Is Enbridge Inc. Still a Top Canadian Dividend Stock in the Energy Sector?

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is down considerably in the past year, even as the company continues to raise its dividend, and the energy sector appears to be on the cusp of a recovery.

Let's take a look at the current situation to see if this is the right time to add the energy infrastructure giant to your portfolio.

Interest rates

Rising interest rates, or fears about higher rates, are taking a toll on go-to dividend stocks in the telecom, utility, and energy infrastructure sectors.

Why?

As rates rise, borrowing costs can increase and put a pinch on cash flow available for distributions. In addition, some pundits are concerned investors could shift funds out of dividend stocks and into fixed-income alternatives.

These are valid points to consider, and a sharp uptick in interest rates over a short period of time would likely add to the recent pressure on affected sectors.

Growth

One way Enbridge can offset the interest rate situation is to grow revenue and cash flow.

The company is currently working through $22 billion in near-term projects that should be completed through 2020, including the Line 3 replacement Project that recently received the provisional green light from Minnesota.

Beyond that time frame, the company said in the Q4 2017 report that it sees "a significant opportunity set for new low risk growth in our core footprint beyond the 2020 horizon."

The market, however, is not convinced the long-term opportunities will materialize, and that lack of confidence is part of the reason the stock continues to slide.

Bull case

Fans of Enbridge look at the rebounding oil sector and see growth opportunities in both liquids and gas infrastructure over the long haul. In addition, Enbridge is large enough that it can make strategic acquisitions, as it did last year with the $37 billion purchase of Spectra Energy.

The company says cash flow should increase enough through 2020 to support annual dividend increases of at least 10%. The company raised the payout by 15% last year and already hiked it by 10% for 2018.

Enbridge is shifting its strategy to focus on its core regulated businesses and has identified $10 billion in non-core assets it plans to monetize in the coming years, with $3 billion slated for sale in 2018.

The funds are partly targeted at deleveraging the balance sheet as Enbridge works towards getting its debt-to-EBITDA ratio down to five by the end of 2018.

Should you buy?

At the time of writing, the stock is down to $38 per share, providing a yield of 7%. A year ago, Enbridge traded for $57.

If you have a buy-and-hold strategy and are searching for a market leader with a top-quality dividend and above-average yield, Enbridge looks attractive at the current price. The pullback simply appears overdone at this point.

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