Enbridge Stock Is Yielding 8%, But Is it Safe to Buy?

Description

In the face of the coronavirus crisis, dividends are being suspended and even cut completely. According to a note by **Goldman Sachs**, the **S&P 500** dividend payout is expected to drop 25% this year as the pandemic wreaks havoc on corporate profits.

"With 10-year US Treasury yields at 0.8%, income-seeking investors should consider stocks with both high dividend yields and the capacity to maintain the distributions," said Cole Hunter, Goldman's U.S. portfolio strategist, in a recent note.

A wave of major companies have already announced dividend suspensions, including **Boeing** and **Ford Motors**. In Canada, too, many companies are cutting their payouts and looking to preserve their cash.

Calgary-based **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) is a top dividend stock that is under investor scrutiny these days, after its yield swelled to about 8%, as crashing oil prices dimmed the company's growth prospects.

Despite some investors' concerns about Enbridge's ability to sustain its dividend payout, I believe the company isn't going to cut its payout. Here are three main reasons why I am confident about Enbridge's dividend.

1. Uniquely positioned

Enbridge operates across North America, fuelling the economy and fulfilling consumers' energy needs. Enbridge moves nearly two-thirds of Canada's crude oil exports to the United States, transports about 20% of the natural gas consumed in the United States, and operates North America's third-largest natural gas utility by consumer count.

2. Insulated from price swings

Enbridge is largely insulated from swings in commodity prices, as it sets prices for transporting oil and gas in long-term contracts. Its clients include some of Canada's largest energy companies, including **Suncor Energy Inc.**, which gives it a source of dependable future cash.

Enbridge's $37-billion acquisition of **Spectra Energy** in 2017 added a growing natural gas business to its portfolio. Spectra's huge customer base has also helped Enbridge maintain its track record for hiking dividends, with average increases of 11% annually over the past 15 years.

3. Oil prices are recovering

Oil's recovery from last month's drastic plunge is accelerating as production cuts start to mitigate the supply glut. Both OPEC+ producers and U.S. explorers are reducing their output as part of an agreement reached last month.

Oil futures rose for a fifth day on Tuesday, surging 20% in New York to close above $24 – the highest price in almost a month – while Brent topped $30 a barrel during the session for the first time since April 15.

Enbridge, which currently yields about 7.7% a year, is offering quite an attractive risk/reward equation. Its current return is among the best you can earn from a Canadian utility. Enbridge pays $0.81 a share quarterly dividend.

That said, it would be unfair to say that Enbridge stock carries no risk at all when the energy sector is going through big pain after the collapse in oil prices. If oil doesn't recover, Enbridge might delay some of its development plans, affecting its cash flows.

Bottom line

Research has shown that companies providing basic services outperform in economic downturns and recessions. These include power and gas utilities, telecom operators, and health care providers These companies continue to generate cash flows and distribute most of those inflows in dividends. If you're planning to buy dividend stocks right now, Enbridge Inc. is one of your best bets.

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