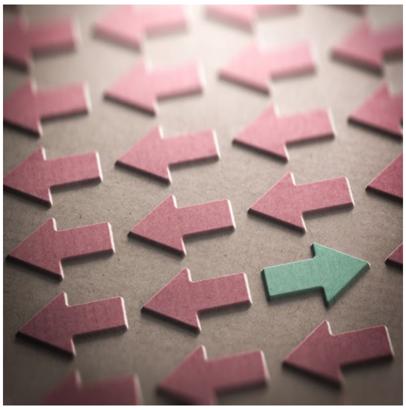

3 Reasons Enbridge (TSX:ENB) Stock Is the Ultimate Contrarian Bet

Description

Canada's oil and gas sector has lost favour since the market crashed in 2014. Major energy stocks have lost tremendous value over the past five years, and there seems to be no end in sight for this pain. However, unloved markets like these are the perfect hunting ground for contrarian investors looking for a bargain.

In my opinion, Calgary-based energy transportation giant **Enbridge** (TSX:ENB)(NYSE:ENB) is the ultimate play here. Here are three reasons why.

A solution seems inevitable

The proposed Trans Mountain pipeline expansion faced new legal challenges this week. It's another hurdle for an industry that has been struggling for far too long. However, it now seems like there might finally be light at the end of the tunnel. Amendments to Bill C-69 and the Trudeau administration's takeover of the key project signal genuine progress.

The Trans Mountain team is expected to get construction started before Christmas and could be done by 2022. Fellow Fool contributor David Jagielski believes progress on this pipeline is an excellent catalyst for energy distributors like Enbridge and could send the stock higher next year.

However, even if progress on this controversial pipeline stalls again, there are plenty of other reasons to consider adding Enbridge stock to your portfolio.

Sturdy dividend

The plunge in the stock price has pushed Enbridge's dividend yield higher. The stock now offers a 6.34% dividend yield.

While the payout ratio is nearly 100%, the company seems to generate enough cash flow to sustain this dividend going forward. Over the past 12 months, the firm generated $9.9 billion in operating cash flow and paid $5.8 billion in dividends. In other words, cash flow was nearly 70% higher than dividends.

If business improves next year and the balance sheet strengthens, investors can expect a boost to this dividend. Some experts believe the dividend could be expanded by as much as 10% over the next two years.

In fact, the stock is a Canadian Dividend Aristocrat. It raised the annual dividend by 10% earlier this month, marking its 25th consecutive year of dividend growth. At this pace, investors can expect a substantial gain from passive income alone.

Low valuation

Unsurprisingly, Enbridge stock is trading at a modest valuation. The stock currently trades at 17 times earnings, two times sales, and 1.68 times book value per share.

The lower valuation is a reflection of the market's pessimism on oil and gas stocks. However, if the industry's prospects improve and sentiment shifts over the next few years, early shareholders could be in for a substantial windfall.

Coupled with the hefty dividend yield, capital gains from a re-valuation of the stock could significantly boost long-term performance for patient investors.

Bottom line

The energy sector has had a tough year, and pessimism is now so pervasive that some stocks in this sector are starting to look attractive. Stocks like Enbridge have been pushed so low that the dividend yield alone promises decent returns.

Gradual progress on pipeline development, the steady dividend yield, and low valuation all make Enbridge stock a worthy contrarian bet for 2020.

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