Enbridge (TSX:ENB) Stock Increases Dividend: Should You Buy?

Description

Enbridge's (TSX:ENB)(NYSE:ENB) stock price has largely been depressed this year. At one end, it's because of worries from pandemic disruptions. At the other end, the market questioned whether its big dividend yield was sustainable.

Specifically, the dividend stock fell more than 36% from peak to trough during the market crash earlier this year. Since then, ENB stock has largely stayed below $44 per share, failing to get even close to its previous high of above $50 per share.

Some Enbridge investors were holding their breath for the investor day yesterday. They can feel relieved now, as the company announced another dividend increase, marking the start of its 25th year of consecutive dividend growth.

Is Enbridge stock's dividend increase good enough?

Previously, I'd noted that although Enbridge had a 10-year dividend-growth rate of 15%, investors should expect slower dividend growth of 3-5% per year over the medium term.

Yesterday, Enbridge announced a dividend increase of 3.1% that was at the low end of my estimate. Specifically, the bigger annualized payout for 2021 is $3.34 per share (up from 2020's $3.24) and will be paid on a quarterly basis, as usual. The dividend increase is expected to be backed by distributable cash flow per share (DCFPS) growth of about 4%.

Some investors may be dissatisfied with a mere 3% dividend increase. However, let's not forget that Enbridge's dividend yield was already big before the hike.

With the dividend increase, its forward yield is now 7.8% at $42.80 per share at writing. That's immediately more than the long-term average market return of 7% for just holding the stock.

Enbridge stock is as close to a buy-and-forget income stock as it gets for passive investors who want little work on managing their portfolios.

Enbridge's resiliency

One quality that sets Enbridge apart from its smaller peers is the resiliency of its cash flow.

First, approximately 95% of Enbridge's customers are essentially investment grade. This implies there's a low probability that its customers will go bankrupt.

As a result, its cash flow was unfazed, even in the face of this pandemic, which had wide economic impacts. Likewise, its cash flow remained intact in the 2008/2009 recession, the commodity price collapse in 2014, and the Alberta forest fires in 2016.

The company is also investment grade with a solid S&P credit rating of BBB+.

Second, 98% of Enbridge's cash flows are regulated or contracted. Adding that less than 2% of its cash flow is subject to commodity price volatility, its cash flow is low risk.

As usual, management estimates a marginal boost to its adjusted EBITDA, a cash flow proxy, this year.

The Foolish takeaway

Investors should accept that Enbridge is no longer the high-growth dividend-growth stock it once was. Instead, it has grown to be more mature and now provides a juicy forward dividend yield of 7.8%.

Enbridge has a $16 billion capital program that can drive DCFPS growth of about 4-5% through 2023. With this new guidance, it's safe to assume annual dividend growth of about 3-4% through the period. Therefore, new buyers are looking at an estimated total return of about 11-12% in a low-risk income investment.

This total returns estimate didn't account for the discount Enbridge stock is trading at. According to the 12-month analyst consensus price target, the dividend stock trades at a discount of 15%, which can boost total returns.

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