



TFSA Investors: Is Enbridge Stock a Good Buy Now?

Description

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) picked up a nice tailwind in recent weeks. [TFSA](#) investors with an eye for value and a need for yield are wondering if Enbridge stock can continue the rally through 2021.

Enbridge stock outlook

Enbridge recently released its [2021 financial guidance](#).

The company maintained the position that annual distributable cash flow (DCF) can grow 5-7% for several years. Full-year DCF for 2020 should come in at \$4.50-4.80 per share. That's in line with the guidance provided earlier this year. Projected DCF in 2021 could hit \$5 per share.

Enbridge continues to work on its \$16 billion capital program with the result being an added \$2 billion in EBITDA through 2023. The company's Line 3 Replacement Project in Minnesota recently received final clearance and the project should be completed in 2021. This was a six-year regulatory and permitting process. Now that it has the all-clear, investors are warming up to Enbridge stock.

Heading into 2021 the company expects volumes to recover on its core oil pipelines. The division saw a drop in throughput this year as refineries reduced their need for crude oil feedstock used to produce jet fuel, gasoline, and diesel fuel.

As COVID vaccines roll out to the broader public, air travel and commuting is expected to recover. This will boost fuel demand and increase the need for refineries to obtain crude oil supplies from [producers](#). Enbridge transports roughly 25% of the oil produced in Canada and the United States.

The company's natural gas distribution and storage assets performed well this year and should continue to remain reliable generators of cash flow in 2021 and beyond.

Enbridge dividend safety

Enbridge's current dividend provides a yield of 7.5%, and that's at \$43 per share. The yield topped 8% when Enbridge's stock fell below \$40 this year, prompting investors to speculate on the potential for a dividend reduction.

The board just went the other direction, raising the dividend on Enbridge stock by 3%. The quarterly payout will increase from \$0.81 to \$0.835 per share commencing with the dividend payable on March 1, 2021.

The move puts to bed any fears regarding the dividend's safety. The increase represents the 26th consecutive year that Enbridge has raised the payout. Based on the anticipated growth in DCF the dividend should continue to increase by 5-7% per year.

The company's policy of paying out 60-70% of DCF is reasonable.

Should you buy Enbridge stock now?

Enbridge's oil pipeline system normally operates near capacity, so the 2020 drop is a short-term issue. The gradual recovery in fuel demand over the next year or two should return the group to previous levels. Completion of the US\$2.9 billion Line 3 Replacement Project serves as an important milestone for the company in 2021, given the challenges the industry faces on major pipeline developments.

Enbridge moved quickly this year to take advantage of cheap funding to boost its liquidity and strengthen the balance sheet. The business is in good shape and positioned well to deliver steady cash flow growth.

Enbridge stock traded above \$57 in February before the pandemic hammered global fuel demand. The share price is up from the \$33 low for the year, but it wouldn't be a surprise to see Enbridge top the \$50 mark in 2021.

Investors who buy now can get a great yield and the new dividend increase removes the concern regarding the sustainability of the payout.

If you have some cash available in your TFSA, this might be a good time to add Enbridge stock to the portfolio.

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