



Enbridge: 7% Yield AND Dividend Growth in One Package!

Description

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) is the rare dividend stock that “has it all.” A 7% yielder that also has a very high dividend growth rate, it offers the full package that income investors seek. Until recently, this appealing package of dividend features was sadly offset by rather poor historical returns. The stock price is down over a *five-year* period, so while investors have been collecting dividends, their capital gains have offset them. Today, though, that might be set to change. With the world in the midst of an energy crunch, demand for ENB’s services will be stronger than ever. In this article I will make the case that ENB is one of the best high-yield dividend plays out there today.

Yield

As of this writing, ENB trades for \$51.43.

Its quarterly dividend was \$0.86, which annualizes to \$3.44.

That gives us an approximately 6.7% yield, which rounds to 7%. At many points in the past, it was quite possible to get ENB at a full 7% yield, without rounding. Lately, however, demand for oil has been picking up, and ENB’s stock price has been going up along with it. So the yield is a little lower than it was in the past.

Is ENB’s yield well supported by earnings?

Technically, it isn’t. [Payout ratios](#) are usually calculated with earnings, and by this metric, ENB’s payout is about 123%. That suggests that the company is paying out more in dividends than it has coming in in profit. However, GAAP earnings aren’t the full story. Sometimes they are impacted by non-cash gains and losses, such as unrealized stock market losses. When they are impacted in this way, cash flow better represents dividend paying ability. Going by distributable cash flow (DCF), ENB’s payout ratio is only 72%. This suggests that the dividend is well supported by cash flows.

Dividend growth

Next, let's take a look at ENB's [dividend growth rate](#). A high yield today means nothing if the dividend is cut tomorrow. So, we need to know where ENB's dividend is going to go in the future.

Going by historical standards, ENB's dividend is growing a lot. Its five-year dividend growth rate is a scorching 11%, which suggests that your payout will double in less than seven years if the dividend keeps rising at its past rate. There is no guarantee that ENB's dividend *will* keep rising at such a pace. But when we look at the company's operations, we see there is a good chance that it could.

Operations

Enbridge's operations provide reason to think that the company could keep growing its dividend. The company is a pipeline, meaning that it transports oil by pipes. This is a very in-demand service, as it is much cheaper than the next-best service, crude-by-rail. The very fact of being a pipeline makes ENB a useful service for customers. On top of that, many of ENB's competitors (e.g., the Keystone XL pipeline) have been cancelled, so it enjoys an enviable competitive position. All this bodes well for ENB's ability to keep paying its juicy 7% dividend well into the future.

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