Why You'd Be Smart to Buy This Top Dividend Stock in 2020

Description

This year has been a good year for those who bought top dividend stocks. Worries about an imminent recession kept investors on the edge; many exited their high-risk bets and moved their funds to safe, income-producing stocks. That shift created a powerful rally in dividend stocks, producing double-digit gains for investors.

The question going forward is whether next year will be as profitable for dividend stocks as it was 2019. On the horizon, there is not much evidence that supports the kind of rally that we saw in dividend stocks last year.

U.S. and Canadian economic data generally remain strong, while the world's two largest economies — U.S. and China — are working to resolve their trade dispute. These changing conditions and a shift in sentiment among investors and businesses have relieved pressure on central bankers to cut interest rates.

As dividend-paying stocks move in the opposite direction to rates, they are unlikely to rally further if the interest rate environment remains stable. That situation calls for a careful stock selection, finding companies that are still offering higher yields, and they are considered to be safe and reliable. With this theme in mind, I've picked this top dividend stock, which you could consider buying in 2020.

Enbridge

North America's largest pipeline operator **Enbridge** (TSX:ENB)(NYSE:ENB) is one of my favourite picks among stocks that are still offering decent yields.

The company is in a good position to take advantage of North America's strong energy economy. The company operates across North America, fueling the economy and fulfilling consumers' energy needs. Enbridge moves nearly two-thirds of Canada's crude oil exports to the U.S., transports about 20% of the natural gas consumed in the U.S., and operates North America's third-largest natural gas utility by consumer count.

In an update to investors yesterday, Enbridge announced it will increase its quarterly dividend by 9.8% a share, effective March 1, making good on the company's stated policy of offering about 10% raise in payouts each year.

The investor briefing came on the heels of an updated Line 3 environmental review released by a Minnesota state agency on Monday.

In that review, the state Department of Commerce found no serious threat to Lake Superior if crude oil leaks from the pipeline that carries Canadian crude from Alberta across North Dakota and Minnesota on the way to Enbridge’s terminal in Superior, Wisconsin.

The Line 3 expansion would double the capacity of the existing pipeline, which was built in the 1960s and is increasingly subject to cracking and corrosion. President and CEO Al Monaco said Enbridge continues to anticipate a strong financial return on Line 3, despite the cost of increased community and regulatory engagement on large-scale projects.

Enbridge expects distributable cash flow for each share for 2020 to be in the range of $4.50-$4.80. Projected earnings before interest, taxes, depreciation, and amortization are around $13.7 billion.

Bottom line

Enbridge is a good defensive stock to buy in 2020, given the company’s strong earnings momentum, and many positive catalysts could boost its stock value. The company pays a $0.73-a-share quarterly dividend with an annual dividend yield of close to 6%. The payout has been expected to rise 10% per year.

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