Why Your 7.3% Yield Is Secure With This TSX Stock

Description

I did not doubt **Enbridge's** (TSX:ENB)(NYSE:ENB) Q1 financial performance, and the company didn't disappoint either. Enbridge reported a strong set of numbers in Q1 and surpassed analysts' EPS expectation by a wide margin, which ensures that the stock's 7.3% dividend yield is secure.

Enbridge is known for its long history of consistently paying higher dividends. Investors should note that the company has uninterruptedly increased its dividends for the last 25 years. Moreover, its dividends have increased at an annual rate of 10% in the previous three years.

I don't see any liquidity crisis for Enbridge, and Q1 numbers endorse my belief. Despite challenges, Enbridge posted adjusted EBITDA of $3.8 billion, which was in line with the prior-year quarter. Meanwhile, adjusted earnings marked a modest 2% growth. The company's distributable cash flow (DCF) stood strong at $2.7 billion, and the company reiterated its DCF-per-share outlook for 2020, which is encouraging. Enbridge has $14 billion in liquidity, which is more than enough to fund its operations and navigate the current crisis easily.

Resilient business

Enbridge generates revenues through four major operating segments, including liquid pipelines, gas transmission, gas distribution and storage, and renewable power. While its liquid pipeline business could face near-term challenges due to the reduction in mainline volumes, its other three operating segments remain relatively stable. Moreover, Enbridge deals with a top-notch customer base which includes refiners, utilities, and integrated producers with investment-grade balance sheets.

Enbridge's diversified revenue base ensures stable cash flows. Moreover, only a small portion of its business has direct commodity exposure, which protects the downside risk.

The expected decline in the mainline volumes could hurt its adjusted EBITDA in the short term. However, the majority of its 2020 projected adjusted EBITDA is backed by businesses that are unlikely to see any disruptions due to the COVID-19 outbreak.

Enbridge's gas distribution and power businesses are likely to contribute about 17% to the 2020 expected EBITDA. Meanwhile, its gas transmission business is projected to account for 30% of its

2020 expected EBITDA. All these businesses are deeply anchored by the regulatory and contractual framework and strong customer base.

Barring near-term hiccups, Enbridge's mainline volumes could recover in the second half of 2020. Investors should note that Enbridge's low and stable tolls, direct connection to heavy oil refineries, and access to multiple markets position it well to gain from the re-opening of the economy.

Enbridge is also focusing on reducing costs, which will support its cash flows in the coming quarters. The company aims to reduce costs by $300 million in 2020.

Bottom line

Enbridge stock took a beating in the recent past, as the plunge in oil prices irked investors. However, the decline in Enbridge stock presents one of those rare opportunities to load up on a stock that is backed by the low-risk business model. Enbridge's diversified cash flows and consistent growth in the dividend makes it a perfect long-term investment option.

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