Should You Buy Enbridge (TSX:ENB) Stock for the 6.8% Dividend Yield?

Description

Income investors are turning to high-yield stocks to help boost the returns they get in their TFSA dividend funds.

The challenge with chasing above-average yield is that you also move up the risk ladder. As the share price falls and the yield goes higher, the market is often signalling an expectation for a cut to the payout.

If that happens, the yield you thought you were going to get on the initial investment disappears and the stock could continue to slide, providing a double hit.

Some companies, however, simply fall out of favour with investors, or go through challenging periods that could be industry specific. When the core business is solid and dividends can be comfortably maintained or even increased, investors can step in and collect a nice yield while waiting for sentiment to improve.

Let's take a look at **Enbridge** (TSX:ENB)(NYSE:ENB) to see if it deserves to be in your portfolio.

Turnaround plan

Enbridge launched a turnaround plan in late 2017 that identified up to $10 billion in non-core assets to monetize amid a shift to focus the company on regulated businesses. Management found buyers for about $8 billion faster than expected, and the proceeds are being used to shore up the balance sheet and finance part of the $19 billion capital program.

Growth

Major pipeline developments face stiff political and public hurdles these days, but Enbridge is still able to find strategic tuck-in projects. For example, the company just announced $2 billion in new secured capital projects spread out across the asset base.

Enbridge is North America's largest energy infrastructure firm and can drive growth through acquisitions as well as new developments. It spent $37 billion in 2017 to acquire Spectra Energy and has the financial clout to make additional deals that suit the current strategy.

Earnings

Enbridge reported solid results for Q2 2019. Adjusted earnings came in at $0.67 per share compared to $0.65 in the same period last year.

Distributable cash flow increased to $2 billion from $1.7 billion in Q2 2018.

The company generated strong operating results across many of the existing business units and the newly completed projects contributed added revenue. Debt reduction also helped by reducing interest expenses.

Dividends

Enbridge raised its dividend by 10% for 2019 and intends to hike it by that amount in 2020. Distributable cash flow is expected to increase by 5-7% over the medium term, so dividends should grow in that range beyond next year.

The current payout provides a yield of 6.8%.

Should you buy Enbridge?

At the time of writing, the stock trades at $43.50 per share compared to the 2015 high above $65, so there is attractive upside potential.

Enbridge continues to deliver solid results, and investors who buy now can pick up a great dividend while they wait for the stock to recover.

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Date
2025/08/20
Date Created
2019/08/07
Author
aswalker