Enbridge (TSX:ENB) Stock: 3 Reasons to Buy the Dividend Stock Right Now!

Description

The COVID-19 pandemic put the world economies at a halt temporarily and shrunk the demand for energy. However, as the economies reopened from lockdowns, and there's reignited hope from vaccine success, bargain stocks like **Enbridge** (TSX:ENB)(NYSE:ENB) are no-brainer buys.

Enbridge stock is very cheap!

This year the pandemic-triggered economic shutdowns reduced energy demand. The worst of the lockdowns was in the second quarter.

In April, there was so much fear that the WTI oil price was in negative territory. Obviously, that was ridiculous. And the market promptly corrected itself and swung back to positive prices. Nonetheless, the low energy prices made investors worried that Enbridge might have trouble maintaining its dividend.

Not surprisingly, Enbridge stock experienced pressures this year with the stock down about 23%. It's showing some life with an upside action of approximately 7% in the past five trading days, as the investing community scooped up the cheap shares.

At $39.83 per share at writing, the stock is still attractively priced. The 12-month analyst price target of $50.60 per share suggests it has 27% near-term upside potential. These are compelling price gains for a blue-chip company.

A safe 8% dividend yield

Importantly, Enbridge stock's attractive valuation also results in an incredible dividend yield of 8.1%.

Because of meaningful non-cash expenses, such as depreciation and amortization, earnings is not a good metric to help determine Enbridge's dividend safety. Instead, management uses the company's distributable cash flow (DCF).

In the first nine months of the year, Enbridge managed to marginally increase its DCF. The resiliency of its operations gave management the confidence to reaffirm its 2020 financial guidance range of $4.50 to $4.80 DCF per share. This would imply a sustainable payout ratio of approximately 70%.

Enbridge is a Dividend Aristocrat with a track record of increasing its dividend for 24 consecutive years. Its 10-year dividend-growth rate is close to 15%.

Since it aims for a DCF payout ratio of 60-70%, investors should expect slower dividend growth over the next few years. My guess is that its medium-term dividend-growth rate could be in the 3-5% range.

In any case, more clarity will come real soon, as Enbridge will reveal its 2021 financial and dividend guidance on the upcoming investor day on December 8.

A recovering economy

Lastly, the global economies are recovering steadily, starting with reopening economies after lockdowns. There will be renewed lockdowns in selective geographies, but they're expected to be temporary, and as a whole, the economy will persevere and move forward.

Since the oil price flash crash in April, the WTI oil price appears to have stabilized in the US$40-per-barrel level. In this low oil price environment, it's evident that Enbridge has been a resilient business with stable adjusted EBITDA and DCF as proof.

Additionally, there's hope from positive data in vaccines, as top talents around the globe compete to solve the world's pandemic problem.

The Foolish takeaway

The investment thesis for Enbridge stock is very clear. The proven dividend stock is undervalued with a safe 8% yield. Specifically, it's undervalued by about 21% and offers compelling near-term upside potential of 27%.

Therefore, the estimated one-year return of the stock is 35%. Now *that's* an exciting investment opportunity in a blue-chip, big-dividend, resilient, investment-grade stock — particularly in today's low interest rate environment.

Investors can also choose to buy the stock and hold it for rich passive income instead of thinking of booking profits from price appreciation.

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