



3 Things Enbridge Inc.'s CEO Wants You to Know About How it Will Grow the Dividend

Description

Energy infrastructure giant **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) has made one thing quite clear: investors can expect 10-12% annual dividend growth through 2024. That is an unmatched outlook in the industry both in duration and size; rival **TransCanada**, for example, is only aiming for 8-10% annual growth through 2020.

Driving Enbridge's industry-leading forecast are several factors, which CEO Al Monaco detailed on the company's recent third-quarter conference call.

Clearly visible growth through 2019

Enbridge is in the midst of two major strategic growth initiatives, which will drive dividend growth through 2019. First, the company is working towards closing its recently announced acquisition of natural gas pipeline giant **Spectra Energy Corp.** ([NYSE:SE](#)). That immediately accretive transaction will enable Enbridge to boost its 2017 dividend by 15%, assuming the deal closes as expected.

The second strategic initiative is to complete its leading capital project backlog, which currently sits at \$26 billion when including Spectra Energy's backlog. The company expects the bulk of these projects to go into service by 2019, which gives it the confidence that it can deliver double-digit dividend growth through that time frame.

Three drivers of growth for the following five years

While Enbridge has secured its dividend growth through 2019 via those strategic initiatives, Monaco wanted investors to know that the company is not basing its confidence on delivering similar dividend growth over the following five years on hope. Instead, he said the following on the call:

After that, growth comes from three sources: growing cash from tilted return profiles for projects put into service through 2019; new capital investment from the CAD\$48 billion in development projects...and then we'll have some room in the payout given that we expect

to be in the lower part of the 50-60% payout range after we complete the secure program. We believe the magnitude and the length of the dividend growth runway here is unmatched in our industry.

As Monaco notes, one of the drivers of dividend growth beyond 2019 is the continued ramp up of the projects under its current growth program. Given that several of them will not be in service until 2019, such as the Line 3 project, they will not be contributing to full capacity until future years.

Next, Monaco reminds investors that its backlog of growth projects beyond those currently in development is extensive. For example, the company expects that it will start construction on five new projects in 2019. As these and other projects go into service, they will fuel a significant portion of the company's ability to grow its payout in the early part of next decade.

Finally, Monaco noted that despite the robust dividend growth through 2019, Enbridge would still only pay out roughly half of its available cash flow. That gives it a cushion to continue raising the payout in future years while remaining within its target range.

Investor takeaway

The reason Enbridge is so confident in its ability to deliver double-digit dividend growth through the first half of next decade is that it has three levers to pull to drive that growth. Those levers alone give it complete confidence that it will deliver as promised. It is also worth noting that the company doesn't assume any additional transformative deals like Spectra Energy, which could further enhance its ability to meet or even exceed its dividend-growth guidance.

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