TFSA Investors: Why I Just Bought More of This 6.93%-Yielding Dividend Stock

Description

The smartest and best minds at **Citigroup's** equities research unit came out with their top 20 North American stock conviction list to buy. Predictably, the only Canadian stock that made the cut is **Enbridge** (TSX:ENB)(NYSE:ENB).

Enbridge is easily one of the best long-term buy-and-hold stocks globally, and the best part about this stock is, it represents high growth with high yield and a clear path to greater future cash flows.

The fact that the stock has had such a troubled 2019 is simply due to the fact that retail investors get scared easily, and all the regulatory headwinds for pipelines in the U.S. have created a costly and time-sucking problem for the company.

But the reality is that the Line 3 pipeline replacement work will get done in the next 12-18 months, and Enbridge will be able to drive a much higher cash flow than it does today.

Dividend growth showing no signs of stopping

Let's make sure everyone understands the dividend math, because anyone who has casually glanced at Enbridge's current dividend yield on one of the many financial websites would think that it has a 5.82% dividend yield.

I am here to tell you that the 5.82% yield is backward-looking. The reality is that the company will be raising its dividend by a full 10% for 2020.

The company has already provided guidance on this monster increase many times to investors over the last year or so. Assuming the stock price stays at the current $50 level, a 10% dividend increase would result in a 6.93% dividend yield. But how did I then get to 6.93%? Well, the math on that is fairly straightforward as well.

Enbridge has been a volatile investment for its faithful cadre of shareholders this year, going down to a low of $42 at the start of the year, and then going down to $43 again in August before creating a somewhat sustained rally over the last couple of months to end up at its current price level of $50.

In fact, I wrote about Enbridge on August 27 when the stock was trading at $43.75 and urged readers to consider buying at those absurdly low levels. Those that nibbled at it will be happy because the stock has rallied to $50, which represents a 14%% capital gain in three short months.

But despite this rally, the stock continues to be vulnerable to short-term regulatory headwinds, and I predict that the stock will flirt with the $46-$48 stock price levels at least once before the year is done and dusted.

If I split this range and assume the stock price will get to $47, our dividend yield with the embedded 10% growth in 2020 is calculated to be 6.93%.

Emerging engines of growth

This is a fantastic dividend yield for a top-quality, secure, cash flow-heavy stock, and the best part of this investment thesis is that Enbridge has several emerging engines of growth that no one seems to be paying attention to. One of those engines is Enbridge's investments in the renewables space — especially wind energy.

Let's get some facts straight first. The U.S. portion of Line 3's replacement, which is the cause of so much negative press, represents only $2.9 billion of the company's $19 billion capital-spending plan, amounting to only 15% of the company's future growth.

No one seems to be talking about the company's Saint Nazaire Offshore Wind Farm project in France that is due to come online in 2022. Many investors would be surprised to know that Enbridge is growing its renewables portfolio, with a specific focus on offshore wind.

Getting into the offshore wind business is a smart move, because research points to the fact that demand for fossil fuels and renewables will be neck and neck by 2040.

Furthermore, offshore wind has one of the fastest-declining costs among all the various renewables alternatives, and Enbridge has publicly stated that it expects a 15% return on its offshore wind investments.

Investor takeaway

Buying Enbridge today at $50 is great, but I think there will be an opportunity to buy shares at $46-$48 in the next few weeks. Investors who can pounce at the right time will lock in a forward-looking dividend yield of 6.93%, setting up for a richly rewarding 2020 and eventual retirement.

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