2020 TFSA Contribution: Why I'd Buy Enbridge (TSX:ENB) With the Full $6,000

Description

Enbridge (TSX:ENB)(NYSE:ENB) is a top midstream stock that keeps raising the bar on its dividend every single year in spite of any pressures it's been facing.

With a 6.3% yield at the time of writing and another 10% hike in the cards for next year, the stock ought to be a top pick for value-conscious dividend-growth investors looking to put their latest $6,000 TFSA contribution to work.

The company generates very stable cash flows and is positioned to ride on a strong secular tailwind of rising demand for long-term oil and gas transportation.

Looking ahead into 2020, management is looking to pursue organic growth while continuing to maintain the financial wiggle room to sustain its sizeable dividend commitment.

Although Enbridge's dividend growth trajectory remains certain over the intermediate-term, the firm's longer-term trajectory is anything but, as the company looks to jump across the "Minnesota regulatory hurdle" that's been placed ahead of its Line 3 Replacement (L3R) project, a significant source of financial relief.

In a prior piece, I urged investors to act on the name now rather than waiting for a further pullback, which may never materialize. Enbridge, as it stands, is already a very cheap stock at around 1.7 times book, and could be subject to multiple expansion over the next few years as the appetite for sustainable, large and growing yields looks to grow further.

Moreover, I suggested that favourable comments from the Minnesota Public Utilities (MPUC) regarding L3R could give Enbridge stock a new set of legs as shares look to recover.

If all goes according to plan, L3R could come online in two years or so, but even if further delays or hurdles are placed in front of the project, Enbridge has the tools in place to keep its dividend well-supported.

While nobody knows what will happen with the L3R project, I'm in the optimistic camp that believes that the regulatory hurdles will eventually be passed with time and that those with long enough time horizons will be the ones that will reap a majority of the rewards.

Indeed, Enbridge is a real test of an investor's patience. But if you're willing to buy and hold through the early 2020s, I am a huge fan of the risk/reward to be had at these valuations.

I find it more than likely that Enbridge will be able to grow its cash flows to support 10% dividend hikes through the late 2020s, as new projects slowly, but surely come online.

In around 10 years, I see the dividend doubling from today's levels alongside what could be substantial capital gains, which would imply a 12.6% yield in 10 years based on today's invested principal!

With a longer-term viewpoint, it's easier to see that Enbridge stock is nothing short of a steal. Just be prepared to roll with the near-term volatility as it comes along!

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