Should You Buy Enbridge (TSX:ENB) Stock for Your TFSA Today?

Description

Enbridge (TSX:ENB)(NYSE:ENB) sold off in recent months and the stock continues to lag the broader market recovery.

Is this a golden opportunity for Canadian seniors and other dividend investors to pick up the high-yield stock for their Tax-Free Savings Account (TFSA) portfolios?

TFSA advantage

Young investors like the TFSA for its flexibility. Funds removed from the account to cover an emergency expense are not subject to a withholding tax, as is the case with early withdrawals from RRSPs.

The tax-free nature of the TFSA is also attractive. Investors can use the full value of dividends to acquire new shares and harness the power of compounding to build a large retirement portfolio. When the time comes to cash out and spend the money, all gains are yours to keep. That's right: the CRA won't take a cut.

Retirees benefit from the TFSA, as well. Dividends paid on stocks held inside the TFSA can go straight into your pocket. The CRA does not tax the gains and won't include any income from the TFSA when calculating potential OAS clawbacks.

Top dividend stocks

Dividend stocks come with risk, but they offer much better yield right now than government bonds or GICs. The market pullback in 2020 finally gives dividend investors a chance to buy some top-quality companies at discounted prices. Ideally, these picks won't require taking on too much capital risk.

Is that the case with Enbridge?

Let’s take a look at the energy infrastructure giant to see if it deserves to be on your TFSA buy list.

Enbridge stock price

Enbridge trades near $43 per share at the time of writing and offers a 7.5% dividend yield. The stock traded above $57 in February this year and spent most of the past five years in a $40-55 range.

Management launched a major turnaround initiative in 2018 to address investor concerns regarding the balance sheet and the company’s complicated structure. Enbridge sold about $8 billion in non-core assets in a bid to focus operations on regulated business segments. This shored up the balance sheet and made cash flow more predictable, which is a good thing for dividend investors.

Enbridge also brought four of its subsidiaries in-house to streamline the organization. The move means more cash flow remains inside the parent company and makes it easier for analysts and investors to evaluate the firm.

Overall, Enbridge should be a more attractive investment now than it was prior to the restructuring.

Pandemic impact on Enbridge stock

Oil volumes through the main pipeline system dropped in recent months due to pandemic lockdowns. Fuel demand plunged, forcing refineries to curb production. Enbridge transports crude oil from producers to their customers.

As the economy reopens, demand for gasoline and diesel fuel should continue to rebound. Enbridge’s liquids pipelines normally operate near capacity, so there is an opportunity to pick up the stock while it is out of favour.

The utility and renewable energy assets performed well in Q2, providing a nice hedge against weakness in the pipeline assets. Enbridge maintained its distributable cash flow guidance for 2020 when it reported the Q2 results. This is a good sign for dividend investors.

Should you buy Enbridge stock now?

Ongoing market volatility should be expected, but Enbridge appears oversold today. Investors who buy now can pick up a great yield with medium-term dividend growth of 5-7% per year expected once the economy normalizes.

If you are searching for a top-quality dividend stock to add to your TFSA dividend fund Enbridge deserves to be on your radar.

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