Does Enbridge Stock Really Have a Payout Ratio of 140%?

Description

It's hard to find a list of top Canadian dividend stocks that don't have **Enbridge** (TSX:ENB)(NYSE:ENB) on it.

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The massive energy giant with a market cap of roughly $110 billion is an excellent passive-income generator for several reasons.

In addition to the fact that it's one of the most significant blue-chip stocks in Canada and has a business that's crucial to the North American economy, the company is also a cash cow, constantly bringing in billions in free cash flow.

So, it's no surprise that Enbridge is one of the oldest Dividend Aristocrats in Canada — stocks that increase their dividends every single year. Currently, Enbridge has a 27-year streak of consecutive dividend increases.

But with the stock's trailing 12-month earnings per share (EPS) sitting at just $2.42 and its annual dividend paying out $3.44, does that mean Enbridge actually has a payout ratio of 140%, which would be highly unsustainable?

Enbridge's dividend and payout ratio

Although taking Enbridge's annual dividend and dividing it by its trailing 12-month EPS will show that its payout ratio stands at 140%, that's not entirely an accurate number.

The majority of companies do use EPS to calculate their payout ratios. However, due to new accounting rules, with some stocks like Enbridge, it's actually more accurate to base the payout ratio on different numbers.

So, rather than using its earnings per share as a method for assessing the dividend's stability, instead, Enbridge uses distributable cash flow (DCF). Each company is different, but you can usually find out what measures are most important and what internal measures management looks at by reading a company's financial statements.

So, when you use DCF rather than EPS to look at how stable Enbridge's dividend is, the stock actually has an expected payout ratio this year of 63-66% based on its guidance for DCF of $5.20-$5.50 a share.

A roughly 65% payout ratio is much more appealing. It gives Enbridge stock a significant margin of safety and is right in the middle of Enbridge's target payout ratio, which is between 60% and 70% of DCF.

Therefore, while the stock may appear to have an unsustainable dividend at first, its conservative payout ratio and 27-year dividend-growth streak show that Enbridge is one of the best dividend stocks to buy. But is it worth an investment today?

Should you buy Enbridge stock now?

Although many stocks have sold off significantly this year, Enbridge stock offers much less of a discount, trading just 10% off its highs. This is both positive and negative for investors.

On the one hand, Enbridge's resiliency shows what a high-quality stock it is and how well it can protect your capital, even if there is growing uncertainty in the economy. On the other hand, the fact that you can't buy it at a significant discount means that there are several other stocks to buy that offer more value today.

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Nevertheless, if you're looking for a reliable dividend stock that can earn you attractive passive income or are underweight the energy sector, you may still want to consider Enbridge today.

Even though it doesn't trade at the most appealing discount, it still offers attractive value. Not only does its consistently growing dividend offer a yield of roughly 6.4%, but its forward price-to-earnings ratio of 17.8 times is actually below its five-year average of 18.3 times.

Therefore, if you've been considering Enbridge stock for its incredible dividend yield, it's certainly one of the best companies that you can buy and hold for years.

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