Enbridge (TSX:ENB) Stock's Yield Is Approaching 6%: Time to Buy?

Description

North America's largest pipeline operator **Enbridge** (TSX:ENB)(NYSE:ENB) is under pressure again after an unfavourable court decision about its crucial Line 3 replacement project.

Enbridge stock has fallen about 8% during the past two weeks from the highest level in the past 12 months after the Minnesota Court of Appeals ruled that the decision by the Minnesota Public Utilities Commission, a state regulator that approved the Line 3 project last year, wasn't correct.

According to the ruling, the impact statement specifically failed to address how an oil spill from the line would affect Lake Superior and its watershed. The decision is the latest setback to Enbridge's efforts to quickly finish this project, which has the potential to ease the congestion in the Canadian pipeline system.

In its earlier update, the company was expecting to complete the project in the second half of 2020, but now it's not known how much delay is possible. The expansion of the Line 3 project will allow the operator to move 370,000 barrels of crude out of Alberta. Any further delays mean the company may need to cut its earnings forecasts.

Enbridge is showing earnings growth

But this short-term setback, in my view, is a great opportunity for long-term investors to buy Enbridge stock, whose dividend yield has reached almost 6% after the recent pullback. The company is in a good position to take advantage of North America's strong energy economy, especially when Canada is facing capacity shortages.

In its latest earnings report, Enbridge topped expectations, as it reported a first-quarter profit of $1.89 billion. On an adjusted basis, Enbridge says it earned $1.64 billion, or $0.81 per share, in its most recent quarter, up from $1.38 billion, or $0.82 share, a year ago when it had fewer shares outstanding.

The results came as chief executive Al Monaco said the company's systems were running well and near capacity. "We hit record throughput levels this quarter on the Liquids Mainline System. In addition, our gas transmission systems were in high demand given the colder weather we experienced in our franchises this winter, and the Ontario gas utility business hit record dispatch days in January and

February," he said.

Weakening case for higher rates

Another reason to keep a top dividend stock like Enbridge in your portfolio is that when interest rates fall, these stocks become more attractive. Given the increasing risks to global growth following the U.S.-China trade dispute, both Bank of Canada and the U.S. Federal Reserve may soon decide to cut rates.

The latest reports from the economic front suggest that it will be tough for both central banks to sit on the sidelines and not act. Enbridge is a good defensive stock to hold on to when the economic headwinds are gathering pace. The company pays a $0.73-a-share quarterly dividend with an annual dividend yield of 6%. The payout has been expected to rise 10% per year.

Even with some temporary hurdles, Enbridge will be able to finish its development projects, including the Line 3 expansion. Over the past one year, Enbridge has also accelerated its restructuring plan, selling assets, focusing on its core strengths, and paying down its debt. These measures are likely to benefit long-term investors whose aim is to earn steadily growing income.

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