



This Is My Favourite Dividend Stock for 2020

Description

Dividend stocks can put you on the road to riches. Many show lower volatility than the overall market while providing market-beating returns for decades at a time. That's quite the combination.

But not all dividend stocks are created equal. Some offer enticing payouts at the start, only to slash the dividend down the road, leading to a shrinking share price, negating any income you may have received.

If you want to play the [dividend game](#) right, stick with businesses that align with a dividend strategy. What do I mean by that?

Some stocks pay a big dividend because they're no longer growing. To replace the growth, these stocks try to attract investors with income. Without underlying growth, however, these payouts can quickly become unsustainable.

Other companies opt for a dividend strategy because it makes sense given their operating model. For example, some companies can continue to grow yet still have excess cash flow.

If there are only a limited number of growth opportunities, there's nowhere else to invest that cash. In this case, paying a dividend is a perfectly reasonable *and* sustainable thing to do.

My favourite dividend stock for 2020 fits this mold perfectly. It's been growing for decades, but its industry doesn't necessarily allow infinite growth.

It's therefore able to boost earnings every year and still have leftover cash that can be distributed to shareholders without impairing the health of the business. Better yet, its dividend yield just crossed over the 6% mark.

Trust in pipelines

Pipelines are the ultimate dividend business. Allow me to explain.

Shipping fossil fuels like oil and natural gas can be slow, expensive, and dangerous. Oil wells, for instance, pump new oil on a second-by-second basis.

In order to ship this output efficiently, you'd need to have a never ending stream of trucks or trains. And if any of those vehicles or rail cars crash, the consequences could be deadly.

Pipelines, meanwhile, can transport any fossil fuel without interruption. No need for human drivers or dangerous routes. They can be built directly from one point to another, without the need to follow existing highways or rail lines that may not represent the quickest route.

It's speed, cost, and safety that make pipelines the number one choice of nearly every energy producer on the planet. Wherever a pipeline is built, it'll usually secure every nearby customer.

But the world doesn't need an unlimited number of pipelines. That's a good thing, too, given that they can cost billions of dollars, not to mention years to build.

This creates a near-monopolistic environment for incumbent operators. If you own and operate a successful pipeline, there's a very low chance that another company will swoop in and build a competing project nearby.

All of this in combination creates an income investor's dream. Pipelines are businesses with high pricing power, protection from competition, and limited need for capital reinvestment. Because energy production is still on the rise, though, growth is still positive.

This is your stock

When it comes to pipeline stocks, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) leads the pack. It's the largest pipeline company in North America, with a network stretching from British Columbia to Texas.

Its ability to ship energy around the continent is unparalleled. If you're an energy producer, there's no better partner than Enbridge.

Having the number one market position has led to even better pricing power. This year, the company was asking customers to commit to decade-long contracts.

These deals are pegged to volumes, not commodity prices, so Enbridge is largely insulated from energy market volatility.

As long as oil and natural gas continue to flow, Enbridge will continue to profit. Its 6.3% dividend is fully covered with internal cash flows, and the company is dedicating billions of dollars to new growth projects, so expect the payout to rise over time. There's no high-paying dividend stock that I trust more in 2020 than Enbridge.

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Author

rvanzo

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