Buying This 7.8% Dividend Stock Could Be the Best Decision You Ever Make

Description

It’s a great time to buy dividend stocks. These companies deliver regular cash simply for owning shares. Plus, many show lower levels of volatility than the market overall. That should prove helpful if we enter another bear market.

But not all companies are created equal. Some offer high payouts right now, but will be forced to slash the dividend when times get tough. Others offer lucrative *and* sustainable payouts, but there’s almost no long-term upside in the stock price.

The trick is to find a dividend stock that can deliver on all three fronts.

First, its dividend is sustainable. After all, that cash stream won’t do you much good if it ceases to exist. Second, the payout is sizable. You don’t want to take extra risk to get a paltry return. Last, you want the company to be mispriced. While that pumps up the dividend yield, it also gives you the option of capital gains once the share price normalizes.

When it comes to meeting these strict requirements, no other stock comes close to **Enbridge Inc** (TSX:ENB)(NYSE:ENB). There’s a good chance that you’ll emerge a winner with this pick.

The math is easy

Enbridge has proven to be a fantastic dividend stock for more than two decades. Since 1995, the company has increased the payout *every year*. And it hasn’t been small increases, either. The average annual dividend growth has been roughly 10%.

Last December, management announced another 9.8% increase to the dividend.

“Our dividend growth has not come at the expense of our financial strength as our dividend payout remained very strong in 2019, at approximately 65 percent of our distributable cash flow,” the company told investors at the time.

Notably, executives believe that growth initiatives, which are already fully funded, will grow the payout even more.

“We expect that our highly transparent growth outlook will allow us to grow our dividend in line with our cash flows based on the strength of our $11-billion commercially secured growth capital program in execution,” the company concluded.

Buy this dividend stock?

It may be surprising to learn that Enbridge has a 7.8% dividend. That’s nearly *three times* the market average. Why does such a proven company have such a lucrative yield? Blame COVID-19.

Enbridge is the largest pipeline company in North America. It transports 20% of the continent’s crude oil and natural gas. There is finite pipeline capacity, and in recent years, shortages have roiled the market. That’s bad for oil producers, but great for Enbridge, which often locks desperate customers into fixed-price, long-term contracts.

This year, the coronavirus pounded the oil market. Demand slid precipitously while industry supply continued to climb. At one point, prices were under US$20 per barrel. Enbridge and other energy-related dividend stocks felt the pain.

But here’s the thing: Enbridge’s contracts aren’t tied to commodity prices. Rather, they’re tied to volumes. As long as oil prices rebound long term to ensure enough supply flow, the company will do absolutely fine.

Even after the recent turmoil, most forecasts still call for *increased* continental oil production through 2030. That should be music to shareholder’s ears.

Right now, Enbridge stock is delivering a sustainable 7.8% yield. As markets normalize, there should be price upside as well.

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Date
2025/08/26
Date Created
2020/07/01
Author
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