge's financial performance has been excellent over both short-term and long-term timeframes. Over the past four years, the company has grown its revenue from $33 billion to $46 billion. Over the same period, earnings have grown from $251 million to $2.8 billion. The company's earnings growth has been much more erratic than its revenue growth, but the long-term trend has been unambiguously positive.

Enbridge's trend also looks good on a quarter-by-quarter basis: over the past four quarters, the company has grown earnings from $1.1 billion to $1.9 billion.

Line 3 replacement

One major story for Enbridge is the company's Line 3 replacement project, which will replace a 1,660 km pipeline system with newer and more modern infrastructure. The word *replacement* might carry connotations of a mere infrastructure upgrade, but this replacement will actually add transportation capacity.

The current Line 3 pipes are 34 inches wide, and they will be replaced with 36-inch pipes, which will slightly increase the amount of oil that can be transmitted across the pipeline each day. Thus, not only will Line 3 help Enbridge with safety and compliance, but it will also most likely increase its revenue.

Dividend yield and growth

Now we get on to the most interesting thing about Enbridge: its dividend. With a yield of about 5.9%, it's just a hair short of 6% — at some of the lower prices in the past 12 months, you could have gotten a yield in excess of 6%.

However, it's not just the yield you could get on Enbridge shares today that matters; it's also the potential for dividend growth. Over the past five years, Enbridge has been increasing its dividend by about 17.5% per year, giving this stock real potential for dividend growth.

In fact, if the company keeps increasing the payouts at the rate it has been, it would only take about 5% to double your yield on cost. Whether this happens or not will depend on a number of factors. Some of them, like demand for Canadian oil, are beyond Enbridge's control. Still, it has to be said that this is one of the best high-yield stocks on the TSX today.

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