Enbridge (TSX:ENB) Dividend: Just How Safe Is This 7.7% Yield?

Description

Enbridge (TSX:ENB)(NYSE:EMB) has long been one of Canada's most popular dividend stocks, and it's easy to see why.

This outstanding company has all sorts of things going for it. It has a network of crude oil and natural gas pipelines across Canada — assets that can't be easily replicated today. It's nearly impossible to build new pipelines, especially mega projects that cross provincial lines. That bodes well for the company's existing infrastructure.

A similar situation is playing out in the United States. Despite a Republican president in the White House, large pipeline projects are still being held up by protesters and the legal system. Imagine how hard it'll be if Donald Trump gets defeated in November. That's also great news for companies like Enbridge that own a lot of assets in the U.S.

And then there's Enbridge's gas utility business, which provides natural gas for some 3.8 million customers in Ontario and Quebec. It's North America's largest gas utility by volume. Like the pipeline business, this part of the company delivers steady earnings and is protected from competition. Enbridge also has a renewable power generation business.

Despite these subsidiaries offering investors a lot of positives, many investors are worried. They think Enbridge's dividend may be at risk. Let's take a closer look at this payout to see if it's sustainable.

Surface analysis

A quick look at the numbers tells us investors who rely on Enbridge's dividend for income don't have much to worry about.

In 2019, Enbridge earned $4.57 per share in distributable income. Its current dividend is $3.24 per share. That gives us a payout ratio of just over 70%, which is very sustainable.

There's just one problem. COVID-19 happened, and it is impacting the entire energy sector in a big way. Investors are worrying about all the extra inventory out there.

There's two ways to look at this. I'd argue in the short term, such a scenario doesn't matter so much. At least for the pipeline operators. This oil still has to be transported to its final destination. The issue is more over the long term, as struggling energy companies simply can't afford to pay their bills. Many of Enbridge's customers are among the best in the sector, but even those companies are hurting today.

One piece of good news for investors who might be worrying about Enbridge's dividend is the stability of its natural gas utility and power generation businesses. These earnings should be stable no matter what happens to the underlying energy market. At about 50% of total earnings they're not enough to cover the dividend alone, but they still offer peace of mind for investors who worry about the oil market.

Will Enbridge's dividend be cut?

An analysis of Enbridge's dividend must go a little deeper than just the numbers. We should also look at the company's dividend history.

Enbridge has increased its annual dividend each year since 1995. That marks 25 consecutive years of dividend increases — a feat that immediately vaults Enbridge into the elite dividend-growth stocks in Canada. It has also paid consistent dividends since the 1940s.

Do you think a company with that kind of excellence will slash its dividend at the first sign of bad news? I doubt it.

Remember, Enbridge has been dealing with a weak energy market for years now, and it has been weathering that storm just fine. It has raised its dividend, even as oil producers slashed and eliminated theirs. That should be an encouraging sign.

Enbridge was also telling investors to expect solid long-term growth before COVID-19 threw markets for a loop. It projected distributable cash flow of between $4.50 and $4.80 per share for 2020. New projects and price increases will help drive earnings growth, too. 2020 might see a pause on these initiatives, but they're both viable strategies for the long term.

The bottom line

I'm a shareholder myself, and I'm not spending much time worrying about Enbridge's dividend. The payout is solid and can easily survive a few months of uncertainty. Don't worry; this 7.7% yield isn't going anywhere.

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