3 Reasons to Buy This Canadian Pipeline Stock With a 6.2% Yield

Description

There are few stocks that can survive — let alone grow — in a period of lower oil. Companies with a strong natural gas segment are in a somewhat better position, with tailwinds from an unfashionable coal sector and a trend towards cleaner fuels driving share price performance. Today, we'll take a look at a top Canadian corporation with a great yield and a wide moat that satisfies these criteria: **Enbridge** (TSX:ENB)(NYSE:ENB).

One of Canada's widest economic moats

The Mainline network is not without its detractors, challenges, or hold-ups. But as a system for draining the oil patch of Western Canada, it's a key facet of the country's energy landscape. Investors seeking the strongest stocks have pushed Enbridge to a 52-week high this week, recognizing the ability for Enbridge to leverage its Mainline coverage to dominate the Canadian oil patch and provide stability for its shareholders.

Enbridge has a lot to recommend it for the general income portfolio built on Canadian energy assets. With over 16% of the TSX index made of energy companies, the sector should be represented in any general purpose domestic stock portfolio. And with its 6.2% dividend yield and unassailable Mainline pipeline network, Enbridge is a powerful play for both strength and passive income in this important space.

Pipeline breakthroughs could see a rally

With the newly re-elected Trudeau government committed to pushing through pipelines, an oil investor in Canada has reason enough to stack shares of domestic pipeline operators. Now is the time to buy, therefore, with Enbridge still competitively priced. There's more than a rich dividend yield to recommend Enbridge stock to new TSX investors, with some potential for capital gains adding to the mix. A pipeline relief rally could see Enbridge appreciate rapidly.

A reliably rich yield

Even during times of grinding lower oil, Enbridge is able to repay investors with a superior, rich yield. For many income portfolios, a 4-5% income target is ideal — a yield that breaks 6% is even better. Having generated higher earnings reliably since 2015 and boosting its average dividends by more than 10% annually since 1995, the pipeline giant is a relatively assured play on dependable income for investors seeking regular income.

It's precisely this rate of dividend growth that has led to Enbridge now being one of Canada's richest-yielding, big corporations. The stock is a solid buy for investors seeking out businesses that operate largely outside the cyclical forces of the market and, as such, marks Enbridge out as a defensive play. There is also an opportunity for growth in the natural gas sector, adding another element to the stock's buyability.

The bottom line

This past performance in terms of dividend growth is significant, since it follows the cratering of oil prices six years ago and means that long-term, lower oil is not as much of an issue here as it is, say, for some of the shippers utilizing Enbridge's pipelines. In short, Enbridge is a solid buy in the Canadian fossil fuels space, even in an economic environment characterized by cheap oil.

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