Dividend Investing 101: When Do Companies Pay Investors?

Description

Everyone would like to have multiple income sources that supplement their employment income. Dividend stocks provide investors an opportunity to generate a steady stream of recurring income as well as the opportunity to benefit via capital gains in the long term. But when do companies pay dividends to investors?

If a company earns profit, it can either reinvest it back to expand its business, retain it for a future need and improve liquidity, or return it to shareholders by repurchasing shares and paying dividends.

So, a dividend is basically the distribution of a company's profits to shareholders. Dividends are generally paid in cash, and companies often use them to return profits to investors. The board of directors is in charge of a company's dividend policy and determine the size of a dividend payment.

A company that does not have stable earnings or is unprofitable or is focused on growth will not pay dividends. So, we can see in order to pay dividends a company must have consistent earnings, should be profitable and have enough liquidity to pay shareholders after investing in capital expenditures.

Most companies pay dividends every quarter while a few companies also pay a monthly dividend. Let's take a look at one such dividend-paying Canadian giant that has a tasty dividend yield.

Enbridge stock has a dividend yield of 8.53%

When it comes to Canadian dividend stocks, it is difficult to ignore energy infrastructure giant **Enbridge** (TSX:ENB)(NYSE:ENB) that has a forward dividend yield of 8.53%. This means a $10,000 investment in Enbridge stock will generate $853 in annual dividend payments.

Enbridge is a Dividend Aristocrat has increased dividends at an annual rate of 11% since 1995. If it manages to sustain similar growth rates, your annual dividend payments will increase to $2,180 in the next decade. Even if the company manages to increase dividends by 6% annually, payments can rise to $1,440 at the end of 10 years after accounting for reinvestments.

The benefits of investing in dividend-growth companies cannot be understated. However, you should look at the company's ability to sustain these payments over time. The COVID-19 pandemic and oil price wars decimated stocks in the energy sector. But Enbridge was largely insulated from these price fluctuations due to its contract-based business model.

Enbridge remains on track to deliver on its full-year cash flow guidance, which means its payout ratio is less than 70%, making a dividend cut highly unlikely. The company continues to invest in expansion projects, which will allow it to raise dividends going forward.

Enbridge is also investing heavily in renewable energy, which will be a key revenue and earnings driver for the company in the upcoming decade. It already has a rapidly growing offshore wind platform in Europe.

Enbridge is a durable dividend bet and has shown resiliency across business cycles. It should generate steady cash flows to support a high yield and provide the company with the flexibility to keep growing its business.

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