This Recession-Resistant Stock Yielding 6% Is a Top Buy in November

Description

Despite growing claims of a market melt-up triggered by the Fed's latest interest rate cut and emerging optimism that the U.S.-China trade war may be over, many Canadian stocks are failing to perform as strongly as predicted. One that has been attracting considerable negative attention for some time is **Enbridge** (TSX:ENB)(NYSE:ENB). Despite gaining 17% for the year to date and reporting some solid results since the start of 2019, Enbridge is ranked as the third most shorted stock by value on the TSX. That last point shouldn't dissuade investors from buying what is one of the best plays on energy and infrastructure in North America.

Strong demand

Enbridge's North American energy infrastructure network is responsible for transporting a quarter of the continent's crude and a fifth of its natural gas. Its business has proven quite resilient to the prolonged oil slump, which has existed since late 2014, and economic slumps. This is because for as long oil and natural gas remain key sources of energy, their demand will remain inelastic, and producers will continue to increase output to meet ever-growing demand. That makes Enbridge's transportation, storage, and processing network indispensable for the North American energy patch.

The midstream services giant's oil natural gas pipelines form a crucial link between the energy patch and vital energy markets, including U.S. refineries, which are configured to process bitumen and other forms of heavy crude. Reduced heavy oil feedstock from traditional sources of supply, such as Venezuela and Mexico, has forced U.S. refiners to look elsewhere.

Canada, which is one of the world's largest producers of heavy crude, is an obvious source, underscoring that demand for oil, and hence Enbridge's crucial pipeline infrastructure will keep growing as production in the oil patch expands. Enbridge's $19 billion capital program, where it has 19 projects under development, including the crucial Line 3 Replacement, will boost the volumes of crude and natural gas that can be transported as they enter service, boosting earnings.

Notably, 98% of Enbridge's earnings come from regulated or contracted sources, which ensures that they are stable and dependable. This, when combined with Enbridge's wide economic moat, the fact that it operates in an oligopolistic industry, and that take-and-pay agreements are typically inflation linked, virtually guarantees earnings growth.

Crucially, Enbridge has been making steady progress with delivering value for shareholders, as highlighted by its third-quarter 2019 results. Diluted earnings of $0.47 per share were a significant improvement over a $0.05-per-share loss reported for the equivalent period in 2018, although adjusted EBITDA and distributable cash flow per share fell by 5% and 11%, respectively.

Enbridge is also focused on strengthening its balance sheet. It finished the quarter with a conservative debt-to-EBIDTA ratio of 4.7 and is focused on reducing it to 4.5, as it reduces debt further through the sale of non-core assets. That — along with the Fed's interest rate cut — will boost profitability by reducing financing expenses.

These characteristics have not only protected Enbridge's earnings growth but also allowed it to hike its dividend for a very impressive 23 years straight, giving the payment a compound annual growth rate of 11% over that period. That sees Enbridge yielding a very juicy 6%, which, for a less-volatile stock with a beta of 0.9, wide economic moat, and growing earnings, is an impressive yield. There is every sign that the midstream services giant will continue to grow its dividend, with it targeting a 5-7% growth rate for 2020 and beyond, meaning that there are further hikes on the way.

Foolish takeaway

Enbridge, regardless of the naysayers, remains a top buy-and-hold forever stock, which is consistently delivering value for investors through a combination of growing earnings and regular dividend hikes. Those characteristics combined with its wide economic moat, solid balance sheet, and quality assets make it a must-own stock, and if investors buy today, they can lock in a tasty 6% yield.

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