Enbridge Inc.: Buy This Dividend Juggernaut

Description

Since **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) declared its first-quarter earnings, shares of the company have dropped by nearly 8%. And with this drop, the yield for this dividend juggernaut has jumped to 4.68%. Between the serious drop in price and the increase in yield, I believe investors would be making a mistake by avoiding this company.

But why did the company see shares drop?

The big reason is that available cash flow from operations (ACFFO) dropped $1.03, or 18.8% from Q1 2016. Although Enbridge had warned investors in its guidance that this would happen, any drop in cash flow scares investors.

There are a few reasons for this drop. First, Enbridge assumed debt from its Spectra Energy merger, which increased interest payments. Second, there are also more shares now with the two companies merged, so cash flow is going to be more dispersed. And finally, Enbridge's liquids pipeline segment saw a drop in earnings.

Fortunately, the company is still in great shape despite one rough quarter, and the next few years should be incredibly profitable for investors.

The Spectra Energy merger complements Enbridge in all the right ways. It gives Enbridge significant exposure to the natural gas business, which it didn't have before. And second, the combined entities are expected to create annual synergies of $540 million by the end of 2018.

Then there's the growth potential. Enbridge has a multitude of projects that will come online this year. These include the Norlite Pipeline system with a 130,000-barrel capacity per day; the Bakken Pipeline system with a 470,000-barrel capacity per day; and the Regional Oil Sands Optimization project. By the end of 2019, Enbridge will have completed a total of $26 billion in projects with an additional $48 billion in long-term projects under consideration.

These projects will immediately add cash flow to the company. Ultimately, that's the goal, because as cash flow increases, the company's payout ratio decreases. If we look at the $0.61 per share the company pays compared to the Q1 ACFFO, its payout ratio was below 50%. Management wants to maintain a 50-60% payout ratio –a safe place to be. Therefore, if cash flow sees significant growth, management will continue to feel comfortable increasing the dividend.

And that's management's plan. With the Spectra Energy merger, management increased the dividend by 15% this year. Between 2018 and 2024, management wants to grow the dividend at a compound annual growth rate of 10-12%. Should that happen, you can expect the dividend to be anywhere from $1.12 to $1.35 by the end of 2024, which is nearly double what it is today.

Time to buy

With shares having dropped by nearly 8%, and the yield comfortably over 4.6%, this stock is a no-brainer. It has significant growth potential, management is shareholder friendly and wants to boost the dividend, and, over the long term, it's in a great position to continue generating strong cash flow. If you're reinvesting the dividends year after year, I see little reason why Enbridge can't become a core holding in your portfolio.

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jaycodon