



Enbridge Inc. Stock Is a Falling Knife That's Worth Catching for the Growing ~7% Dividend Yield

Description

Enbridge Inc. ([TSX:ENB](#))([NYSE:ENB](#)) stock is a falling knife right now.

The stock keeps getting cheaper by the month, and although catching knives is often a risky proposition, I believe those with an investment horizon beyond five years have the opportunity to pick up an overly-battered name with the potential to rebound over the next five years and beyond.

A few years ago, Enbridge was a market darling. Shareholders were handsomely rewarded through generous dividend hikes in addition to an above-average rate of capital appreciation. To many, Enbridge was a relatively safe core holding that was a must-buy on any dip. Fast-forward to today and the sentiment couldn't be gloomier. Shares currently yield 6.64%, the positive momentum has turned on its head and many investors are in panic mode as they contemplate whether they should break up with their long-time market darling.

The bad news continues to mount

There's no doubt that the company has seen its fair share of [issues](#) over the past few years. Most recently, the Line 3 replacement program hit a roadblock after a Minnesota judge rejected Enbridge's preferred route, instead recommending a costlier option that's sure to put the company between a rock and a hard place.

Enbridge has a considerable amount of debt on its balance sheet, and given that management is committed to keeping its dividend growth promise to investors, one can only expect the magnitude of dividend growth to drop significantly come 2021 and beyond as the company uses the cash to pay off more urgent expenses like debt repayment.

Some pundits have slammed Enbridge for maintaining its dividend growth promise to investors, claiming that the company didn't earn the right to reward shareholders. The cash could have easily been used toward paying off debt or as a cushion for unexpected future costs like the alternate Line 3 replacement route through the State of Minnesota. Although shareholder-friendliness is a good trait,

some would agree that Enbridge may be too shareholder-friendly for their own good.

Significant debt levels have caused the credit-rating agency **Moody's Corporation** (MCO) to give Enbridge a Baa2 rating, which is a [step away from junk status](#), as fellow Fool contributor Demitris Afxentiou recently pointed out. Although Enbridge will need to keep its dividend growth promise to investors over the next three years, one can expect the magnitude of dividend growth past 2021 will be more modest as the company re-focuses on financing longer-term growth projects.

In the meantime, continued delays and regulatory hurdles will continue to be a drag, but this likely has already been baked into shares at this point. As such, should unexpected positive developments catch the overly pessimistic general public off-guard, Enbridge shares could easily pop by a double-digit percentage over the next year or so.

Buy shares using a dollar cost averaging approach to minimize the short-term pain

By scaling into a position in spite of ominous technical patterns and continued negative momentum, one could lock in a huge dividend yield relative to the invested principal. But in order for the investment to really pay off, a long-term horizon is needed, as continued pain over the short-term is likely as the stock continues to drop below the threshold of pain for many income investors.

With no catalysts on the horizon, a dollar cost averaging approach is recommended for investors who are able to buy-and-forget for years. Buy a small position now, expect more downside, and be ready to add to your position later in order to lower your cost basis and increase the yield relative to your investment principal.

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