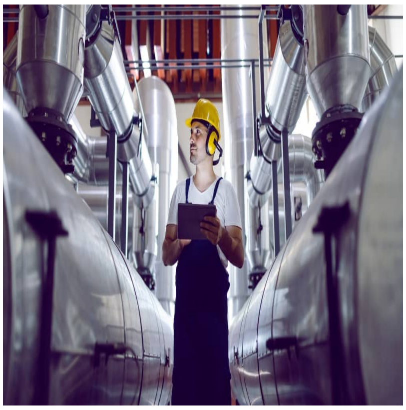

Enbridge (TSX:ENB): Is that Massive 8.5% Yield Legit?

Description

If you're a Canadian dividend investor, there's a good chance you've heard of **Enbridge Inc** (TSX:ENB)(NYSE:ENB). To call it a high yield stock would be an understatement. ENB has always been a high yielder, with 7% being about the norm, and this year the yield has gotten even juicier. Thanks to ENB tanking while its dividend grew, the stock got a whopping 8.5% yield. That's a mighty tempting yield for cash hungry investors. The question you have to ask yourself is this: *"Is it actually sustainable?"*

In this article, I'll be exploring that question in detail.

Earnings history

Normally, when you see an ultra-high yielding dividend stock, you tend to ask yourself whether the yield can stay that high. Is the stock getting beaten down for a good reason? Is the company in decline? Is the payout ratio way too high? These are natural questions to ask yourself if a yield appears too good to be true.

In Enbridge's case, the dividend actually looks pretty sustainable. The most obvious reason is that the company has an unambiguously positive earnings trend. Between 2016 and 2019, the company grew its earnings from $1.7 billion to $5.3 billion. Thanks to a weak Q1, 2020 earnings might be a little lower than 2019's. However, the Q1 GAAP loss was mainly due to non-recurring, non-cash factors. If we go off adjusted earnings, the company is headed for another solid year.

Dividend history

Another factor we can look at to gauge whether Enbridge's yield is legit is its dividend history. If a company's dividend is solid, then it tends to be maintained, or even increased, over time. If a company has cut its dividend frequently in the past, it's more likely that it will do so in the future.

Enbridge excels on this front. It has paid its dividend every year for the past 25 years. Over that time frame, its dividend has grown by 9.8% annualized. In recent years, the rate of growth has been even higher. Put simply, this is one of the best dividend growth stocks on the **TSX**.

Payout ratio

Now we get to the factor that might not be so good for Enbridge:

The payout ratio.

Going purely off GAAP earnings, it's pretty high. Some financial data providers have reported it as high as 329%. That's probably a 12 month figure factoring in the company's massive Q1 net loss. If we go just off of Q2, we get a payout ratio of about 100%. That is, $1,641 in common share dividends, over $1,647 in earnings.

However, net earnings aren't the best metric when calculating Enbridge's payout ratio. As a complex company with many tangible and financial assets, its earnings are often impacted by accounting charges. These charges, being non-cash, don't impact the company's ability to pay cash dividends.

Instead, Enbridge favours the metric "distributable cash flow." That means cash free to distribute to shareholders. In the second quarter, that was $2.4 billion. Using that instead of net income, we get a payout ratio of just 68%. That appears quite sustainable.

Incredibly, the answer is *yes*: Enbridge's 8.5% yield is actually legit.

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