Why the Dip in Enbridge Inc. Is a Buying Opportunity

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) shares dipped about 2% after the company released its first-quarter results.

It turns out that Thursday was also the ex-dividend date for Enbridge's second-quarter dividend, which means investors buying shares on Thursday or later won't receive its second-quarter dividend.

However, just because we just missed the Q2 dividend doesn't mean we should forget about the shares until we get close to September, when Enbridge will pay its next dividend, according to its usual schedule.

Instead, at any time, investors should determine if the stock of question is a good value or not for their hard-earned savings.

Why did the shares dip?

In Q1, Enbridge generated available cash flow from operations (ACFFO) per share of $1.03, which was 18.8% lower than in Q1 2016. The leading energy infrastructure company explained that it was largely due to the fact that it only had one month of contribution from Spectra Energy, which merged with Enbridge at the end of February.

Is Enbridge's dividend safe?

With its increased quarterly dividend to $0.61 per share, and based on its Q1 ACFFO per share generation, its payout ratio is just below 60%.

Based on the company's 2017 ACFFO per share guidance of $3.60-3.90 per share, its payout ratio should be 62-67% this year. This implies a sustainable dividend.

In the long run, Enbridge aims to maintain a more conservative payout ratio of 50-60%, which willmake its dividend even safer. It can achieve that with its pipeline of projects, which can boost its cashflows.

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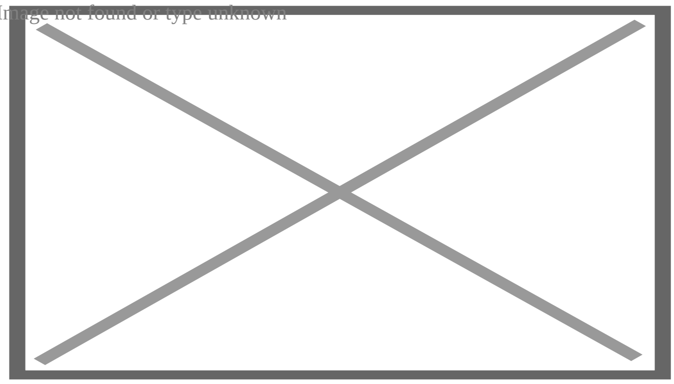

Investments should drive cash flow growth

Through 2019, Enbridge has $28 billion of projects coming into service, of which 46% are expected to come online this year, 14% next year, and 39% in 2019.

As well, Enbridge anticipates realizing annual synergies of $540 million by 2019 from the Spectra Energy merger. So, we should see Enbridge's payout ratio reduce over the next few years.

Dividend growth

Enbridge has a strong track record of dividend growth, having increased its dividend for 21 consecutive years. Its 10-year dividend-growth rate was 13.9%, which makes it one of the best dividend-growth investments on the Toronto Stock Exchange.

This year, Enbridge increased its dividend by 15%. Further, management believes it can hike its dividend per share at a compound annual growth rate of 10-12% from 2018 through 2024.

Investor takeaway

At below $55 per share, Enbridge yields almost 4.5%. It expects to grow its dividend by 10-12% through 2024. With its strong history of dividend growth, sustainable dividend, growing cash flows, and reasonably valued shares, Enbridge makes for an excellent, stable dividend-growth investment for income and total returns investor alike.

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