Why Enbridge (TSX:ENB) Is Valuable for a Growing Passive Income Stream

Description

Energy companies witnessed unparalleled challenges in 2020 as the COVID-19 pandemic sapped demand and significantly disrupted the supply chain. While the lower demand for the crude and other liquid hydrocarbons that **Enbridge** (TSX:ENB)(NYSE:ENB) transports took a toll on its revenues and earnings, its low risk business continued to generate resilient cash flows that supported its quarterly dividend payouts.

Simply put, Enbridge consistently paid its quarterly dividends despite challenges from the pandemic. While the pandemic led to a decline in its mainline throughput volumes, Enbridge's core business continued to perform well and witnessed a high utilization rate.

The company's gas distribution and storage, gas transmission, and renewable power business delivered robust cash flows and supported its payouts this year.

Enbridge lifts dividend for 26th consecutive year

Enbridge hiked its annual dividend for the 26th consecutive year, reflecting the resiliency of its cash flows. The energy infrastructure company raised its annual dividend by 3% to $3.34, translating into a dividend yield of 7.8% based on Monday's closing price of $42.60.

Enbridge CEO Al Monaco said that the dividend hike reflects the company's ability to drive 5-7% growth in its distributable cash flow per share annually through 2023 and beyond. He added, "We'll continue to ratably grow the dividend up to the level of average annual DCF per share growth, while maintaining our dividend policy payout of 60-70% of distributable cash flow."

The energy infrastructure company has boosted its shareholders' returns through consistent dividend payments for over 65 years. Last year, it announced a 9.8% increase in its annual dividend.

The company returned $6.0 billion and $4.7 billion in dividends in 2019 and 2018, respectively. Meanwhile, for about two-and-a-half decades, Enbridge's dividend increased at a compound annual growth rate of about 11%.

Growth to return in 2021

I believe the reopening of the economy and positive development on the vaccine front is likely to drive demand for energy companies in 2021. Enbridge's mainline throughput volumes could recover fast and support its growth.

Besides, its productivity and cost-saving initiatives and multi-billion dollar secured capital growth program is likely to drive its cash flows and dividends.

Enbridge expects its 2021 EBITDA to be in the range of $13.9 billion to $14.3 billion. Meanwhile, DCF/share is expected to be $4.70 to $5.00 in 2021 compared to $4.50 to $4.80 in 2020.

The bottom line

Enbridge's strong dividend profile makes it a must-have stock for investors seeking growing passive income. A $10,000 investment in Enbridge stock at the current levels would lead to a passive income of $780/year. Its diverse revenue sources and low risk commercial business model provide a solid foundation for long-term growth.

Meanwhile, its asset footprint across conventional and renewable energy sources and continued investments in natural gas and renewable power position it well to meet the global energy demand, lower its carbon intensity, and gradual transition to a low-risk utility-like business, that could generate predictable cash flows and support its future dividend payouts.

Enbridge stock witnessed heavy buying over the past one month. However, it is still down about 10% year to date, offering an excellent opportunity for long-term investors to go long on this Dividend Aristocrat.

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