Enbridge Inc (TSX:ENB) Hikes Its Dividend 10%: Is Now the Time to Buy?

Description

For all the negativity and concern surrounding in the oil and gas industry lately, **Enbridge Inc** (TSX:ENB)(NYSE:ENB) isn't showing the same level of pessimism. Instead, the company recently announced that it would be increasing its dividend yet again by a whopping 10%.

Investors likely would have understood if the company was a bit more conservative in its increase, but Enbridge has shown yet again why it is one of the top dividend stocks to own on the TSX, because of its commitment to growing its payouts.

As of Monday's close, Enbridge was trading at just over $42 a share, meaning that its new quarterly dividend payment of $0.738 would be yielding just over 7% per year. That's an incredible payout, and it's one that investors would be lucky to have, especially if it can prove to be stable, which leads me to the next question:

Is this a good move for Enbridge?

While the numbers look good on paper, dividend investors need to think long term and whether the payouts will remain safe. Although we don't have a crystal ball to know where the industry will go over the next several years, we can assess where the company has been recently.

In the trailing 12 months, Enbridge has generated earnings per share (EPS) of $0.93, well shy of the $2.95 it would pay out in dividends with its recent hike taking into effect.

Another approach we can take is by looking at the company's statement of cash flow, which excludes non-cash items that won't have an impact on the company's ability to issue cash dividends.

During the past 12 months, Enbridge has generated free cash flow $1.65 billion, which although is strong, it's about half the $3.28 billion that the company paid out in dividends during that time.

In both scenarios, the company's payout ratio is very high and a rise in dividend will only make it even more lopsided. In two of the past five quarters, Enbridge has posted negative free cash flow, and there's certainly no guarantee it will be able to stay out of the red going forward.

Bottom line

As appealing as it may be to jump all over a stock that's going to be paying 7%, investors shouldn't get too excited. By no means is this an investment that I'd be comfortable simply buying and forgetting about. We've seen the oil and gas industry face a lot of adversity over the years and we're still not out of the wood yet, as made clear by Alberta's recent cuts to production.

When things go bad for a company, one of the easiest places to free up cash is by reducing or eliminating a dividend, and that’s why it can be a bit risky investing in an industry like oil and gas with the expectation that a payout will continue.

While Enbridge obviously prides itself on its dividend and would try to avoid having to go down that route, and it’s possible it might not have to, it’s a risk that investors need to be aware of nonetheless.

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