



## Is Enbridge Inc. North America's Top Pipeline-Dividend Stock?

### Description

**Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) has a reputation of being a top Canadian dividend payer—the company has paid dividends every year without fail for 62 years, increased its dividend every year since 1996, and has grown its dividend at an impressive 14% *annually* over the past 10 years.

This is an impressive track record, but over the next several years, Enbridge is set to improve nearly every aspect of its dividend relative to its peers and to its own track record. Dividend investors typically look for a few key qualities—payout ratio, sustainability, growth, certainty, and yield. Thanks to Enbridge's new financial optimization strategy, as well as its \$44 billion capital growth program, Enbridge's dividend will improve on nearly every front.

Here's how Enbridge's dividend is set to improve considerably, and how it compares with its peers.

### Record dividend growth will come from record cash flow growth

Enbridge recently announced that it plans to grow its dividend per share by 14-16% annually between 2016 and 2018, which is above its average growth rate. This high growth rate is an extremely important consideration for dividend investors. This growth is driven by the most ideal source of dividend growth—rising cash flows.

Recently, Enbridge released a new measurement of cash flow, similar to what its American competition uses, known as adjusted cash flow from operations, or ACFFO. ACFFO is important because it looks at how much net cash the company is bringing in, minus any preferred dividends and maintenance capital. Therefore, it is a solid measure of how much cash flow the company has remaining to pay its dividend and to invest in growth projects.

According to Enbridge, the company expects this new cash metric to grow by an impressive 18% compound annual growth rate over the next four years. This is much higher than the 10-12% earnings-per-share growth the company is expecting over the next four years. For dividend investors, 18% cash flow growth is much more important since earnings take into account many non-cash items (like depreciation), and do not factor in maintenance capital expenditures.

While 18% cash flow growth will certainly be able to support the 14-16% annual dividend increase, even better for investors is that this cash flow (and dividend) growth is very secure. This growth is driven by Enbridge's \$44 billion capital growth program, of which, \$34 billion is both commercially and politically secured, and set to be in service by 2018. This means that unlike other pipeline companies, like **TransCanada Corp.**, Enbridge's growth is not dependent on huge projects, like Keystone XL or Energy East, being approved.

While the growth in Enbridge's dividend is definitely being supported by strong cash flow growth and a secure growth program, Enbridge has managed to deeply reduce the funding costs of its large capital program, which in turn reduces the amount of cash and debt Enbridge needs to fund its growth program (which leaves more for the dividend).

By selling \$30 billion in assets to its subsidiary, Enbridge Income Fund, in exchange for shares in the fund, Enbridge is transferring funding responsibility to its subsidiary while still benefiting from growth through ownership and special incentive fees. This allows Enbridge to fund part of its program without diluting shareholders, using its cash flow, or resorting to debt.

Thanks to Enbridge's drop-down activity and cash flow growth, the company currently has a highly secure dividend. Enbridge is estimated to have a 2015 ACFFO per share of \$3.56 and a dividend of \$1.86. This works out to a cash payout of only 52%, which is highly sustainable.

### **This compares very well with peers**

Currently, Enbridge has a higher dividend-growth rate than most of its peers. TransCanada, for example, is expecting an 8-10% annual growth rate through to 2017, and **Kinder Morgan** and **Spectra Energy** are expecting a 10% and 8% annual rate, respectively.

Enbridge's dividend is also far more secure than its peers, with a 50% cash payout compared with nearly 100% for its American peers and over 60% for most of its Canadian peers. While TransCanada does have a slightly lower cash payout at 40%, this is due to the fact that the company is trying to retain cash because its capital program is more uncertain.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

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