Enbridge (TSX:ENB): Is This High-Yield Dividend Stock Still Cheap?

Description

Stocks continue to recover lost ground, and many of the best deals investors saw in March are already gone. Some oversold dividend stars, however, still appear cheap, despite the large rally off the 2020 lows.

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High-yield stocks

Owning stocks comes with risk, as we have witnessed over the past two months. It is frightening to watch the share prices of the country's best-run companies fall 30-50% in a matter of weeks.

Given the scale of the rout and the ongoing uncertainty in global markets, GICs might seem like a more attractive option right now. People who need access to their capital within a short timeframe should certainly stick to safe investments they can cash in at any time.

That said, income investors who don't need to spend their savings have limited options when it comes to generating inflation-beating yield. The sell-off in the market might be scary, but it finally provides a chance to buy great companies at reasonable prices and lock in fantastic returns. In fact, top-quality dividend stocks now offer yields that far outpace GICs and should deliver long-term capital gains as well rising payouts.

Investors who are searching for income picks still need to be careful. Stocks are already well above the lows, and some are arguably way ahead of where they should be in this economic environment.

Most of the top names, however, will eventually regain their pre-crash levels. The best firms to own tend to be industry leaders with reliable revenue streams. These companies have strong track records of dividend growth and pay distributions that are sustainable through a crisis.

Let's take a look at one top Canadian dividend stock that is moving higher and still provides attractive yield today.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) trades at $46 per share at the time of writing. That's up from $40 a month ago and off the March closing low near $34. Hindsight is always 20/20, and it would have been great to back up the truck at $35, but that's how things go in the markets.

Nonetheless, Enbridge still appears cheap and offers a 7% dividend yield.

The company just reported decent results for Q1 2020. Volumes are down on the mainline liquids system, but those will recover. The natural gas storage and distribution assets and the renewable energy group continue to deliver steady revenue. Overall, Enbridge is maintaining its guidance for distributable cash flow for the year. Ongoing capital projects should support revenue gains and higher cash flow in 2021 and beyond.

Management did a good job of streamlining the business and cleaning up the balance sheet in recent years. Enbridge sold roughly $8 billion in non-core assets to reduce debt and help cover capital investments. The team also brought four subsidiaries under the roof of the parent company. The move reduced costs and made it easier for analysts to properly evaluate the business.

Enbridge has the ability to self-fund the current capital program. That means investors shouldn't have to worry about a dilutive stock issue in the next few years.

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This helps the business navigate the recession from a position of strength and Enbridge still appears somewhat oversold. The stock traded at $57 in February, so there is solid upside potential as the recovery picks up pace.

In the meantime, you get paid well to ride out any additional turbulence.

Long-term investors have done well with Enbridge. A $10,000 investment in the stock 20 years ago would be worth more than $100,000 today with the dividends reinvested.

The bottom line

Enbridge is up significantly from the March low, but more gains should be on the way. Investors can get a great 7% yield on their savings and look to add to the position on any future market weakness.

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