This Dividend Stock Is the Best Deal in Canada

Description

Dividend stocks give you regular cash income to use as you please. These stocks produce more internal cash flow than they need for reinvestment purposes, and instead of letting it sit idle in a company bank account, they pay the excess out to shareholders.

Some dividend stocks are the best of both worlds, however, reinvesting enough cash for long-term growth yet still ending up with excess to distribute as a dividend. Companies that can produce income and growth are harder to find, but they're out there.

Just take a look at **Enbridge** (TSX:ENB)(NYSE:ENB). Since 1995, shares have increased in value by a whopping 1,480%. Over that time, the company also paid a growing dividend, which currently stands at 6%, well above the market average.

What fueled Enbridge's historical performance? More importantly, how can you still profit?

It's all built in

As mentioned, it's difficult for a company to grow quickly for long stretches of time *and* regularly pay out a hefty share of cash to shareholders. How has Enbridge managed to do this? It's no ordinary company.

The most important thing to understand is that Enbridge is in the pipeline business. In fact, it's the largest pipeline owner and operator in North America. This industry has a few peculiar characteristics.

First, pipelines cost billions of dollars to build. A single mile usually costs millions to construct. This cost barrier means that only massive companies can enter the arena, and because scale often results in lower financing costs, larger operators are at a structural advantage.

Second, pipelines are most valuable when plugged into a wider network. Enbridge, for example, can ship fossil fuels to both coasts, including large export facilities from British Columbia to Texas. The ability to sell to every continent makes Enbridge the preferred partner for many energy producers.

Last, pipeline capacity is limited. Because they cost so much to build, and can take a decade to get fully online, pipelines aren't popping up very often. Most new construction is just improving existing infrastructure. Limited capacity means that fossil fuel companies compete aggressively with one another to secure space. That leads to pricing power for large pipeline operators.

Once you understand that Enbridge has an entrenched position that gives it extreme bargaining power over its customers, it's not difficult to see how the company can produce consistent growth *and* excess cash flow.

Made for battle

Canada is expected to grow its oil and gas output for another decade. Because Enbridge largely charges customers based on volumes, not commodity pricing, increased fossil fuel production will directly add to its bottom line. Volume pricing has another benefit: recession resistance.

In 2014, oil prices collapsed by 50%. Throughout the turmoil, Enbridge stock actually *gained* in value. That's this company's secret weapon. When times are good, investors are treated with a rising dividend that currently stands at 6%. During a market downturn, however, Enbridge has figured out how to preserve shareholder wealth better than any other energy stock.

Getting both dividends and capital growth is a great deal, but a recession-proof business model makes this deal too good to pass up.

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