Is Enbridge (TSX:ENB) Stock Still a Buy After 2nd-Quarter Earnings?

Description

Leading North American energy distribution company **Enbridge** (TSX:ENB)(NYSE:ENB) released market-beating quarterly earnings results on Friday. However, Enbridge stock traded more than 1% lower by midday in a broader market selloff. Here's why the post-earnings drop shouldn't worry income-oriented investors.

Enbridge stock investors see another revenue and earnings beat

Enbridge booked over $10.9 billion in operating revenue for the second quarter of 2021. An analyst revenue projection for $9 billion for the period was lower by nearly $2 billion.

Total operating expenses surged 56% year over year, as commodity costs ballooned with higher commodity prices. However, operating and administrative expenses were lower after cost-cutting efforts last year. This helped the company save money and report $1.8 billion in operating income, a figure which was $282 million lower than that reported for the same period last year.

The good news is the company reported much higher GAAP earnings per share (EPS) of $0.69 against market expectations for $0.58. GAAP EPS for last year's quarter was much higher at $0.82. Normalized earnings per share at $0.67 per share were much better than analyst projections for $0.56.

Although the second-quarter adjusted EBITDA of $3.3 billion remained flat year over year, the company reaffirmed its full-year guidance for adjusted EBITDA of $13.9 billion. If the guidance is achieved (and it most likely will be), ENB may print a 4.5% year-over-year adjusted EBITDA growth for 2021. Income-oriented investors seem well covered.

The good news for income investors

ENB paid out almost $3.4 billion in common share dividends during the past three months. The company remains one of the largest dividend payers on the **TSX** today.

Income-oriented investors holding the cash flow behemoth's common shares are mainly concerned about whether the company can sustain its regular dividend payments and deliver on its promise to grow annual payouts.

The good news is that the company remains on target concerning its $17 billion funded capital investment program. ENB has already deployed $8 billion of the $10 billion targeted for capital investment in 2021.

The company is excitedly on track to deliver on its strategic priorities for 2021. Successful execution of the three-year growth plan could add $2 billion in incremental EBITDA from 2021 through 2023. This should be good music to dividend-growth investor's ears, as some of these earnings flow into the payout dividend budget.

There's more; the company's Line 3 Replacement project remains on schedule. ENB expects Line 3 to be fully in service during the fourth quarter to drive significant incremental EBITDA growth. The company's highly experienced management team is successfully navigating difficult terrains.

Enbridge's ongoing capital-investment program targets a 5-7% compound annual growth rate (CAGR) in distributable cash flow from 2020 levels through 2023. Dividends to stock investors are payable from such distributable cash flow and they could increase at the same rate.

Foolish takeaway

Enbridge has beaten analyst estimates once again. Although some distant risks remain with its major Line 5 project, the company remains capable of growing distributable cash flow and increasing dividends paid to shareholders.

The company's 6.7%-yielding dividend remains well covered and is on track to keep growing over the next three years. The company retains its investment-grade credit rating with a recent upgrade at **Moody's**. Enbridge stock remains a buy from where I stand. A consensus analyst target price of $55.76 indicates a potential 14% upside over the next 12 months. If achieved, investors will have a double-digit capital gain as a bonus for holding a high-yielding TSX dividend-growth stock.

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