Why This 1 Energy Stock Is Worth Buying for its Dividend

Description

Energy stocks helped boost the TSX by 0.8% midweek as oil price gains lifted the sector. The NYSE and NASDAQ also trended higher. The oil gains came as Russia also announced a potential vaccine breakthrough. International competitiveness aside, further vaccine breakthroughs could cause more rallies in this space.

A key stock for a recovery

Enbridge (TSX:ENB)(NYSE:ENB) ticks a lot of boxes for new investors looking for rich yields to pack in a low-maintenance TFSA or RRSP. A dividend yield of 7.3% is rich enough to recommend it for inclusion in just about any long-term portfolio type that one can name. Enbridge is also one of Canada's widest economic moats. Its Mainline system is the *de facto* means of Canadian liquid fuel shipping.

As a major midstreamer, Enbridge is therefore robustly diversified across producers, if not across sectors. So, while the case for oil investing is facing strong headwinds, Enbridge is still a lower-risk play than oil and gas producers themselves. The stock was up 3.5% over a five-day period, as higher oil prices lent a midweek boost to the TSX. While those gains melted by the weekend, it was an encouraging sign for the future.

Enbridge is one of the richest picks an investor can find for a portfolio based around passive income. As such, this name would equally suit both the ambitious long-term TFSA investor and the narrow-horizon retiree buying for an RRSP. But should investors be concerned about a battered oil industry beset by lower oil prices and a surging renewables sector?

While hydrocarbon investing is arguably weakening as a long-term thesis, keep in mind just how integral natural resources are to the Canadian economy. As such, the next 10-15 years will likely see Canada holding a place at the table for carbon-heavy fuel producers. In short, investors will have to employ a certain amount of double-thinking when it comes to the Canadian energy sector.

Go long for passive income

Hydrocarbon fuel producers could also transition over the near term, taking on one or more of several emerging business models. Consider blue hydrogen systems, oilfield gas sequestration, and hybrid business models that mix hydrocarbons and renewable energy assets. Add to the fact that oil is also a major chemical component used in manufacturing, and the thesis for being long on Enbridge is moderately strong.

Enbridge is therefore suitable for long-term dividend investors, despite an energy space battered by headwinds. The consensus rating from analysts is somewhere between a moderately strong to strong buy, leaning towards the latter. This in itself is significant considering the issues facing energy businesses, and hydrocarbon weighted ones in particular.

Investors thinking about going long on Enbridge should check one last factor before committing themselves. That factor is value. Buying shares at its current valuation will lock in a rich yield for Enbridge shareholders. While its market ratios in relation to the Canadian oil and gas sector could be more appealing, Enbridge trades lower than its consensus low target price with around 50% upside potential.

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