Income Investors: Buy Enbridge Stock for the 8% Dividend

Description

Income investors love **Enbridge** (TSX:ENB)(NYSE:ENB) stock. Shares currently pay a dividend of nearly 8%.

Dividends aren't the only game in town, however. When you include capital gains, this stock has averaged double-digit annual returns since 1995!

You can profit with Enbridge

I love monopoly stocks. They have advantages no other companies have.

"When only one company controls an entire industry—or even a sizable percentage of that industry—the company is said to have a monopoly," explains Nobel Prize winning economist, Paul Krugman. "Traditionally, monopolies benefit the companies that have them, as they can raise prices and reduce services without consequence."

Looking at Enbridge, the fit is clear. The company controls 20% of North America's pipeline infrastructure, moving a huge portion of the continent's crude oil and natural gas. This power allows the company to charge customers by volumes, not commodity rates. Plus, it often pushes customers to commit to long-term contracts, sometimes a decade in length.

It's important to note that Enbridge isn't a monopoly due to nefarious reasons. In the pipeline space, monopolies *naturally* occur. That's because this infrastructure takes years to build and billions of dollars to finance. You need to be big to take on the necessary risk.

Plus, pipelines are valuable only if connected to a larger network. To bring crude oil from North Dakota to the Gulf of Mexico, you need to have a massive network.

The perfect stock for income investors

All of these natural advantages have produced incredible long-term results for shareholders. Since 1995, annual returns have averaged above 10%. Right now, the dividend yield alone stands at 8%!

How can such a proven long-term stock deliver 8% annual cash dividends? Yet again, the secret is a natural byproduct of the pipeline industry.

One of the reasons Enbridge is a monopoly is because few competitors can afford the capital or risk to build new pipeline capacity. Costs can exceed $3 million per kilometer. Once built, however, operating expenses are minimal. This is how pipeline businesses like Enbridge become cash flow machines.

The bulk of expenses to build Enbridge's pipeline network were incurred years ago, sometimes decades. The company is still pursuing growth opportunities, but its existing asset base is enough to service one-fifth of North America's energy needs.

This imbalance means there's a ton of leftover cash each quarter. Instead of locking it up in a bank, the company pays the cash to shareholders via dividends.

Should you buy now?

Enbridge's dividend yield has always been attractive. It's a natural part of being a pipeline business. But recently, the yield hit an all-time high. There are two reasons for this.

First, management continues to raise the dividend payment year after year. The company even raised the payout during the 2008 financial crisis.

Second, energy markets are out of favour. The coronavirus pandemic forced oil demand lower in 2020, and many believe a full recovery will take years. That's kept a lid on the stock price.

So, you have a rising dividend but a stagnant stock price. If you believe long-term demand for oil will remain strong, this is an enticing 8% dividend stock.

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