TFSA Investors: 1 Discounted Dividend Stock Yielding Over 8%!

Description

Don't despair, TFSA investors! With the recent market crash, smart opportunistic buys today can yield huge returns in the future.

Let's look at one stock that represents such an opportunity: **Enbridge** (TSX:ENB)(NYSE:ENB).

With the global oil industry in chaos, and the economic ramifications of a worldwide pandemic unfolding, many investors are steering clear of all energy stocks. While there are some companies that should be avoided, here are three reasons why you should consider adding Enbridge stock to your TFSA right now.

Reason #1: The dividend

Enbridge pays a massive dividend! With the stock's recent pullback to $40.21, as of this writing, the dividend yield has increased to 8.1%.

For over 65 years, Enbridge has paid dividends to its shareholders. The company has a great track record of dividend increases, having increased payouts for eight consecutive years. In the last three years alone, Enbridge has increased dividends at an annual rate of 9.6%.

With a dividend of 8.1%, a $10,000 investment in Enbridge would pay out $810 in annual dividends.

Reason #2: Enbridge is fairly insulated from the volatility of oil prices

There's no denying that the short-term outlook for the oil and gas industry is bleak.

As the global oil surplus has been building, producers have been slashing spending and trimming output. Not only is the coronavirus pandemic wreaking havoc on demand for oil, but Saudi Arabia is ramping up oil production in a price war with Russia. This combination of bad news is sending global oil benchmarks to their lowest prices in decades.

While many oil and gas companies are in a dire situation, the outlook for Enbridge is not nearly as grim.

A sizable portion of Enbridge's revenue comes from natural gas transportation, storage, and distribution. The company generates 98% of cash flows from fee-based contracts. These contracts are not dependent on the price of oil, making the company's revenue less sensitive to the volatility of the ongoing war on oil.

Reason #3: Enbridge has a strong balance sheet

Several years ago, Enbridge made a major acquisition of Spectra Energy. While the deal provided Enbridge an excellent way to diversify into natural gas, it also saddled Enbridge with enormous debt. The deal stretched Enbridge's balance sheet to approximately seven times its operating cash flow.

However, over the past three years, Enbridge has done a tremendous job in strengthening its finances. Today, the company's balance sheet sits at a much more reasonable five times the company's operating cash flow.

According to CEO Al Monaco, Enbridge has approximately $12 billion of liquidity, which gives the company the capacity to fund all of its capital expenditures and any debt maturities well into 2021.

Knowing that an election year, like 2020, often brings uncertainty into the market, Enbridge took actions in late 2019 and early 2020 to prepare it for a choppy year financially. Of course, at the time, Monaco didn't realize that the oil market would implode and a global pandemic would break out.

Still, the decisions made over the past year have put Enbridge in a much stronger position than other companies in the sector.

The bottom line

Monaco expects the biggest toll from the economic crisis to be realized in the company's second-quarter results. The CEO is hopeful that an economic recovery will come in the second half of the year.

Despite the current climate, Enbridge's valuation is reasonable, and its earnings are relatively safe. The company has done an excellent job managing its balance sheet over the past several years in anticipation of a rocky 2020.

In the meantime, TFSA investors can take heart in Enbridge's 8.1% dividend yield.

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Date
2025/08/15
Date Created
2020/04/17
Author
cdye