



How Enbridge's (TSX:ENB) Recent Transactions Should Help to Quell Any Fears About its Dividend

Description

Recent transactions executed by **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) should go a long way to quelling any remaining fears that investors may have about the security of the company's dividend, which currently sits at a 6.37% yield.

That yield is, in fact, considerably higher than normal for Enbridge's common stock, and a lot of that has to do with the position the company finds itself in following a large acquisition in 2016 and that it's now approaching its largest ever infrastructure project yet — [the Line 3 Replacement Program](#).

Scarce resources

Back in the fall of 2016, Enbridge announced it planned to acquire Houston-based Spectra Energy, a natural gas transmission company, for \$37 billion.

It's a move that sets the company up as a more diversified liquids and natural gas company with a premium portfolio of strategically positioned assets and low-risk business profile better positioned — in theory, at least — to deliver superior returns to shareholders.

But it's also a move that saw the company add \$25 billion of debt to its balance sheet, bringing that total to \$65 billion against shareholders' equity less goodwill of closer to \$24 billion.

That, along with \$22 billion in planned capital expenditures over the next three years, had some concerned that maybe Enbridge wouldn't be able to keep up with the torrid pace of dividend increases that shareholders have enjoyed in the past, with the company raising the payout on its common shares by an average of 16% between 2010 and 2017.

A man with a plan

Enbridge CEO Al Monaco has a plan in place to get his company's balance sheet back in order and quell any fears investors may still be holding.

Part of that plan involves streamlining the business, divesting non-core businesses to focus on those assets delivering top quartile cost performance, and using sponsored investment vehicles to de-risk certain portions of its investment portfolio.

Putting the plan into action

Two deals made on May 9 saw that strategy spring into action.

In reporting its first-quarter results, Enbridge announced that it would be selling its U.S. Midstream business to AL Midcoast Holdings, LLC (an affiliate of ArcLight Capital Partners, LLC) for a cash purchase price of US\$1.120 billion.

In addition, it also announced that it was entering [two joint ventures](#) with the Canadian Pension Plan Investment Board related to its interest in certain North American onshore renewable power assets as well as the company's interest in two German offshore wind projects.

Bottom line

The two moves in combination form a critical element of the company's strategy to execute \$3 billion of asset sales in 2018, most of which will be used to retire a portion of its outstanding senior debt.

Enbridge has stated plans to increase its current dividend by 10% compounded annually between this year and 2020.

With shares recently coming off their 52-week lows, now might be a good time to take a closer look at Canada's largest pipeline operator.

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