Buy Enbridge (TSX:ENB) Stock on the Pullback While Its Dividend Yield Is Hot!

Description

Don't look now, but **Enbridge** (TSX:ENB)(NYSE:ENB) stock has suffered from a sudden reversal of momentum, with shares pulling back nearly 9% over broader market jitters after climbing 32% from its August 2019 bottom.

The momentum may have evaporated as WTI prices slid below the US$50 mark, but given the progress going on behind the scenes and the company's lower sensitivity to such oil price fluctuations relative to most other energy plays, I find the recent decline to be overextended, opening up a window of opportunity for value-conscious income investors.

Shareholder friendliness at its finest

Enbridge is a midstream energy play that's had its fair share of baggage over the years. However, given management's extremely shareholder-friendly nature, I see Enbridge more as a dividend darling rather than a play that's heavily reliant on exogenous factors.

Enbridge had been navigating rough waters since oil's collapse in 2014, yet it's maintained its dividend "promise" to investors, raising its dividend in spite of operational and financial challenges that presented themselves along the way.

I guess you could say management is too shareholder-friendly for their own good.

Things would have been much easier for Enbridge financially if it didn't keep growing its already substantial dividend commitment by the double digits during the peak of its pressures.

While the company has been criticized by pundits for delivering "undeserved" dividend hikes in the past, it's apparent that management is more than willing to go the extra mile to insulate its shareholders from an absurdly volatile industry environment.

A promise is a promise!

Investors never forget broken promises. And it's Enbridge's commitment with its capital return policy that I believe will allow the stock to command a higher multiple than many of its comparable peers.

Stable yields are hard to come by in an era of rock-bottom interest rates, and although energy transportation is an industry known for uncertainties and high regulatory hurdles, Enbridge's management team has already proven to the world that it's able to juggle large dividend commitments when times get tough.

Moving forward, all eyes will be set on cash-flow-generative projects, like the Line 3 Replacement (L3R), which has already had its fair share of setbacks.

As good news slowly but surely trickles in with regards to L3R, Enbridge stock could be positioned to rally back toward its all-time highs, as the odds of a renewed dividend growth promise will grow as Enbridge looks to gain even more financial flexibility.

Foolish takeaway

While high regulatory hurdles to new projects are a source of volatility for the pipeline companies, they also serve as barriers to entry for the competition.

Once Enbridge passes a hurdle, it turns from something negative (a source of uncertainty) into something positive (a fundamental building block for the company's moat). Patience is required with the name, but with the hot (and growing) 6.2% yield, there's plenty of incentive to buy and hold for years at a time.

Shares of ENB currently trade at 13.14 times EV/EBITDA and 2.1 times sales, a low price to pay for a company with plenty of intermediate-term catalysts (like L3R) to look forward to. The recent pullback in the name is a gift courtesy of Mr. Market for income-hungry investors!

Stay hungry. Stay Foolish.

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