Enbridge (TSX:ENB): A Solid Stock for Passive Income

Description

The COVID-19 pandemic sapped demand for energy companies, including **Enbridge** (TSX:ENB)(NYSE:ENB). Moreover, it wiped out a significant portion of its income and led to a massive correction in its stock price.

Despite the challenges, Enbridge continued to pay its regular dividends and consistently increased the same. This signifies that investors can easily rely on Enbridge for consistent passive income, as its payouts are well protected.

Let’s dig deeper

The resiliency of Enbridge’s cash flows is reflected through its stellar dividend payment history. It’s worth noting that Enbridge has paid dividends for more than 67 years. Meanwhile, it has increased it for 27 consecutive years.

It’s worth noting that Enbridge offers superior dividend growth. Its dividend has had a CAGR of 13% since 2008. Meanwhile, ENB has increased its dividend at a CAGR of 10% in the last 27 years — the highest among its peers. In comparison, **Pembina Pipeline** and **TC Energy’s** dividends have a CAGR of 4.9% and 7%, respectively.

Further, with an annual dividend of $3.44, Enbridge stock offers a high yield of 6.1%.

What’s ahead?

Given the ongoing strength in its base business and growth projects, Enbridge could continue to enhance its shareholders’ value through higher dividend payments and share repurchases. The strong end-user demand and high asset utilization rate will drive its DCF (distributable cash flow) per share and, in turn, its dividend growth.

Enbridge projects its DCF per share to increase by 5-7% in the medium term, while the company is targeting the mid-point of its payout range of 60-70%.

Last year, Enbridge placed $10 billion of growth capital into service, which is expected to give a solid boost to its cash flows in 2022 and support its payouts. Further, it recently increased its dividends by 3%.

Looking ahead, the recovery in its mainline volumes, benefits from the projects placed into service in 2021, and strong demand for its system capacity will drive its cash flows and dividends.

It's worth noting that Enbridge has diversified cash flow streams and its diverse cash streams are likely to cover its payouts. Moreover, its long-term contractual framework to reduce risk, strength in the core business, expansion of renewables capacity, and opportunistic acquisitions will likely cushion its earnings and, in turn, enable the company to return solid cash to its shareholders.

Furthermore, Enbridge's multi-billion-dollar secured projects, robust balance sheet, and strong capital allocation framework bode well for growth.

Earn a passive income of $101/month

As discussed earlier, Enbridge's payouts are safe and sustainable in the long term, providing investors a solid opportunity to earn a consistent income that could grow with them.

Notably, Enbridge's dividend yield stands at 6.1% at current levels, implying that an investment of $20,000 in Enbridge stock would lead to a passive income of about $1,220/year or $101/month.

Enbridge stock has outperformed the broader markets this year. However, its forward EV/EBITDA multiple of 13.1 is lower than the pre-pandemic levels and well within investors' reach.

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