Enbridge Stock: Here’s What’s Coming Next

Description

The Canadian energy sector has performed better than other sectors in the stock market last year. Earnings of these companies have increased by about 50% yearly for the last three years. Also, revenues have seen an overall growth of about 19% year over year. **Canadian Natural Resources** (TSX:CNQ), **Suncor Energy** (TSX:SU), and **Enbridge** (TSX:ENB) stock are some of the top performers.

The performance of energy sector stocks largely depends on the price of oil. Following the invasion of Ukraine, the price of oil peaked at around US$124 per barrel in March, with energy and other commodities surging. However, with oil now trading around the US$80 level (West Texas Intermediate), it’s unclear where oil prices could be headed in 2023 and beyond.

Enbridge reported a solid third quarter (Q3), along with increase in dividend payment in 2022. So, what does Enbridge hold for investors in 2023?

Let’s dive in.

Enbridge stock steady on strong Q4 results

The fact that Enbridge stock has declined moderately this year is noteworthy. When other growth stocks have surged on the heels of what’s expected to be fewer rate hikes than previously thought, it’s clear some investors are looking past Enbridge to other parts of the market.

That said, Enbridge stock has remained relatively stable since reporting its Q4 earnings. While not particularly spectacular, the energy giant did bring in adjusted earnings per share of $0.63. This brought the company’s full year GAAP (generally accepted accounting principles) earnings to $2.6 billion ($5.7 billion on an adjusted basis). Cash from operations totaled $11.2 billion, meaning Enbridge is now trading at roughly 9.5 times operating cash flow.

Top dividend stock based on historical record

Along with Canadian banks and utilities, pipeline players such as Enbridge are often among the top dividend stocks investors consider for two reasons. The first is cash flow stability, which Enbridge continues to show, evidenced in its Q4 results. The second is the historical dividend-growth trajectories of such companies, with dividend-payout streaks most companies can only dream of.

In the case of Enbridge, the company's consecutive 68-year history of dividend payouts is impressive. The company's massive pipeline footprint, which accounts for the shipping of roughly 30% of all North American petroleum and around 30% of the natural gas used in the U.S. is a big deal.

Considering Enbridge's compound annual growth rate for its dividend has been around the 10% range historically, some investors may be dismayed at a relatively low hiking schedule moving forward. The company intends to use its cash flows to pay down debt and engage in stock buybacks instead of hiking its dividend materially from here. That said, with a yield of 6.6%, most investors will be fine with such a move. In fact, I think it's a prudent take, considering the market we're in.

Bottom line

Enbridge certainly has not disappointed its investors for the past 68 years, and I think this company will provide decades of additional value in supporting North American energy independence. Those looking for stable dividend stocks may want to look at Enbridge on any dips moving forward. It's fairly valued now but could provide incredible upside potential on a pullback.

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