Enbridge (TSX:ENB): Is it the Ultimate Dividend-Growth Stock?

Description

Enbridge (TSX:ENB)(NYSE:ENB) is a Canadian energy infrastructure giant. It is one of the largest companies in the country with a market cap of $84.5 billion and an enterprise value of $157 billion. We'll take a look at the energy heavyweight's historical dividend growth and other key business metrics that make it an attractive stock for income investors.

Enbridge stock has a dividend yield of 7.8%

Enbridge stock is trading at $41.73, which is 27% below its 52-week high. The recent pullback in energy stocks has been driven by the massive decline in crude oil prices. It also means Enbridge stock has a dividend yield of a tasty 7.8%. So, if you invest $10,000 in this company right now, you can generate $780 in annual dividends.

Enbridge has, in fact, paid dividends to shareholders for 65 years. In December it increased quarterly dividends by 9.8% to $0.810 per share, indicating an annual payout of $3.24 per share. In the last 25 years, the company's dividends have grown at a compound annual growth rate of 11%.

Enbridge's attractive dividend growth has been driven by its strong balance sheet and fundamentals. In 2019, its payout was approximately 65% of distributable cash flow, and this figure stands at less than 50% for 2020.

Enbridge targets a payout ratio of below 65%, which will help it maintain a healthy balance between returning income to shareholders and retaining capital for reinvestment and growth opportunities.

If you hold Enbridge stock for the next 20 years, your investment of $10,000 will increase to over $100,000 (after dividend re-investments) given the company's annual historical dividend growth of 11% and stock gain of 8.5%.

In fact, at the end of 20 years, you will earn $5,665 just in annual dividend payments, indicating a yield of an astonishing 56.7% on the original investment.

Why the energy behemoth remains a solid long-term bet

I have extrapolated past returns to showcase the potential of investing in a quality dividend-paying stock. However past returns don't matter much to current investors. They want to know if the company remains a good bet for the upcoming two decades.

Enbridge is the largest energy infrastructure company in North America, which helps it maintain revenue streams across business cycles. Enbridge and other pipeline companies generate a predictable income stream due to a fee-based business model, providing them with a degree of insulation from market volatility.

Noted investor Warren Buffett recently surprised investors when he announced a $10 billion deal to acquire certain assets of **Dominion Energy**. Buffett acquired the company's natural gas storage and transmission assets, which gives him exposure to a stable stream of cash flows.

Over 40% of the electricity production in the U.S. is done via natural gas. Enbridge transports about 18.3 billion cubic feet per day of natural gas and has close to 160 billion cubic feet of networking storage.

Enbridge remains an important player in the beaten-down energy space. This stock is a defensive buy that provides investors with lower risk due to the company's negligible exposure to commodity prices. If you are looking to invest in a dividend-growth stock, Enbridge ticks most boxes.

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