Is 8% Yielding Enbridge (TSX:ENB) a Buy Right Now?

Description

Due to the March stock market crash, yields on **TSX** stocks have gone higher than they've been in years. Faced with the one-two punch of COVID-19 and the oil price collapse, the markets sent prices lower and yields higher.

While many of these yields will decline when companies inevitably slash their dividends, not all will. Those companies that can keep paying their dividends are good buys right now.

One stock that could be in that category is **Enbridge Inc** (TSX:ENB)(NYSE:ENB). As an oil & gas stock, it's in an industry that has been justifiably beaten down.

However, as a pipeline, it's less vulnerable to weak oil than are most energy stocks. Pipelines make money off transportation fees rather than oil sales. And while they do suffer when demand for oil is weak, it's not to the extent that upstream companies do.

For this reason, Enbridge may not have to cut its dividend this year. I'll explore that possibility in a minute. First, though, let's take a look at the yield you can get assuming that ENB's dividend isn't cut.

Why ENB has such a high yield

At current prices, Enbridge stock yields 7.85%, with the average yield over the last month hovering around 8%. That's a whopper of a yield. While most dividend stocks' yields have risen in the past month, Enbridge's has really soared.

A big factor in this is the fact that ENB already had a colossal yield before the oil price collapse. In 2019, the stock's yield ranged from 6% to 6.5%, with even higher yields available at certain points.

A big part of why Enbridge's yield has historically been high is because of investor pessimism toward Canadian energy stocks. The tar sands never fully recovered from the 2014/2015 oil price collapse, and many investors are assuming the future will be worse than the past.

If the oil prices we're seeing now persist long term, that will undeniably be the case. Most tar sands extraction companies need far higher oil than we have now to break even. If it doesn't climb back up, a lot of them will go bankrupt.

Enbridge has been tarred by association with this justifiably disliked industry. However, on closer examination, it's not as vulnerable to global macro trends as other oil companies are.

As mentioned, it makes money by shipping oil, not directly selling it. Additionally, the company has a secondary business as a natural gas utility, which provides a measure of diversification against weakness in crude.

Is the dividend at risk of being cut?

Despite everything I've said about Enbridge being safer than oil & gas extraction companies, it does face some risks. Under normal circumstances, pipelines don't lose money when oil prices fall. However, we're in very unusual circumstances right now.

With oil prices as low as they are, it's not even profitable for many tar sands companies to ship oil, which could result in lower shipping volumes for ENB.

Additionally, there's less demand for crude in the U.S. than there was two months ago, which could also result in lower transportation volumes.

Enbridge's fundamentals are therefore less vulnerable to weak oil than upstream companies, and the company isn't just going to skate through this crisis without a scratch. A dividend cut is a real possibility.

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