Today's Top RRSP Buy: Enbridge

Description

Today's top pick is **Enbridge** (TSX:ENB)(NYSE:ENB). This company has been a top pick of mine for some time, but I think now is a great time for investors to consider this stock. We're heading into RRSP investment season, and this is a great holding in such a portfolio.

Here's why I think investors should put whatever they are comfortable with allocating into Enbridge in their RRSP right now.

Meaningful dividend income makes this a retirement favourite

Enbridge is a stock with a market cap of around $90 billion and a dividend yield of 7.6%.

That's right, folks. It's a large-cap Canadian stock with one of the juiciest yields on the TSX.

I don't think Enbridge's dividend is safe only because of the company's size. That's one factor to consider. Rather, I think there are a number of fundamental factors investors should take into consideration right now.

First, Enbridge has become an excellent capital allocator of late. The company has refocused its attention on diverting cash flows to shoring up the company's balance sheet. This means less in the way of dividend increases over time, but more money spent on its capital layout over time and debt reduction. This should help improve the company's operating ratios and add greater credence to Enbridge's dividend over time.

Secondly, the company's payout ratio isn't as dire as some metrics may seem at first glance on sites like Yahoo Finance. As fellow Fool.com contributor Rekha Khandelwal pointed out in a recent piece: "Enbridge targets a payout ratio below 65% of its DCF. Based on the midpoint of its 2020 DCF guidance, its payout ratio for the year would be around 70% — only slightly higher than its target." Indeed, that's extremely bullish for those concerned about the potential for a dividend cut in the future.

Energy infrastructure companies like Enbridge the way to play the energy sector

In my view, there's no safer company out there than Enbridge in the energy sector right now. That's because Enbridge isn't a pure-play energy producer. Rather, the company simply transports oil from upstream producers to downstream refiners.

Enbridge's contracts with its customers (producers) are extremely favourable right now. Enbridge will make money no matter what the price of oil is.

That said, the rising price of oil of late is bullish for Enbridge for a couple reasons.

First, oil producers are more likely to increase production targets, which has a direct impact on the volume Enbridge is likely to see in the short term. Pipeline capacity in Canada remains constrained, so this is a bit of a non-issue from a volume perspective, but it does increase Enbridge's pricing power over the medium term if oil prices remain elevated.

Secondly, rising oil prices reduce counterparty risk for Enbridge's customers, the oil producers. In other words, there's less risk that Enbridge's oil producing customers could go belly up. This further bolsters the company's already solid cash flow prospects over the medium to long term as well.

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