



## Enbridge (TSX:ENB) Stock's 8.5% Yield Is Unbelievable!

### Description

It's not often you see a stock with an 8.5% yield. But at today's prices, that's exactly the yield you get on **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) stock. Thanks to a dividend hike and a beating in the COVID-19 market crash, the stock has the highest yield it's had in years. Normally, when you see a yield pushing 10%, your first reaction is to doubt it. If a stock is paying out that much, it must be beaten down for good reason — or have a ridiculous payout ratio. But in Enbridge's case, the dividend may be safer than it appears. As you're about to see, Enbridge actually did quite well in the second quarter. And the beating it took this year may not have been justified.

### Why ENB's yield is so high

The reason ENB's yield is so high is because its dividend payout is increasing, while its share price falls. In 2020, Enbridge raised its dividend by 9.8%. At the same time, its stock fell 25%. When you've got a stock falling while its [dividend rises](#), its yield is likely to increase a lot. That's exactly what happened with Enbridge.

That's not to say that Enbridge was a low yielder before 2020. Even last year, it yielded as much as 7%. But the combination of the dividend increase and the COVID-19 market crash losses took it to a whole other level.

### How it could go even higher

Enbridge's dividend yield that the potential to go even higher than it is now. Like any other dividend stock, it could see its yield increase after its share price falls. Of course, that's academic. You don't buy a stock with the intent of seeing it go down. But it's worth noting if ENB is currently on your "watch-but-don't-buy-just-yet" list.

There's also the fact that Enbridge is actually doing quite well as a company. In the second quarter, the company had \$1.65 billion in earnings, \$1.13 billion in adjusted earnings, and \$2.34 billion in distributable cash flow. The first two of these figures were down only slightly year over year, while the

latter was actually up. And as far as dividends go, distributable cash flow is the metric you want to look at. It's the percentage of the company's cash that it's free to pay out to shareholders. So, if that's going up, then the company has the capacity for more dividend increases in the future.

## Foolish takeaway

Like most energy stocks, Enbridge has taken a beating in 2020. However, it has suffered far less actual damage as a business. Unlike other energy companies, which are losing money, Enbridge's earnings are barely down year over year. This is because the stock doesn't make money by selling oil. It makes money by charging fees to [transport it](#). Its business model is more similar to that of a railroad than an energy extraction company. Stocks move with their sectors, so ENB takes a hit when the broader energy industry does. But its business is actually doing fine. So, if you're only interested in the dividend, this could be a worthy pick.

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