Enbridge (TSX:ENB) Stock: Strong Q2 and Still Offers 7.5% Dividend

Description

Enbridge (TSX:ENB)(NYSE:ENB) reported its second-quarter results today. They are positive.

For the quarter, its adjusted EBITDA, a cash flow proxy, was $3,312 million, up 3% from Q2 2019. Its distributable cash flow (DCF) — what it uses to pay dividends from — climbed 5% to $2,437 million year over year.

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Importantly, management reaffirmed Enbridge's 2020 DCF per share guidance of $4.50-$4.80. The midpoint of $4.65 suggests that its 2020 payout ratio would be about 70%.

Therefore, the dividend stock's high yield should remain intact. Despite the more than 2% pop as of writing, Enbridge stock still offers a juicy yield of close to 7.5%. Additionally, the stock remains undervalued with the average analyst 12-month price target at $51.60.

Consequently, it's still a great buy for investors — no matter if you seek income or price appreciation. The price target suggests nearly 19% near-term upside potential.

The dividend stock is in a strong financial position to weather headwinds

Over the last three years, Enbridge improved the resiliency of its business, which set up its strong position before the COVID-19 pandemic hit North America, where it operates.

Essentially, Enbridge simultaneously diversified and simplified its business. It positioned itself to have a bigger portion of its business in gas infrastructure but sold its gas gathering and processing operations. The former generates more stable cash flows.

Moreover, it made the effort to reduce its leverage and costs. To further bolster resiliency, Enbridge took action to reduce another $300 million of costs this year.

Enbridge's blue-chip brand allowed it to raise $6.9 billion at attractive rates in the debt market. This funding lifts its available liquidity to $14 billion. So, it doesn't need to access the capital markets again until 2022.

That said, management cautioned that the results for the second half of 2020 will be weaker than the first half due to multiple headwinds, including "the pace and magnitude of recovery in Mainline throughput, a catch up in enterprise-wide maintenance spending consistent with 2020 guidance, lower revenues on the Texas Eastern system due to temporary operating capacity restrictions, and a lower contribution from Energy Services."

These headwinds will be partly offset by a strong U.S. dollar, low interest rates, and cost reductions.

The Foolish takeaway

With a 10-year stable-growth demand outlook for global energy, including oil and gas, ENB stock is positioned to head higher over time. The dividend stock is a suitable investment for most investors. It offers both nice income (a 7.5% yield) and steady price appreciation potential, especially since the stock is undervalued today.

It's also set to increase its dividend, a culture it has continued for 24 consecutive years. Its five-year dividend-growth rate is 16%, but investors should expect a much more modest dividend-growth rate going forward. Even so, its total returns potential would still outperform.

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The company's DCF-per-share guidance this year represents an increase of roughly 2% from 2019, which should keep its dividend safe. Through 2022, Enbridge expects DCF-per-share growth of 5-7%, driven by organic growth and its secured capital program. As a result, it should be able to increase its dividend by about 6% per year through 2022.

That would imply total returns of about 13% per year, excluding any valuation expansion. This compares favourably to the average Canadian market returns of about 7%.

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