Is Enbridge Inc's (TSX:ENB) 6.1% Yield Safe?

Description

Enbridge Inc (TSX:ENB)(NYSE:ENB) has been doing well amid struggles in the oil and gas industry, but much uncertainty remains. Oil prices continue to be volatile and it seems as though the only way they can be kept up is artificially via production cuts. The downturn began in 2014 and we still really haven't seen the Alberta economy get back to where it was and it's becoming more evident that this isn't just a downturn anymore, this could just be a new reality.

While we may still be years or decades from seeing significant reductions in demand for oil, with many countries producing it efficiently the forces may no longer be there for the commodity to get back to its previous highs. With the outlook being more than a little concerning, relying on a dividend from this industry might be a bit risky.

Although Enbridge has a strong reputation for increasing its payouts and it looks stable today, that doesn't mean it's going to stay that way. We've already seen multiple dividend stocks slash their payouts amid challenges in the industry, and investors shouldn't take for granted the possibility that Enbridge might as well.

However, let's first look at its payout ratio to assess the dividend's health today.

Are Enbridge's financials strong enough?

Over the past four quarters, Enbridge has generated an earnings per share of $1.46. But with the company recently raising its payouts to 73.8 cents a share, it means Enbridge is paying shareholders just under $3 per share every year, for a payout ratio of over 200%. From a profit standpoint, that's definitely not a good sign.

However, let's switch gears and see if on the statement of cash flow things are any better. Here we see that in the past 12 months Enbridge, has generated a very strong $3.2 billion in free cash flow. Unfortunately, the company has paid out more than $3.8 billion in dividends during this time, for a payout ratio of 122%.

At a dividend yield of 5.7%, Enbridge's payout is certainly questionable at best. And if things get more difficult in the industry that's only going to put more strain on the company's financials and its ability to continue paying a dividend.

Bottom line

Generally, any time a dividend yield is more than 5% per year, investors should take a closer look at the stock to assess whether it's a safe one. In Enbridge's case, while I understand the company has a strong reputation for growing its dividend over the years, sooner or later it might be forced to reassess that strategy.

There's just not enough reason to be optimistic about the oil and gas industry today, and investors shouldn't turn a blind eye to the risks. Enbridge may have a good dividend today, but it's not one that I'd rely on for the long term. Although it might be appealing to think about the potential dividend growth the stock might generate for you in the years to come, that could all quickly disappear if the company decides it needs to free up some cash.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/24
Date Created
2019/02/22
Author
djagielski