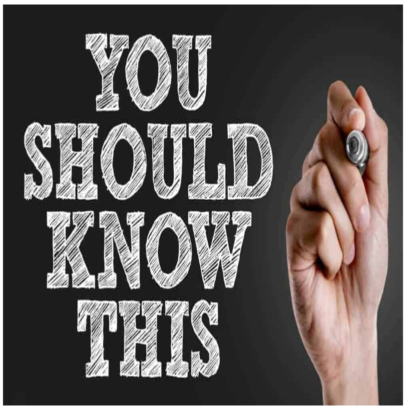

Beginner Investors: Here's the Difference Between a DRIP and a Dividend Suspension

Description

In early November, Canadian pipeline giant **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) announced the suspension of its Dividend Reinvestment Plan (DRIP).

At face value, such an announcement could raise alarm bells for investors. The suspension of a DRIP: isn't that the same as a dividend cut or suspension?

The reality is quite different. In fact, the decision of Enbridge's management team to move away from its DRIP can be construed as a positive move for income investors who rely on cash distributions over time, as this means investors will essentially be able to withdraw cash from an investment account without having to sell a portion of the Enbridge position one holds, incurring transaction costs to do so.

Additionally, and perhaps more important for Enbridge shareholders, the move away from issuing shares to paying out cash indicates to the market that Enbridge's financial position is solid. Companies often choose to pay out dividends in cash to send such signals to the market, especially those like Enbridge that continue to raise their dividends over time. By paying cash instead of issuing new shares, Enbridge avoids having to dilute existing shareholders with small issuances over time, particularly at stock prices that the company may believe are below the intrinsic value of the company.

The act of "selling" new shares for each dividend distribution (essentially at a nil cost to existing shareholders) also carries costs for Enbridge and can be construed by investors as a source of financing. In other words, if the company is not spending its cash on dividends, it could theoretically spend the cash on capital investments elsewhere. By showing it has ample cash to accomplish its corporate goals with projected cash flows, investors should be able to sleep better at night.

The downside to the decision of Enbridge's management team to suspend its DRIP program is the discount that investors received for shares in lieu of cash. Essentially, Enbridge investors received shares in lieu of cash at a 2% discount to the price per share at the time of the dividendannouncement, allowing investors to potentially build a larger position over time and receive greatervalue than the cash equivalent dividend distribution.

Bottom line

Enbridge is a solid long-term play for any investor seeking income now, or in the future. The company's prescribed double-digit dividend increases make this one of the best income plays available today, with a current yield of 6.2%. Investors ought to interpret the company's move to paying out dividends in cash as a positive long-term strategy.

Stay Foolish, my friends.

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Date
2025/08/26
Date Created
2019/03/02
Author
chrismacdonald