Alert, All Investors: Enbridge (TSX:ENB) Stock Raised Dividend by 10%. Why it's Still a Solid Buy

Description

Yesterday, **Enbridge** (TSX:ENB)(NYSE:ENB) did not disappoint. The dividend stock raised its quarterly dividend by nearly 9.8% from $0.738 to $0.81 per share. The new dividend will be payable in March 2020.

The dividend raise marked the 25th consecutive year of dividend increases for the Dividend Aristocrat. Enbridge's dividend-growth history is remarkable. From 2010 to 2020, it nearly quadrupled its dividend, which translated to average increases of 14.3% per year.

Simultaneous with the dividend hike, Enbridge also reaffirmed its guidance for 5-7% per year in average long-term growth for its distributable cash flow per share via embedded and organic growth without having to raise equity.

The distributable cash flow per share financial metric is critical, because it's what management looks at to determine the amount to raise the dividend.

It follows that over the long term, instead of dividend increases in the double digits, investors can expect more modest growth of 5-7% per year instead — unless Enbridge makes accretive acquisitions.

Based on the new and bigger dividend, Enbridge stock now offers a forward yield of 6.3%. Its five-year average yield is close to 4.6%, which implies a price target of over $70 per share or upside potential of 38%.

This is not far-fetched given today's low interest rate environment. People close to retirement are arriving at the scene by the boatload. Many of them need income. However, it's rare to find proven dividend-growth stocks with large-scale businesses at reasonable valuations today. Enbridge is one of the few.

As the largest energy infrastructure company in North America, Enbridge's energy storage and transportation services are simply essential to the everyday lives of North Americans. Its contracted cash flow and a reasonable distributable cash flow payout ratio result in a high-quality dividend.

The following is what Enbridge has achieved over the last few years. Since the acquisition of transformative Spectra Energy in the south in early 2017, Enbridge has fully integrated its assets, sold $8 billion of non-core assets, simplified its corporate structure, and reduced its leverage ratio, all the while maintaining its dividend-growth streak in a responsible way.

In a recent press release, management stated that their near-term priorities will be to focus on preserving its strong balance sheet, returning capital to shareholders through its dividend, and executing low-risk, capital-efficient organic growth opportunities.

The bottom line

Going forward, even assuming no price appreciation from multiples expansion, a 5-7% growth rate combined with a 6.3% yield leads to total returns of roughly 11-13%. These are the kinds of returns that all investors on the planet will drool over the low-risk investment that Enbridge stock is.

Reasonably valued Enbridge stock is a solid buy in today's low interest rate world. The rising passive income it provides will prevent inflation from eating away your purchasing power.

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