Enbridge Inc. and its Misleading Dividend-Growth Forecast

Description

You have probably heard about **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) being a great business. Don't get me wrong. I agree it's a great business. Its storage and pipeline assets are necessities to store and transport oil and gas. Its predictable business generates stable and growing cash flows that should continue to support a growing dividend.

Dividend growth clarification

However, there needs to be some clarification about its dividend growth. Enbridge forecasts to grow dividends by a compound annual growth rate (CAGR) of 14-16% through to 2018.

In 2015 Enbridge's dividend increased from $0.35 per share in 2014 to $0.465 per share. That is a growth rate of almost 33% in one single year!

That means that even though the company forecasts a CAGR of 14-16% through to 2018 for its dividend, a big portion of that growth already happened in 2015. So, when the company forecasts the 14-16% growth, investors need to think of 2014's dividend as the starting point and not the 2015 dividend.

In that case, we can forecast total, annual payouts of $2.36 per share to $2.53 per share by 2018. The former uses an annualized growth rate of 14% starting from 2014, while the latter uses an annualized growth rate of 16% starting from 2014. Assuming investors buy at or under $55 per share, that would indicate a yield on cost of at least 4.3% to 4.6% by 2018.

To clarify, because 2015's annual payout is anticipated to be $1.86 per share based on a quarterly dividend of $0.465 per share, the dividend is forecast to grow at a CAGR of 8.2-10.8% from 2016 to 2018. Although this would still be phenomenal growth for such a big company as Enbridge, there is a difference between these numbers and 14-16%.

Valuation

Still, there's no argument that Enbridge is priced at a value today. Other than the fact that it is still over

16% below its 52-week high of $66, Enbridge yields over 3.4% today, which is considered high for the high-growth company.

Growth

Enbridge’s growth capital program of $44 billion from 2014 to 2018 is already in motion. About $13.8 billion of the projects are in service, and $34 billion will be commercially secured by the in-service date. Part of the growth is already evident with last year’s surprising dividend hike of close to 33%.

In conclusion

Investors should not buy Enbridge today and expect a 14-16% annual growth in its dividend through to 2018. Rather, investors should expect an 8-11% growth in Enbridge’s 3.4% dividend.

If investors are looking for a similar investment with a higher yield, **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) is an alternative. It yields 4.5% at under $46 per share, and the company forecasts to increase dividends by 8-10% through to 2017.

Of course, there’s nothing stopping investors from investing in both companies for a blended yield and growth for their investment.

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1. Dividend Stocks
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Date
2025/08/28
Date Created
2015/09/01
Author
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