



Beat the Market With This Unstoppable Dividend Stock

Description

The TSX Composite Index fell 4.23% in the last 12 months, as rising interest rates slowed economic growth. But [oil stocks](#) beat the market, as the global energy crisis pushed energy prices to cyclical peaks. The Department of Finance, in its 2022 Fall Economic Statement, [warned](#) of a mild recession in the first quarter of 2023 in a downside scenario, where inflation remains above 3% until the first quarter of 2024. Weak economic growth means a [bearish stock market](#) for 2023. A resilient stock can beat the market with its limited downside while giving you an inflation-beating dividend, even in a recession.

A stock that can beat the bear market

Enbridge ([TSX:ENB](#)) and **Canadian Utilities** ([TSX:CU](#)) stocks beat the market in the last 12 months by rising 13% and 5.4%, respectively. Both are Dividend Aristocrats that have overcome worse recessions than what is expected to come next year. Time and again, they have proven resilient to market cycles and increased dividends. While both stocks are a good investment, I would choose Enbridge over Canadian Utilities if I had to pick one.

Enbridge benefits from the global energy crisis

Enbridge transmits oil and gas through its pipeline infrastructure that connects Canada and the United States. Hence, the company benefits from energy exports. The United States Strategic Petroleum Reserve (SPR) has reached alarming levels, and it might soon look to refill the reserve. Moreover, the sanctions on Russian oil and gas have opened a new energy export market for Canada.

Oil and gas are sensitive to energy prices. But the transmission business is less affected by oil prices and more by volumes. Enbridge charges a specific toll rate depending on the volumes transmitted and increases the rate at regular intervals. This business model safeguards its cash flows from energy price fluctuation. Every year, Enbridge adds new assets into service (\$3.8 billion of capital into service this year and \$3.1 billion of capital next year). The cash flow from new assets supports dividend growth.

Every business has its risks. A prolonged closure of a pipeline or an oil spill or a slowdown in oil and gas volumes could negatively impact Enbridge's EBITDA (earnings before interest, taxes, depreciation, and amortization). But the company ensures that a crisis does not affect its dividends, and this plan has worked for 28 years.

Enbridge's stronger dividend growth

Enbridge has been paying regular quarterly dividends for 67 years and increasing them at a compound annual growth rate (CAGR) of 10% in the last 28 years. This consistency was possible because of its dividend policy. The company has kept its dividend-payout ratio at a safe margin of 60-70%. This gives it room to fund its future projects and create a buffer for any dips in cash flow.

Enbridge has marginally increased its 2023 dividend by 3.2%, even though it expects its 2022 distributable cash flow (DCF) per share to grow 8% to \$5.2-\$5.5. The company has adopted a conservative dividend approach as it expects flat or slow DCF growth in 2023 (\$5.25-\$5.65). In a normal economy, a 3% dividend growth can hedge against inflation, as Canada's average inflation rate is 2%.

But what about a recessionary economy? Can Enbridge help you beat a 7% inflation?

Enbridge's 6.5% dividend yield

Despite a slowdown in its dividend-growth rate, Enbridge has maintained a dividend yield of over 6%. The stock price moves in the range of \$38-\$58. The stock is trading closer to \$54. I prefer buying the stock when it falls below \$50, as that will help lock in a 7% yield. But a 6.5% dividend yield is an attractive proposition.

How to beat the market with this dividend stock

Enbridge has strong fundamentals and a stable business model, which limits the stock's downside. If you invest \$500/month in the stock throughout the 2023 downturn, you can reduce your per-share cost to \$52 or lower and lock in a 7% dividend yield next year. A \$6,000 investment over the next 12 months would buy you 115 shares of Enbridge at an average price of \$52 and give you \$409 in annual dividends in 2024. Enbridge can help you beat the bear market with a 7% dividend yield.

CATEGORY

1. Dividend Stocks
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