$10,000 in Enbridge (TSX:ENB) Stock Will Get You a $783 Dividend Now

Description

The energy sector is one of the worst victims of the current pandemic and the market crash it instigated. It's also one of the slowest-recovering sectors. Any significant change (like another wave of COVID-19) in the current landscape, can push it over the ledge and send it spiraling down again. Oil demand is slowly recovering, but it hasn't yet propelled the sector into a recovery.

The energy sector supports about 550,000 jobs and directly employs about 282,000 people. The sector alone pays for about one-tenth of the GDP. If we exclude uranium from the mix, crude oil makes up 45% of the primary energy production, followed by natural gas, which makes up 33.4% of the mix. Other sources are minimal in comparison.

The energy sector is one of the strongest pillars of the economy, and **Enbridge** (TSX:ENB)(NYSE:ENB) is one of the strongest pillars of the sector.

The company

Enbridge is one of the most significant energy players in North America and the largest pipeline company in the country. It's responsible for moving one-fourth of all of North American crude oil and one-fifth of the region's gas. The company operates and manages a behemoth pipeline network of 17,127 miles in Canada and the United States. The decade-old safety record of the company's crude oil delivery isn't perfect, but it's nearly there (99.99976%).

This bears mentioning, because the company recently earned a blemish on its oil delivery safety record; one of its pipelines (6-B) that goes through Michigan suffered from an oil spill that contaminated 40 miles of Kalamazoo river. The company is willing to pay for the damages.

Besides a few problems with pipelines through areas where locals are against them, Enbridge has a strong track record of delivering and expanding. The company is continuously expanding its pipeline network to meet the needs of the region. And as the prospects of clean energy making oil and gas obsolete are still decades in the future, Enbridge is likely to sit firmly at its dominant position in the energy sector.

The stock and its dividends

Enbridge is currently offering a great yield (7.83%). If you invest $10,000 in the company, it will earn you $783 a year in dividends. The yield is high enough to repay your capital back in dividends in fewer than 13 years, *if* the company continues with its current dividends. But the actual timeline would be shorter since this aristocrat has increased its dividends by 52% in the last five years, and it will continue to do so (hopefully) in the future.

Unfortunately, that "juicy" yield has to be taken with a grain of salt, and that's because of the abominable payout ratio of 308%. Though the first-quarter income loss of Enbridge wasn't too rough compared to the last quarter of 2019, the second-quarter results of 2020 are yet to be revealed. The company is expected to beat its earnings estimates, but the projections were already low, considering the pandemic and low-demand situations.

That means if the earnings fall any lower, the payout ratio might get even worse. But on the positive side, the company is sitting on a decently sized cash pile, and its balance sheet is strong. So, if demand keeps growing, the company and the sector might start recovering from the slump it's in. This will eventually push Enbridge's payout ratios into safer territories.

Foolish takeaway

Enbridge has a special place in every dividend-loving investor's heart, and recent turmoil hasn't shaken it away. As a pipeline company, it's relatively safer than the rest of the sector, as its cash flows are tied to long-term contracts. If demand for oil and gas resumes its pre-pandemic levels, and we don't see another Saudi-Russia oil war, then Enbridge might keep growing its dividends for a long, long time.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/17
Date Created
2020/07/29
Author
adamothman