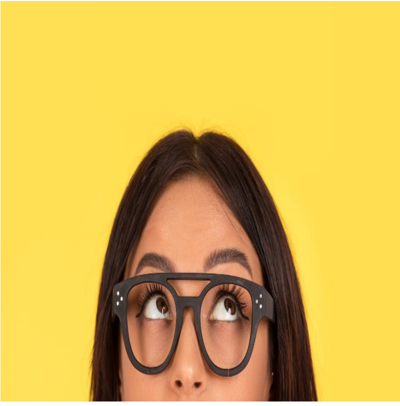

Is Enbridge Stock a Buy for the 9% Dividend Yield?

Description

Enbridge (TSX:ENB)(NYSE:ENB) now trades close to its 2020 low. Income investors with an eye for value wonder of Enbridge stock is simply too cheap to ignore at the current price.

Oil market impact on Enbridge stock?

Oil price fluctuations have a limited direct impact on Enbridge. The company doesn't produce crude oil; it simply moves oil from the drillers or oil sands miners to their customers. The reason for the drop in the price of oil, however, causes concern.

Why is Enbridge's stock price so low?

The pandemic forced global shutdowns of businesses and airlines at an unprecedented level. The sudden removal of millions of commuters from the world's highways and the elimination of flights to most international destinations hammered demand for gasoline, diesel fuel, and jet fuel.

Refineries turn crude oil into these products. The massive decline in fuel usage forced refineries to cut production. This led to reduced crude oil demand.

Enbridge collects a fee for transporting crude oil. Its main distribution system normally runs near capacity, but the drop in demand by refineries resulted in lower throughput in recent months. That has an impact on revenue. Enbridge moves about a quarter of the oil produced in Canada and the United States, so the demand drop can hurt the company's financial results.

Enbridge's financial situation

In the Q2 2020 earnings report, Enbridge said throughput on the oil pipelines fell and was expected to remain under pressure through the third quarter.

Enbridge took advantage of strong debt markets in Q2 to raise $6.9 billion in capital at attractive rates.

This topped up the company’s growth capital needs for 2020 and means Enbridge won’t have to raise capital again until 2022.

Enbridge has $11 billion in secured capital projects on the go and has $14 billion in available liquidity.

Despite the challenging times, distributable cash flow (DCF) in Q2 2020 actually rose compared to the same quarter last year. In the Q2 earnings release, Enbridge said it still expects to meet its DCF guidance for 2020. DCF should rise by 5-7% annually through 2022.

The Q3 results will show how the situation has evolved and where the company sees things heading in the coming months.

Should you buy Enbridge stock now?

Enbridge went through a major restructuring program in the past few years. The company sold roughly $8 billion in non-core assets and refocused operations on regulated business. Enbridge also streamlined the corporate structure through the purchase of four subsidiaries. This kept more cash flow inside the parent company.

The efforts put Enbridge in a position of strength heading into the pandemic.

At the time of writing, Enbridge stock trades at $36.25 per share and provides a dividend yield of 9%. The payout should be safe, given the DCF outlook and the decent growth portfolio.

Enbridge’s natural gas transmission, distribution, and storage businesses continue to perform well. This provides a hedge against the weakness on the oil pipeline side.

Once COVID vaccines become widely available, airlines should see restrictions lifted and people will start to commute.

Ongoing volatility is expected, but Enbridge stock appears oversold today. The shares traded above $57 earlier this year, so the upside potential is significant.

In the meantime, you get paid a great dividend to wait for the recovery.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

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Date
2025/08/23
Date Created
2020/10/30
Author
aswalker