



Enbridge (TSX:ENB) Stock: Should You Buy for the 7% Dividend Yield?

Description

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) just announced a 3% increase to its dividend for 2022. Income investors are wondering if this is a good time to add the stock to their self-directed [TFSA](#) portfolios.

Enbridge's dividend

Enbridge is raising its quarterly dividend from \$0.835 per share to \$0.86. The new annualized payout of \$3.44 provides a yield of 7% at the current share price near \$49. This is Enbridge's 27th consecutive annual dividend increase.

Looking ahead, the payout is expected to continue to grow. Enbridge says distributable cash flow (DCF) should increase by about 10% in 2022 and by an average of 5-7% through 2024.

Enbridge also announced plans to start buying back stock. The new program will see the company repurchase up to \$1.5 billion of its outstanding shares.

Growth

Long-term Enbridge investors are accustomed to much higher increases to the payout. This might be one reason the shares haven't moved significantly higher.

After years of strong growth driven by large pipeline projects, Enbridge is now a giant in the energy infrastructure sector with extensive oil pipelines that transport 25% of all the crude oil produced in Canada and the United States.

Getting new oil pipelines approved and built has become more difficult in recent years, and there is a good chance the industry won't see another major new project. This inhibits Enbridge's organic growth opportunities, but it doesn't mean Enbridge can't get larger.

In the 2022 financial guidance, Enbridge added \$1.1 billion in capital projects that are expansion

initiatives in the natural gas and renewable energy businesses. Beyond 2024, Enbridge is evaluating additional development opportunities in the range of \$6 billion per year to drive ongoing cash flow growth.

The company is partnering with an Alberta power provider to evaluate the construction of a carbon capture and sequestration facility, where Enbridge would be the provider of the transportation and storage service provider. The project could be in service by 2027.

Enbridge is also large enough to make strategic acquisitions that are accretive to cash flow. The latest deal is the US\$3 billion purchase of an oil export facility and related pipeline infrastructure in Texas.

Earnings

Enbridge reported strong Q3 2021 results, supported by a rebound in fuel demand. The company generated adjusted earnings of \$1.2 billion compared to \$1 billion the same period last year. Distributable cash flow came in at \$2.3 billion versus \$2.1 billion in Q3 2020.

High oil and gas prices, along with expanding global fuel demand, bode well for Enbridge in 2022. Producers are expected to increase supply to meet rising fuel needs, and Enbridge should see strong demand for its services as a result.

The steady capital investments over the next three years should deliver reliable cash flow growth to support higher earnings and dividend increases.

Should you buy Enbridge stock now?

Income investors should consider adding the stock to their portfolios. The shares look cheap at \$49, and you get a solid 7% return on the investment at that price. If you have some room in a TFSA dividend fund focused on passive income, this stock deserves to be on your radar.

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2. Investing

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