



## Why Enbridge Inc. (TSX:ENB) Is a Buy Despite “Ugly” Capital Structure

### Description

If you're an income investor who relies on dividend (or distribution) payouts to support your lifestyle, then you've probably thought about giving yourself a raise by putting your money to work in higher-yielding names in spite of their seemingly elevated risk profiles.

By going on the hunt for dividend stocks with yields that are well north of 4% (from the 4% rule of thumb), the chances of suffering a dividend cut or reduction are raised considerably, so it's essential to do your homework before placing a bet on a +6%-yielding name.

Consider **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)), a popular income play with a juicy 5.91% dividend yield that may be a fool-proof way to give yourself a raise.

The dividend darling is currently 30% down from its all-time high due to numerous issues, including regulatory roadblocks, that have caused many investors to throw in the towel. While the business has endured tough times over the past few years, management's promise to raise its dividend by +10% per year is still intact.

The trailing 12-month (TTM) dividend-payout ratio has swelled to an unhealthy 183%, which suggests that management hasn't “earned the right” to continue to hike its dividend.

Enbridge has paid out around \$3.1 billion in dividends last year, and given the company hasn't clocked in positive free cash flow thanks to its exorbitant amount of capital spending, there's no question that management's commitment to continue growing its dividend is a questionable one that's not “naturally” sustainable over the longer term.

Management has pulled the right financing levers, so the dividend can be sustained (and grown further) over the next few years without compromising in the growth department. Enbridge's new financial plan has caused **Moody's** to downgrade its credit rating to just one notch above junk status, which may be seen as a red flag.

Given the [highly regulated nature](#) of Enbridge's future cash flows though, I think more aggressive income investors may find it worthwhile to place a bet in the stock since the “dark days” are unlikely to

last forever, especially when you consider Alberta's urgent need for heavy crude transportation.

In the meantime, Enbridge is poised to navigate through a challenging environment with its new debt-fueled capital structure. While this increased reliance on debt may seem like a turn-off to most, in the grander scheme of things, I don't think investors should be alarmed at the "higher-risk" capital structure adopted by Enbridge since its operating cash flows are ridiculously stable.

Moreover, the Line 3 replacement will stand to relieve a substantial amount of financial pressure at around the same time management's current dividend-growth commitment comes to an end. This leads me to believe that the dividend-growth commitment may be renewed come 2021.

### **Foolish takeaway**

At this point, Enbridge looks like it can provide investors with the opportunity to have their cake (dividends) and eat it too (substantial capital gains).

The financial situation looks bleak at the moment, and the externally financed dividend may seem unsafe, but when you consider the discounted future cash flows from projects that are on the horizon, the new capital structure isn't as ugly many pundits make it out to be.

Thus, I'd encourage investors to back up the truck on Enbridge shares today in spite of its ugly liquidity position. Given its large moat and highly regulated nature of operations, I think investors who cut Enbridge some slack will stand to be [rewarded over the long haul](#).

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