Is Enbridge Inc.'s Dividend Safe?

Description

Wow! As of the market close on Friday, **Enbridge Inc.'s** (TSX:ENB)(NYSE:ENB) offered a yield of 6.2%. The company hasn't had this high a yield since 2000.

Is this a great opportunity to buy Enbridge or is there something wrong?

First, here's a business overview.

The business

Enbridge is the largest energy infrastructure company in North America, with liquids and gas pipelines, natural gas storage assets, gas utilities, and renewable power assets. Since 2002, Enbridge has begun investing in renewable energy with a primary focus on wind generation.

The company transports about 28% of the crude oil produced in North America, including nearly 100 commodities or refined products. It also transports about 20% and processes roughly 12% of North America's natural gas.

Can Enbridge grow the business and the dividend?

Last year, Enbridge's capital spending was about $14 billion. From 2018 to 2020, Enbridge is planning to spend $22 billion in capital spending. It expects these investments to boost cash flow growth through 2020.

Some wondered whether Enbridge could fund both its capital program and its growing dividend, which has increased for 22 consecutive years.

After the huge merger with Spectra Energy Corp. last year, Enbridge identified $2.6 billion of non-core assets for sale. Enbridge was also able to raise capital from the market via common and preferred equity offerings.

The $2.1 billion common equity offering diluted existing shareholders and will reduce the company's earnings and cash flow per share in the near term. Enbridge also plans to sell another $3 billion of non-core assets this year. Sold assets also will reduce profitability. However, the company's investments and organic growth will more than offset the reduction.

Enbridge was awarded an investment-grade S&P credit rating of BBB+. This year, Enbridge aims to reduce its debt to cash flow to five and significantly deleverage its balance sheet by 2020, which will increase its financial strength and flexibility.

The company expects to grow its cash flow per share by 10% per year through 2020, which will support dividend growth per share of 10% per year with a payout ratio of about 65%.

Investor takeaway

The management estimates that Enbridge's cash flow generation alone will cover the dividend, with $14 billion left over for its capital program during the 2018 to 2020 period.

For the rest of its capital program needs, Enbridge has used multiple sources to raise funds, including its internally generated cash flow, equity offerings, and asset sales. It also has other options for raising funds should the need arise.

With the expectation of growing its cash flow per share by 10% per year, Enbridge believes it can grow its dividend by 10% per year through 2020. If things don't go according to plan and its cash flow grows more slowly than expected, then Enbridge will grow its dividend more slowly. However, with ample coverage for its dividend, I don't believe we will see a dividend cut at Enbridge.

Currently, the stock offers a yield of 6.2%, which is quite enticing for a large-cap, dividend-growth company with above-average growth. I believe it's a great place to buy Enbridge at the low $40's per share level for investors with an investment horizon of at least three years.

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