Enbridge (TSX:ENB): Should You Buy This Energy Stock for its 7.4% Dividend Yield?

Description

We know that the energy sector continues to underperform broader markets due to lower crude oil prices and tepid demand amid the COVID-19 pandemic. Canada's energy heavyweight **Enbridge** (TSX:ENB)(NYSE:ENB) is one such stock that has lost momentum in recent times.

Enbridge stock is trading at $43.65, which is 24% below its 52-week high. This pullback has, however, increased its dividend yield to a tasty 7.42%. It means if you invest $10,000 in Enbridge stock, you can generate $742 in annual dividend payments.

Let's see if investing in Enbridge is a good bet right now.

A look at Q2 results

Dividend stocks remain attractive to investors for a multitude of reasons. Blue-chip, dividend-paying companies help to generate a steady stream of recurring income. Further, they also increase investor wealth over time via capital appreciation.

Enbridge has managed to tick both these boxes. It is a Dividend Aristocrat and increased payouts at an annual rate of 11% since 1995. Considering its recent earnings release, it is very likely that Enbridge will manage to increase dividends in the upcoming quarters, despite an uncertain and volatile macro environment.

The second quarter of 2020 was one of the worst periods for most oil companies. However, it had a minimal impact on Enbridge, which saw its adjusted EBITDA increase by 3.2% to US$3.3 billion. Further, its distributable cash flow (DCF) rose 5.5% to US$2.43 billion, while DCF per unit stood at US$1.21.

Enbridge managed to post record second-quarter results during a period that was extremely challenging, to say the least. The company's liquid pipeline sales fell 1% year over year due to lower volumes in Q2. However, it could offset a majority of this impact due to strong investment-grade counterparties.

Enbridge's gas transmission and midstream earnings were up 4%, while gas distribution and storage earnings also rose by the same figure. Its renewable power earnings surged by a massive 50% due to recent offshore acquisitions of wind farms in Germany. These gains were offset by a 2% drop in earnings for energy services.

Enbridge's dividends are sustainable

During its Q2 earnings call, company CEO Al Monaco said, "In the face of the worst energy downturn our industry has ever experienced, the strength and resilience of our assets was demonstrated once again in the second quarter, with solid financial results."

Enbridge expects a full-year distributable cash flow between $4.5 and $4.8 per year, indicating a payout ratio of less than 70% given its annual dividends per share of $3.24. The company continues to improve its liquidity position and raised close to $7 billion in capital during the first half of 2020, leveraging a low interest rate environment.

Enbridge's total liquidity stands at a healthy $14 billion, which will help it meet funding needs in the upcoming quarters. Enbridge has forecast its DCF growth between 5% and 7% in the next two years, allowing it to keep increasing dividends.

Enbridge's business model has proven to be recession-proof, even during one of the worst periods for energy companies. Its diversified portfolio of assets, strong financial profile, and reasonable payout make it one of the top dividend stocks for the upcoming decade.

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