Is Enbridge's (TSX:ENB) 6.1% Dividend Safe?

Description

There's been a lot of turmoil surrounding the oil and gas industry in Canada lately. The recent election results have, unfortunately, not made things any better for the foreseeable future, and investors of **Enbridge** (TSX:ENB)(NYSE:ENB) may be wondering if it's worth hanging onto the stock for its dividend. Let's have a closer look at just how strong it is and whether it's a good strategy to hold on to the stock today.

Payout ratio

Over its past four quarters, Enbridge has generally done very well, with profits of more than $5 billion during that time. Aside from one quarter, which was weighed down by a non-recurring and non-cash charge, the company has been able to generate strong profits of at least $1 billion in each of the past three periods. Over the trailing 12 months, the company's earnings per share have totalled $2.45.

Currently, Enbridge pays investors a dividend of $0.738 every quarter, which totals $2.952 for a full year, which is well in excess of its profits and results in a payout ratio of about 120%. While that payout ratio looks concerning, it's not necessarily indicative of the company's ability to continue paying its dividend. If we look at cash flow and exclude non-cash items, we get a better sense of how sustainable the dividend really is.

How much cash the company has paid out

In the last four quarters, Enbridge has paid out $5.3 billion worth of cash dividends. That has been far less than the company has been able to generate from its operations, with cash flow from its day-to-day operations coming in at $8.6 billion. While that means that the company is only paying out 62% of its operating cash flow, it doesn't factor in capital expenditures. That would reduce the amount of available cash by $6.6 billion, leaving around $2.1 billion in free cash flow.

Even from a cash perspective, there are still some concerning signs for investors as to whether or not Enbridge can continue paying its dividend. While it could be possible if capital expenditures are reduced, being able to pay dividends is not a great reason to do cut back on necessary investments.

Key takeaways for investors

For investors, Enbridge has been a quality dividend stock for many years. But with the long-term trajectory of the oil and gas industry facing some significant challenges in Canada, it's hard to see things getting better for the company's dividend. And that's why, although the company's track record may give investors some confidence that Enbridge won't reduce its dividend without a fight, a cut may be a necessary evil for the company to be able to stay competitive and profitable over the long term.

The payout ratios calculated above indicate some warning signs that investors shouldn't ignore, especially since dividends may be the reason many investors have chosen to stick with Enbridge. But without a better outlook, it could be a risky proposition. Anytime you see a yield of more than 6% per year, investors will certainly take a closer look at whether or not it's sustainable, and, in Enbridge's case, the concerns are certainly well founded.

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