Market Crash: Is This 8% Yield Sustainable?

Description

Market crashes are rare. They typically come by once about every 10 years.

Today is a buyer's market, as the **TSX** index has fallen by about 30%. Investors who buy stocks in this market crash will look back years later and see it as a super buying opportunity.

There are treasures everywhere in the stock market. You've just got to pick them up!

Among the top stocks, you can consider dividend stocks that tend to increase their dividends. Here is a dividend-growth stock that offers a high yield of 8%!

Market crash: Massive buy signal in Enbridge stock

Enbridge (TSX:ENB)(NYSE:ENB) stock is a Dividend Aristocrat. It has increased its dividend for 24 consecutive years. And it has paid dividends for more than 65 years.

The company is the North American energy infrastructure leader. At the recent quotation of $39 and change per share, the dividend stock yields 8.2%.

Enbridge stock had a big buy signal this quarter. 10 insiders bought a total of $1.7 million worth of the Dividend Aristocrat from the stock market at an average price of $45.80 per share. The strong insider buying should give investors confidence that Enbridge will survive this economic turmoil.

Market crash: Is Enbridge stock's dividend not sustainable?

The market crash and Enbridge stock's resultant high yield isn't what's causing investor anxiety over the sustainability of the stock's dividend.

In 2019, Enbridge generated $13.2 billion of adjusted EBITDA. Roughly 53% came from liquids pipelines, 29% from gas transmission and midstream, 14% from gas distribution, and 3% from renewable power generation and transmission.

The EBITDA translated to $9.2 billion of distributable cash flow. The distributable cash flow is what remains after paying for items such as interest expense, maintenance capital, income taxes, and preferred share dividends. This led to a 2019 payout ratio of 65%.

Unfortunately, the coronavirus pandemic caused an energy market crash as well as lower demand for energy.

Although Enbridge's cash flow is somewhat protected by long-term contracts, let's assume a more bearish case that it only earns 60% and 70%, respectively, of its 2019 adjusted EBITDA from its core businesses of liquids pipelines and gas transmission and midstream.

Additionally, let's assume Enbridge generates the same amount of cash flow from its other businesses. That would translate to a reduction of roughly 43% of distributable cash flow, which would lead to a payout ratio that's temporarily stretched to roughly 125%.

The longer the coronavirus epidemic in North America drags on, the bigger the risk that Enbridge stock could cut its dividend. However, if we're able to slow down the virus, the economy will get back to its normal state sooner.

The Foolish bottom line

This market crash has brought Enbridge stock's valuation to the cheapest level in 20 years. If the economy gets back to normal by next year, I think the stock can have a temporarily extended payout ratio while maintaining its generous dividend.

A working vaccine isn't expected to arrive until a year later. So, everyone should do their part to stay home as much as possible and to wash their hands regularly. This will help slow the spread of the coronavirus, save lives, and get our economy back to normal sooner.

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kayng