Enbridge (TSX:ENB) Dividend: Buy or Sell?

Description

Come hell or high water, **Enbridge** (TSX:ENB)(NYSE:ENB) is the perennial choice of dividend-focused investors. However, the erratic oil industry and COVID-19 are formidable forces that could unsettle North America's pipeline giant in 2020. Is it wise to take a position in the energy stock today or not, because it might be a dividend trap?

Resilient business

In 2020, investors are losing confidence in companies that lack financial strength and flexibility, but Enbridge is not falling out of favour. Over the last three years, management has been focusing on building a more resilient business. When COVID-19 hit, the company was in a strong position to face the storm.

With a diversified business mix and an equity self-funding model, Enbridge successfully executed $30 billion worth of capital projects. To further reinforce financial strength and flexibility in the wake of the pandemic, the company obtained $6.9 billion in funding support at attractive rates.

Strategic priorities

The fresh infusion increased Enbridge's liquidity to $14 billion and gave the company sufficient funds to meet growth capital needs this year. As of June 30, 2020, the inventory of secured projects is approximately $11 billion at various stages of execution. Of the total growth capital, $5 billion is free for utilization through 2022.

Enbridge expects about $2.5 billion of incremental cash flows when the secured projects come into service between 2020 and 2023. These projects should spawn highly transparent growth over the near- to the medium-term horizon. Furthermore, the individual projects are supported by long-term take-or-pay contracts, cost-of-service frameworks, or similar low-risk commercial arrangements.

There was a pullback of oil and natural gas companies in the first half of 2020 due to depressed oil prices. Despite weaker volumes, cash from operations grew 11.88% to $5.2 billion versus the same period in 2019. It shows this top-notch midstream player is holding up well in the highly volatile environment.

Dividend safety

Income investors must first assess the dividend performance of a prospect before investing. For Enbridge, the average dividend-growth rate per year over the past 10 years has been 16%. It has increased the dividend annually for 24 straight years. This year, the increase is 11%, with Enbridge also projecting a 5% cash flow growth.

Would-be investors should find the dividend picture encouraging, because the pace at which Enbridge is expanding is faster than other dividend payers. The energy stock is down 11.86%, although the yield is a high 7.5%. At its current price of less than $45 per share, it should attract bargain hunters.

Enbridge remains the hands-down choice of people seeking a growing income stream. Notwithstanding the energy industry's downturn, there's no issue with dividend sustainability. It has zero exposure to the oil market, yet cash flow keeps flowing. Customers pay even if they don't use their capacity allocation in Enbridge's pipelines.

Buy, not sell

Enbridge is on track to generate ample cash to support and sustain dividend payouts. The growth runway is visible given the projects under development that will expand Enbridge's pipeline network in North America. Over the long term, the energy should deliver steady income and generous returns to loyal investors.

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