3 Reasons to Buy Enbridge in 2014

Description

After disappointing returns in 2013, the New Year looks optimistic for oil and gas shipper **Enbridge** (TSX:ENB, NYSE:ENB). Here are three reasons why this stock would be a great additional to any portfolio in 2014.

1) Steady-eddy dividend
Why do investors like Enbridge so much? It's the company's consistency.

Enbridge is vital to our day-to-day lives. The company owns 24,738 kilometres of pipelines and heats two million homes. Without Enbridge, our lives would be very different.

This means Enbridge sees a consistent demand for its services. And the cash the company generates is just as consistent. That makes Enbridge a great stock to own in 2014…and 2015…and 2050.

Most of the company's business is fee-based. Enbridge simply earns a fee for every barrel of oil and gas that flow throughs its network. And only 5% of the firm's earnings is exposed to volatile commodity prices, exchange rate risk, or fluctuating interest rates.

And the company returns much of this cash flow to shareholders in the form of dividends. Enbridge hasn't missed a dividend payment in 60 years and today the stock yields a nice 3.03%.

With the stock market nearing all-time highs and valuations looking a little stretched, a defensive position like Enbridge would be a great portfolio addition in 2014.

But steady-eddy dividends are nothing compared to what could come next…

2) Secular growth story
Thanks to new technologies like hydraulic fracturing and horizontal drilling, billions of barrels of previously unrecoverable oil and gas are now being extracted from shale beds across the continent.

This opportunity is so big that the International Energy Agency predicts that the United States will surpass OPEC member Saudi Arabia as the world's largest oil producer by 2015. And additional production growth could allow North America to become completely energy independent by 2020.

But it won't be the upstream producers that benefit the most from this development. Much of this new production is slamming right into a wall of low prices thanks to chronic infrastructure across the continent. Rather it will be the companies that actually collect, store, and move all of this energy that are poised to make a fortune.

And Enbridge is positioned to do exactly that. The company has about $36 billion in expansion projects — about 80% of its market capitalization — on the books through 2017. That includes hundreds of miles of new pipeline to accommodate surging production in the Alberta oil sands and the North Dakota Bakken.

Bay Street expects this to grow earnings and dividends at a 14% annual clip over the next five years. And for those of you worried, it should be noted that the company's controversial Northern Gateway pipeline is only a tiny part of this expansion. The project is a nice bonus but not make-or-break for any investment thesis.

3) Valuation
As Fool Contributor Iain Butler highlighted last May, the stock's valuation was starting to look a little rich. At 60 times earnings, Enbridge was being priced as a sexy technology stock.

But the picture has changed over the past nine months. The company's earnings have caught up to the share price and Enbridge's P/E multiple has contracted by a third.

Now does paying 38 times earnings still make you nervous? Remember, this is still a growth stock. Valuing a company on its historical earnings is misleading if we don't account for future expansion.

Enbridge trades at 23 times next years earnings and expected to deliver 14% annual earnings growth over the next five years. On a forward price earnings to growth, or PEG, basis the stock is trading at 1.6.

That's perfectly reasonable for a growth stock and actually below its slower growing peers.

Foolish bottom line
The Enbridge bull thesis isn't foolproof. The biggest concerns investors should watch: higher interest rates and political backlash over new pipelines. But these concerns have always been…and probably always will…hanging over the stock. Yet this hasn't stop Enbridge from delivering great returns for investors.

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