ENB Stock: Should You Buy Enbridge for its 7.4% Dividend Yield?

Description

The energy sector has always been a challenging space for dividend-seeking investors. The volatility in oil prices has meant dividend cuts or rollbacks are a common occurrence for energy companies. However, there are a few exceptions like **Enbridge** (TSX:ENB)(NYSE:ENB) that have managed to maintain and even increase dividend payouts amid macro-economic volatility.

ENB stock is trading at a price of $45.35. It pays investors annual dividends of $3.34 per share, indicating a forward yield of a tasty 7.4%. This means a $10,000 investment in Enbridge stock will help you derive $740 in annual dividends.

We'll analyze why this energy giant should remain part of your portfolio in 2021 and beyond.

Enbridge is a diversified energy company

Enbridge is a Canada-based midstream company with operations across natural gas, liquids, and oil verticals. The company's liquid pipelines contribute to over 50% of total earnings. Comparatively, the natural gas distribution, transmission, midstream operations, and storage account for over 40% of ENB earnings followed by renewable power generation at 4%.

This diversified base of cash-generating assets allows Enbridge to derive stable and predictable cash flows across business cycles. Enbridge has, in fact, increased its dividends for 26 consecutive years at an annual rate of 10%.

In the fiscal fourth quarter of 2020, Enbridge's adjusted EBITDA rose 0.5% year over year to $3.2 billion. Comparatively, its distributable cash flow (DCF) was up 7.7% at $2.21 billion, while DCF per share soared 7% to $1.09, indicating a dividend-payout ratio of 74%.

Enbridge's rate structure and robust business model insulates the company against fluctuations in commodity volumes and prices. This allowed it to generate stellar Q4 results at a time when energy peers were struggling.

We can see Enbridge has plenty of fuel to grow its cash flow and support dividend payouts.

A look at ENB's business performance in Q4

ENB's earnings from its liquids pipelines business were up 4% in Q4 and it rose 2% in 2020. However, earnings from the gas transmission and midstream assets were down 7.4% in Q4 but rose 0.7% in 2020.

Comparatively, the gas distribution and storage business saw a 2.3% rise in earnings in Q4 driven by customer growth, cost savings, and rate increases.

One of the most important metrics for investors is the company's stellar growth in renewable power generation. Here, Enbridge earnings were up 22.7% in Q4 and a solid 19.6% in 2020. The company attributed this growth to its offshore wind farms in Europe and onshore facilities in North America.

What's next for Enbridge?

The company will spend close to $16 billion in expansion projects through 2023. It has already completed $1.6 billion of these projects and expects to place around $10 billion of new assets in the current year.

Enbridge forecasts to generate between $13.9 billion and $14.3 billion in adjusted EBITDA with DCF per share between $4.7 and $5 in 2021. This indicates EBITDA growth of 6% and DCF growth of 4% at the midpoint estimates.

Further, the company estimates earnings and cash flow growth to continue in the near term. According to ENB, DCF per share might expand between 5% to 7% annually through 2023, which indicates the company should continue to grow dividends and increase shareholder value.

A high-quality dividend stock

Enbridge has once again proven it has a durable business model that can easily withstand an economic downturn. Its dividends are safe and secure, making it one of the top income stocks to buy and hold right now.

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araghunath