Is Enbridge's (TSX:ENB) 6.4% Dividend Safe?

Description

A high-paying dividend can provide investors with a terrific source of income provided it's sustainable. By analyzing the company's financials and its overall future, investors can gauge the probability of the dividends continuing at the current rate. Below, I'll look at **Enbridge Inc** (TSX:ENB)(NYSE:ENB) and its attractive 6.4% dividend yield in order to assess the safety of its payouts. In doing so, I'll evaluate the following items: payout ratio; strength of its cash flow, and how the company might do in the future.

Payout ratio

A popular starting point for any dividend analysis usually includes looking at the company's overall profitability. In the trailing 12 months, Enbridge has generated earnings per share (EPS) of $2.14, up from $1.46 for all of 2018 and the $1.65 EPS it earned in 2017.

With Enbridge paying shareholders 73.8 cents every quarter, that equates to a total payment of $2.95 over the course of an entire year. That's well above the earnings that the company has generated. Enbridge would need growth of about 40% from where it is today just to get to a payout ratio of 100%. Looking at the company's profits, there's certainly some concern as to whether the dividend might be able to continue.

Cash flows

While payout ratio is usually the default measure when assessing dividend health, it's by no means the best one. There are many things that can add noise to a company's bottom line that will negate its effectiveness, including non-cash items that have no impact on whether it can pay cash dividends. That's where looking at cash flow is important for investors to assess a dividend.

In particular, free cash flow is a number that investors should be looking at carefully. It represents how much a company has left over after its operating costs and capital expenditures to either pay in theform of dividends or use for another purpose. The good news is that Enbridge has generated $2.4billion in free cash over the past 12 months and $3.2 billion in 2018.

The problem is that dividend payments of $4.6 billion over the past four quarters have more than eclipsed its free cash. In 2018, Enbridge paid less in dividends with payments totalling $3.8 billion, but that too was well above its free cash flow for the year.

The company's future

The big variable when it comes to a company's health is how it might do in the quarters and years to come. Even if a stock has performed well over the past few years, if it's facing some serious headwinds, that might not make it a good buy.

In Enbridge's case, it's hard to imagine worse headwinds than the company has endured thus far. I'm inclined to believe that things could get better for the company, especially with a change in government and the possibility that the industry gets a lot more support. However, that could also be negated by constantly fluctuating oil prices. Where they'll be in a few years or even a few months from now is anybody's guess.

Bottom line

Enbridge has done a good job of weathering the storm up until now, but my concern is that any more adversity could put the stock under pressure to cut its payouts. While its dividend is appealing today and the company is still producing strong results today, I wouldn't rely on its dividend for the long term given all the uncertainty that exists today, especially considering the size of the payments that Enbridge is making.

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