Yield Alert: Lock In 5.9% Plus 17% Growth With This Dividend Stock!

Description

If you're a dividend investor, there's nothing better than a high-yield stock with strong dividend growth.

Such picks are rare, because stocks with high dividend growth often get expensive. Nevertheless, they do exist. Often, they can be found in battered-down sectors, when an individual stock's earnings aren't affected by broader industry trends, but the stock still falls with its class. Stocks tend to move together with their sectors, even when fundamentals don't justify it. When one stock proves to be an exception to its industry's fate, it can be a great buy — particularly if it pays a dividend.

In this article, I'll be taking a close look at a high-yield dividend stock in a weak sector that has excellent dividend growth. Like most stocks in its industry, it has generated poor capital gains over the last five years. However, its earnings have actually grown dramatically, resulting in a high yield *and* strong dividend growth.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a Canadian pipeline company that took a beating after the oil and gas collapse of 2014.

When oil prices fell that year, most energy stocks deservedly took a hit, because they make less money selling oil if oil goes lower.

However, Enbridge is less affected by that reality than other energy stocks. As a midstream company, it charges fees for transporting oil rather than taking a cut of its sale. The fees are based on distance travelled, not the price of oil. Accordingly, it's less vulnerable to oil price swings than most energy companies are.

Of course, really extreme weakness in oil prices could force Enbridge to cut its fees. Government regulation could do so as well. However, as long as Enbridge's pipelines are cheaper than crude by rail, its earnings should be safe.

Why it’s such a powerful dividend grower

Over the past five years, Enbridge has been hiking its dividend by an average of 17% a year.

This dividend growth has been driven by equally strong earnings growth. From 2015 to 2018, the company grew its earnings from $250 million to $2.8 billion. That’s an excellent growth rate, to put it mildly. The company also has the prospect for even more growth in the future, although it faces some challenges.

Will the new projects go ahead?

One potential source of future growth for Enbridge is new projects, including the Line 3 replacement and a new tunnel for the existing Line 5. Both of these projects would increase transportation capacity into the American Midwest. However, both projects are facing legal pushback. The company recently had to re-submit its environmental impact statement regarding Line 3, and Line 5 is facing lawsuits from three states. Whether the Line 5 tunnel will proceed is up in the air, but Line 3 looks like it will eventually go ahead: the most recent delay was a procedural one, and a Minnesota court recently refused to hear further legal challenges to its replacement.

Foolish takeaway

When you can find solid yield *and* high dividend growth in one package, it’s time to buy. As Enbridge has shown, it is more than capable of growing its earnings enough to power continued dividend growth. The company’s ongoing infrastructure projects could power even more growth, assuming they go ahead — and Line 3 most likely will.

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Date
2025/09/18
Date Created
2019/11/20
Author
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