Enbridge (TSX:ENB): A Safe 6% Yield

Description

Enbridge (TSX:ENB)(NYSE:ENB) is one of Canada's highest-yielding large-cap stocks. Coming in at just under 6%, ENB's dividend has the potential to add a lot of income to a portfolio. What's unique about Enbridge's high yield is that it is very safe and well-covered by cash flows.

Some companies have yields north of 10%, but if you look closely at their financials, you'll notice that they're paying out more in dividends than they're taking in in earnings. According to some financial data platforms, Enbridge is in this boat, too. Going by GAAP earnings, its payout ratio is above 100%. However, if we look at cash flows, we see a much rosier picture. In this article, I will explore Enbridge's finances and why they point to a dividend that is pretty safe and sustainable.

Enbridge's services

Before exploring ENB's dividend, we should take a look at what Enbridge does. Any company can have a high dividend yield today, what really matters is what the dividend will be in the future. To know that, we first have to understand how the company makes money.

Enbridge is a pipeline and natural gas utility. It makes the bulk of its income by transporting oil and gas. It also makes some money by helping people heat their homes with natural gas. Both of ENB's industries are very healthy in 2022. Pipelines are filled to the brim thanks to the global energy crisis, and natural gas is in high demand. So, Enbridge has the potential to raise both its pipeline fees and its natural gas rates. This could help drive higher earnings in the future.

The payout ratio

Now, we get to Enbridge's payout ratio — a matter of concern to dividend investors. It is frequently reported that ENB has a payout ratio above 100%. Based on GAAP earnings, this is correct, but GAAP earnings are not the best metric to look at for dividend payments.

In its most recent fiscal year, Enbridge reported the following:

- $5.8 billion in GAAP earnings
- $2.42 in earnings per share
- $9.3 billion in operating cash flow
- $10 billion in distributable cash flow (DCF)
- $4.96 in DCF per share
- $3.44 in forward dividends per share

As you can see, GAAP earnings do not cover the dividend, but both of the reported cash flow metrics do. This implies that Enbridge is, in fact, able to keep paying its dividend even without earnings growth. If earnings do grow, then ENB may be able to raise its dividend — as it has done every year for the last five years at a rate of 9% annualized.

Foolish takeaway

Enbridge is a rare high-yield stock whose payout is both safe and well covered. Going purely by financials, we'd conclude that the company's dividend was at no risk of being cut. If we factor in politics, we see that there are some risks — Michigan is still saying that it wants to shut down Line Five. However, these risks are unlikely to become material in the near future, given the energy crunch the world is experiencing.

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