Is Enbridge's 7.2% Yield Too Good to Be True?

Description

Oil and gas stocks are struggling in 2020 as oil prices have been crashing this year. And while many stocks in the industry have cut or suspended their dividend payments in light of the challenges and the adversity that they're facing, **Enbridge Inc** (TSX:ENB)(NYSE:ENB) has kept its payouts intact.

In December, the company raised its dividend payments by 9.8%, from $0.738 to $0.81. With the stock trading around $45 per share, that works out to an annual yield of about 7.2% per year.

That's a high dividend yield even for Enbridge, which over the past few years has been yielding more than 6%. While it's certainly an attractive payout today, the question all investors should be asking is whether it's safe — and how long it can last.

Earnings still look okay — for now at least

The company released its quarterly earnings earlier this month which showed Enbridge incurring a net loss of $1.3 billion for the three months ending March 31. The loss was mainly the result of a $1.7 billion write-down of an equity investment.

Operating revenues declined 7% from the prior-year quarter and operating income was down 42%. However, the positive was that the company generated $2.8 billion from its operating activities and even after capital expenditures of $1.1 billion, Enbridge would've had free cash left over to pay its common share dividends, which totalled $1.7 billion.

But there's not a whole lot of buffer there should things get worse. The company still has $63.6 billion in long-term debt on its books and $10.5 billion of other long-term liabilities that it needs to pay down.

Enbridge banking on more mobility later this year to drive demand for oil

The company pointed to its strong balance sheet, resiliency, diversified cash flows, and strategically located assets as some of the reasons why it believes it can get through the COVID-19 pandemic. However, for all the optimism, the company did acknowledge that they “don’t expect to be entirely immune to COVID-19 impacts in the near term.”

Part of the reason that the company is so optimistic is that it’s also assuming that in the second half of the year travel restrictions will begin to be lifted. It expects to see more mobility in North America during the last two quarters of the year, creating more demand for oil and lead to more production at refineries which will result in more throughput on its Mainline.

But if that demand isn’t created and the pandemic still hampers mobility through until the end of the year, it will impact Enbridge’s outlook and could lead to changes to its dividend.

Bottom line

Dividend stocks are risky buys right now, and those in oil and gas are even higher risk. While Enbridge’s dividend may remain safe for the time being, it would be dangerous for investors to rely on it. Many investors have already gotten burned by oil and gas stocks, whether through falling share prices or suspended or reduced dividend payouts.

If you’re looking for a good dividend stock to hold, there are plenty of other, safer investments that you can hold in your portfolio. Until the pandemic is over, investors should stay far away from the industry.

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