1 Canadian Energy Stock (With 6% Dividends) I'd Buy Now and Hold Forever

Description

After a stellar performance in the first half of 2022, Canadian energy stocks have cooled off in recent months. The recent sell-off provides investors an opportunity to buy quality stocks such as **Enbridge** (TSX:ENB)(NYSE:ENB) at a lower multiple. At the same time, you can create a passive income stream due to the tasty dividend yield.

While energy companies are cyclical, Enbridge's diversified base of infrastructure assets allows it to generate cash flows across business cycles. In the last two decades, ENB stock has returned 358% to investors. After adjusting for dividends, total returns are closer to 950%.

Despite its outsized gains, Enbridge offers investors a dividend yield of 6.6%.

Is ENB a good stock to buy?

One of the largest midstream companies in the world, Enbridge is valued at a market cap of $107 billion and an enterprise value of $191 billion. Around 98% of its cash flows are indexed to long-term contracts generated from cost-of-service agreements. These steady revenue streams make Enbridge immune to fluctuations in commodity prices.

Further, 95% of its customers have investment-grade credit ratings, showcasing the resiliency of Enbridge's business model. Additionally, 80% of company earnings are indexed to inflation, making it one of the top energy stocks on the TSX.

While several oil stocks globally suspended or reduced dividend payouts during the onset of COVID-19, Enbridge managed to increase these payments in 2020. In the last 20 years, Enbridge's dividends have risen at an annual rate of 11.6%.

If you bought $10,000 worth of ENB stock back in October 2002, you could have purchased 870 shares. These shares would have generated $353 in dividends in the next year. Given the company's annual dividend payout of $3.44 per share, 870 shares would increase the payment to almost $3,000, increasing your effective yield to 30%.

Enbridge has a payout ratio of 65%, which provides it with enough room to maintain or even increase dividends, expand its asset base, or reduce its debt profile. Earlier this year, Enbridge confirmed it has secured multiple expansion projects. These cash cows will help it grow cash flow per share between 5% and 7% through 2024, indicating further dividend increases are on the cards.

What next for Enbridge stock and investors?

Enbridge's wide network of pipelines is crucial to North America. The company moves 30% of the crude oil produced in the continent and transports 20% of the natural gas consumed in the United States. It also operates North America's third-largest natural gas utility by consumer count.

While renewable energy accounts for just 4% of total cash flows in 2022, Enbridge continues to grow its offshore wind portfolio. The shift towards clean energy solutions will accelerate in the upcoming decades. Enbridge is well-positioned to catch the tailwind and gain traction in this sector.

ENB stock has returned almost 12% annually to investors in the last 14 years. But it continues to trade at a reasonable valuation, and the stock is priced at 18 times forward earnings. Analysts tracking the company remain bullish and expect ENB stock to gain 10% in the next year. After accounting for its tasty dividend, total returns will be closer to 17%.

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Date
2025/07/01
Date Created
2022/10/28
Author
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