



Enbridge (TSX:ENB): A Top Dividend Stock Yielding Over 6% for 2020 and Beyond

Description

Leading North American midstream and energy infrastructure company **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) continues to attract considerable negative attention; it is the most shorted stock on the TSX. Most of the short interest surrounding Enbridge appears driven by a combination of macro issues and company-specific concerns.

What are the risks?

The macro risks include a looming U.S. recession, growing trade uncertainty, and a weaker outlook for oil as well as natural gas. There are also concerns over Enbridge's heavily levered balance sheet, increased regulation, and the company's ability to reduce costs and grow earnings. Regulatory issues relating to the multi-billion-dollar Line 3 Replacement program, which forced Enbridge to reschedule the planned in-service date for the asset to a year later, further magnified the concerns surrounding the stock.

Solid results

Those fears appear grossly overbaked and unwarranted with Enbridge delivering on its strategy to improve its operations and unlock value for investors as underscored by its solid second-quarter 2019 results. While adjusted EBITDA of \$3.2 billion was essentially flat compared to a year earlier, distributable cash flow (DCF) shot up by an impressive 24% year over year to \$2.3 billion, and earnings per share of \$.86 was a notable 37% higher than a year earlier. This solid performance saw Enbridge confirm its 2019 full-year guidance, including DCF of \$4.30-\$4.60 per share.

The improved financial results can be attributed to higher oil and natural gas transportation volumes as well as the implementation of a range of initiatives aimed at reducing costs.

Demand for Enbridge's services and critical transportation as well as storage infrastructure remains strong. There is considerable existing demand in Canada for the utilization of Enbridge's pipeline

network because of transportation constraints and a lack of pipeline exit capacity.

The transportation constraints are that severe domestic oil inventories to surged to record highs towards the end of 2018, causing the Canadian heavy crude benchmark price Western Canadian Select (WCS) to collapsing to record lows, despite firmer oil. This forced the government of Alberta to intervene and establish mandatory [production cuts](#) to drain the local oil glut and support higher prices.

Edmonton recently announced that those cuts had been extended to the end of 2020, illustrating that the lack of [transportation capacity](#) has yet to be effectively addressed. This highlights the crucial role filled by Enbridge's pipeline network, which is responsible for transporting 25% of all crude and 20% of natural gas produced in North America, for the energy patch.

Enbridge's push to expand its infrastructure including \$16 billion of projects under development, which are expected to enter service between the start of 2020 and end of 2023, will ensure that transportation volumes and hence earnings will keep growing.

The heavily regulated nature of the midstream industry, along with other steep barriers to entry, endows Enbridge with a wide economic moat that protects its earnings and will shield it from an economic downturn.

Enbridge is also focused on reducing debt, which, by the end of the second quarter 2019, was in the target range of 4.5-5 times EBITDA. A combination of lower debt and the Fed's latest rate cut will boost Enbridge's profitability by reducing financing expenses while bolstering its balance sheet flexibility.

Those attributes have supported Enbridge's long history of dividend hikes where it has increased that payment for the last 24 years straight to yield a very juicy 6.6%. The company plans to continue regularly increasing its dividend at a compound annual growth rate (CAGR) of 10% up until 2020.

Foolish takeaway

For these reasons, Enbridge is an ideal stock for investors seeking to boost income and growth, with it poised to deliver substantial value for shareholders over the foreseeable future. Many of the risks, which see Enbridge ranked as the most shorted stock on the TSX, appear overbaked. Now that the stock is down by 7% over the last year, Enbridge appears attractively valued, making now the time to buy.

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