Is Enbridge Inc.'s 12% Dividend Growth Under Threat?

Description

It seems that troubles for **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) stock are far from over.

Enbridge, one of the most coveted names among Canada's dividend payers, has been under selling pressure since the Bank of Canada moved from the sidelines this summer and raised interest rates twice.

The move was negative for the utility stocks, as it reduced the appeal of their investment case when the return on the risk-free government bonds began to rise.

But in the last quarter of this year, Enbridge is facing another problem, and that's related to the future of its planned increases in dividends.

Investors and analysts have started speculating on whether or not Enbridge will make good on its 10-12% hike in dividend payouts each year through 2024 after the company failed to reiterate its guidance during its latest earning announcements.

As a result, Enbridge stock plunged more than 5% in the past five trading days, trading at $46.82 a share at the time of writing, extending its 17% decline for this year.

What is worrying investors?

The main concern affecting Enbridge's stock performance is regarding the company's ability to fund its $31 billion capital development program, which it announced at the time of acquiring Spectra Energy last year.

That spending is important for Enbridge after it combined its operations with Spectra's assets as part of a $37 billion deal, which was designed to produce more cash for investors.

Investors who are bearish on Enbridge's future prospects doubt that the company will be able to undertake this massive growth plan without either cutting its dividend or taking on more debt.

If the company borrows more, then that will have implications for its credit ratings. Moody's Investors Service already has a negative outlook due to the company's +$60 billion indebtedness.

Should you be worried?

I think Enbridge's long-term value for income investors is intact, despite these short-term concerns about the future of its dividend growth.

The company, through its smart acquisition strategy, has gained an unparalleled position in the energy infrastructure space. And this strength is going to help the company to navigate through this challenging time.

If you are a long-term investor and are looking to buy a solid dividend stock, then this is a good time to accumulate Enbridge shares.

In a worst-case scenario, Enbridge might decide to meet the low end of the current 10-12% dividend-growth guidance. We will know this when the company plans to brief investors about its business in mid-December during its annual Investor Day.

Till then, I think, it is a good time to lock in a juicy 5% dividend yield from this energy giant.

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hanwar