Should You Buy Enbridge Inc. (TSX:ENB) Stock for the 6% Yield?

Description

Enbridge (TSX:ENB)(NYSE:ENB) has given back some of its recent gains, and dividend investors are wondering if the above-average yield is simply too tempting to ignore.

Let's take a look at North America's largest energy infrastructure company to see if it deserves to be in your dividend portfolio right now.

Challenging times

Enbridge has fallen out of favour with the market in the past three years. The stock traded as high as $65 in the spring of 2015, but concerns about rising interest rates, opposition to major pipeline projects, and a large acquisition have all contributed to a downturn that bottomed out near $38 per share in late April. At the time of writing, Enbridge trades at $45, down from $47 in August.

Turnaround efforts

Interest rates are likely headed higher, and based on the government's difficulties in getting the Trans Mountain pipeline expansion built, there is little hope for a revival of Enbridge's failed Northern Gateway project.

As a result, Enbridge knows it must adjust to the current environment and has embarked on a strategic transition this year that should bring back investor confidence. The company already found buyers for $7.5 billion of the $10 billion in non-core assets it plans to sell. The original target for 2018 was $3 billion, so demand appears to be robust for the business units.

Enbridge is focusing its efforts on regulated assets and is using the proceeds from the dispositions to shore up the balance sheet and fund ongoing developments. The company bought Spectra Energy in a $37 billion deal last year that increased the company's natural gas distribution and gas infrastructure weighting to complement the largely liquids-focused legacy assets.

Spectra also provided a nice boost to the capital program. In total, Enbridge is working through $22 billion in secured near-term capital projects.

Dividend safety

Enbridge raised the dividend by 10% for 2018 and has increased the payout every year for more than two decades.

As the new assets go into service, revenue and cash flow should increase enough to ensure ongoing dividend growth. The current payout provides a yield of 6%.

Stock risks

Rising interest rates make GICs more competitive with dividend stocks, especially if the market is concerned about growth. At the time of writing, investors can get a five-year GIC that pays about 3%. That’s still a long way off the 6% you get from Enbridge, but the gap could continue to close, and risk-averse investors might shift more funds out of the top dividend names, putting additional pressure on the stock price.

Should you buy?

Enbridge is making good progress on the turnaround program, and while a major rally in the stock is not likely in the near term, the pullback appears overdone. If you have a buy-and-hold strategy and are looking for a reliable high-yield dividend pick, I think Enbridge is attractive today.

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Date

2025/08/18
Date Created
2018/09/06
Author
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