Why Investors Should Back Up the Truck on Shares of Enbridge Inc.!

Description

Last Friday, shares of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) closed at a price of slightly less than $45 per share, as the buyers outweighed the sellers for the day. The caveat for those buyers is that the quarterly dividend was paid earlier in the week, which means they will not be receiving anything for at least three more months.

Although many investors are not very keen on purchasing shares of this energy company right after the payment of the dividend, there may actually be a significant amount of potential for investors willing to remain patient and hold for the longer term. At the current price, the dividend yield offered by the company is almost 5.5%, which may act as a price floor given the sustainability of the dividend.

Although shares trade at a clear premium to many others in the sector, the current price-to-earnings (P/E) ratio of 23 times is not a huge concern. As interest rates are expected to remain low for a lengthy period of time, the catalyst for buying and holding shares of Enbridge is for the dividend and its growth.

With shares increasing by only approximately 16% over the past five years, those remaining patient have had their expectations met. The company has paid a quarterly dividend, which has increased consistently over time. Since 2013, the dividend has increased at a compounded annual growth rate of 17.6% (assuming the dividends for the fourth quarter of 2017 totals $0.61 per share).

For investors doing a deeper analysis, the dividend itself is not the only metric to look at. In fact, the dividend-payout ratio (calculated as dividends paid divided by cash from operations of CFO) is also very important. In fiscal 2013, the company paid only 25.5% of CFO as dividends, which increased to 27.7% for fiscal 2016. Throughout the first three quarters of fiscal 2017, the dividends paid represent 36.4% of CFO.

With a large customer base, shareholders of Enbridge need not worry about the consistency of revenues and earnings of the company. The dividend yield is more than safe, which leads to the question: Why buy shares if there is not going to be any substantial growth?

As previously mentioned, the rate of return being offered to investors on fixed-rate investments has been consistently low for many years, which has led many to seek alternative investments that provide higher yields or higher income streams (for retirees). On a comparative basis to other defensive securities, shares of Enbridge pay an above-average dividend yield, which may translate to a higher future share price.

If the company were to pay an annual dividend yield of 4.5% (instead of the current 5.5%), shares would trade at a price closer to $55 instead of the current $45 per share, giving investors upside potential of more than 20%!

For comparison purposes, a five-year guaranteed investment certificate (GIC) currently pays less than 2% when issued by any Canadian major bank.

The bottom line: enjoy your dividends!

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