



Is Enbridge Just Too Expensive?

Description

Enbridge (TSX:ENB,NYSE:ENB) held down an unfamiliar position earlier this week as its 4% decline placed it amongst the worst performing stocks in the Canadian market for the day. The stock is down another 1.5% or so today.

Seemingly, the only news item that could be behind this slide is that the company's largest shareholder, Noverco, has decided to sell a portion of its stake.

Noverco is a Quebec based holding company that is 61% owned by the Caisse de Depot, and, strangely enough, 32.1% owned by Enbridge itself.

Noverco's ownership of Enbridge topped out at 69.4 million shares last year before 22.5 million shares were sold down early in 2012 at a price in the upper \$30's. With a remaining 46.9 million shares, Noverco has now decided to part with 15 million more shares at a price of \$46.85, about \$1 lower than where the shares closed Tuesday, the day before the sale was announced.

Big Picture

Stock movements related to announcements like this are fleeting. What isn't fleeting however is the message that this deal sends as it's the second indication we've had in the past month or so that Enbridge's stock is just too expensive. The first was a [\\$600 million equity offering that Enbridge did at \\$46.15](#) back in April.

Given Enbridge's stake in Noverco, both indications that the stock is overvalued have essentially come straight from the company. Enbridge is essentially punting its own stock!

Justified

And the numbers indicate they're right to be doing this. Enbridge currently trades with some awfully lofty multiples. Tabled below is a brief sampling.

Trailing P/E	Fwd P/E	P/B
60.8	25.2	5.5

Source: Capital IQ

Enbridge is a fantastic company with piles of opportunity ahead of it as it rides the North American energy boom, however, the company is only expected to grow earnings by low to mid- double digits in each of the next three years (including 2013).

Let's have a look at some other prominent North American companies (with market cap > \$20 billion) that are expected to grow at a similar rate, over the next year at least, and compare their multiples to Enbridge. This collection is summarized below:

Company Name	1 Yr. Exp. EPS Gr.	LTM P/E	Fwd P/E	P/B
Marathon Oil (NYSE:MRO)	18.5%	16.3	12.0	1.4
TransCanada Pipeline (TSX:TRP)	17.8%	24.6	21.3	2.2
Union Pacific (NYSE:UNP)	15.0%	18.3	15.9	3.6
Enbridge	12.6%	60.8	25.2	5.5

Source: Capital IQ

All three of these companies, including Enbridge's closest comparable TransCanada, are expected to not only grow EPS at a faster rate over the next year, but trade at a more reasonable valuation. Marathon offers the best one-year growth of the group, yet trades at the lowest multiples. The company's commodity exposure is likely behind this dynamic.

The Foolish Bottom Line

Over the long-term, a decline in Enbridge's stock is unlikely, however, with so much of its bright future seemingly already priced in, can future returns really be all that enticing? And, in the short to medium term, because of its valuation, Enbridge is susceptible to a disproportionate pullback. Envision a portfolio manager needing to raise cash to fund redemptions and scanning their holdings for positions to sell. You can be sure they're going to blow out the stock trading at 60 times earnings and growing at 12% per year before they move a lot of other names. If the company is selling the stock, should you?

Enbridge is well-known as a stock that dividend investors love. If you're looking for other sources of income for your portfolio, you need to download our [Special Free Report](#) "**13 High-Yielding Stocks to Buy Today**". This report will have you rolling in dividend cheques before you know it! Simply [click here](#) and we'll send you this report at no charge.

[Follow us on Twitter](#) and [Facebook](#) for the latest in Foolish investing.

Fool contributor Iain Butler does not own shares of any of the companies mentioned at this time. The Motley Fool doesn't own shares in any of the companies mentioned.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

Category

1. Investing

Date

2025/07/06

Date Created

2013/05/30

Author

tmfohcanada

default watermark

default watermark