



## Is Enbridge Inc.'s 5% Yield Safe?

### Description

**Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) has fallen more than 30% from its 52-week high. At about \$43, it yields 5%. The price pullback is giving investors an opportunity to grab some shares at the highest yield Enbridge has experienced since 2001.

Just how safe is Enbridge's dividend? First, let's take a look at its business.

### The business

Enbridge is a leader in delivering energy in Canada and the United States. It transports crude oil and is also the largest natural gas distribution company in Canada. It provides distribution services in Ontario, Quebec, New Brunswick, and the state of New York. On top of that, Enbridge also has interests in renewable energy assets with 2,800 megawatts of capacity.

Enbridge is built on a reliable business model. At the end of 2015 less than 5% of the business was directly affected by commodity prices. Further, 95% of its cash flows were generated from tolls and fees charged for its energy-delivery services.

### Growing dividend supported by cash flows

Enbridge has paid a dividend since it began trading in 1953, and it has increased its dividend for 20 consecutive years. It aims to pay out 50-60% of its available cash flow from operations (ACFFO). From 2013 to 2015 its payout ratio increased from 40.1% to 50%, and its dividend increased by 48%.

Most recently, Enbridge hiked its dividend by 14% to a quarterly dividend of \$0.53 per share, totaling an annual payout of \$2.12 per share. This equates to a payout ratio of 47-56% based on its 2016 ACFFO per-share guidance of \$3.80-4.50.

Based on its secured growth outlook, through 2019 Enbridge forecasts to grow ACFFO by 12-14% on average per year, which supports the company's guidance of growing dividends per share by 10-12% in that period. Any unsecured developments and new opportunities are not included in these forecasts and can offer further upside to these estimates.

### **Capital resources and growth**

Enbridge placed about \$8 billion worth of projects into service in 2015. Existing projects generate cash from operations to help provide financing flexibility for its 2016 capital program along with its other capital sources, such as issuing debt and drawing from credit facilities.

Enbridge aims to maintain sufficient liquidity on standby via committed credit facilities with multiple banks and institutions to enable it to fund all expected requirements for about a year without having to access the capital markets.

At the end of 2015 Enbridge had \$9 billion of available liquidity. From 2016 to 2019 Enbridge has \$18 billion of secured projects to drive growth.

### **Conclusion**

Enbridge is an investment-grade company with an S&P credit rating of BBB+ and a debt-to-cap ratio of 60%. It has a low-risk business that has minimal commodity-price risk, generates stable and reliable cash flows, and supports a sustainable dividend.

On top of that, it has sufficient standby liquidity and access to multiple sources of capital. So, Enbridge should be able to maintain its 5% dividend yield and continue to increase it by 10-12% through 2019.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

### **Category**

1. Dividend Stocks
2. Investing

### **Date**

2025/08/25

### **Date Created**

2016/02/24

### **Author**

kayng

default watermark