Enbridge Inc.: Why You Shouldn’t Try to Catch This Falling Knife

Description

A couple of months ago, I posted an article on Fool.ca titled “Enbridge Inc. Is Near its 52-Week Lows: Is it a Buy or a Value Trap?”

The point of the article was that despite the fact that **Enbridge Inc.** (TSX: ENB)(NYSE:ENB) was at the time trading near its 52-week lows, the company is unquestionably undergoing a period of transition following the transformative acquisition of Houston-based Spectra Energy for $37 billion.

While the move to take ownership of Spectra’s natural gas pipeline network will go a long way toward diversifying Enbridge’s energy exposure for decades to come, the $37 billion price tag did not exactly come cheap; the move means that Enbridge will naturally have less capital available to invest in other growth initiatives going forward.

This move also means that with less capital at its disposal, the company will likely be less inclined to continue at its historical pace of dividend increases. Aggressive dividend increases have been a hallmark of Enbridge for years, and have been one of the key factors that have led the investment community to continue pouring money into the stock.

But with the pace of dividend hikes potentially set to slow, Enbridge could very well start to trade more like a traditional “slower growing” utility company – one in which investors become more concerned with the dividend *yield* than the pace of dividend *increases.*

Now, with interest rates rising around the world, it may serve as a headwind for Enbridge shareholders who are trying to get the most value for the company’s dividend.

When interest rates on government bonds and corporate issues are at all-time lows – as they have been for most of the past decade – investors who are in need of income will resort to buying blue chip dividend-paying stock like Enbridge instead, effectively swapping interest payments for dividends.

This dynamic led to a premium for these types of companies, including household, dividend-paying names like **McDonald's Corporation** and **Wal-Mart Stores Inc.**, both of which have seen their shares skyrocket in recent years.

With rising interest rates becoming the new normal as central banks prepare for higher inflation, dividend yield on Enbridge or McDonald's doesn't look so great anymore.

Before you do anything, take a good look around first

After rallying off their November lows, shares in Enbridge have given up most of those gains, which are down 12% since the start of 2018.

On January 10, the company announced that it was planning to restart its Gulf of Mexico pipeline. While that's welcome news, it doesn't mean there aren't better opportunities to be found elsewhere.

For example, **Altagas Ltd.** (TSX: ALA) happens to be another infrastructure company with similar exposures to North American energy markets, but which offers investors a yield of 7.96% today compared to Enbridge's 6.10% yield. It may be a superior play in the space for those seeking a juicier return in their portfolio.

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