



3 Reasons to Sell Enbridge, Even After Northern Gateway's Approval

Description

Yesterday afternoon after the markets closed, the Canadian government made headlines by issuing a conditional approval for **Enbridge's** ([TSX: ENB](#))([NYSE: ENB](#)) Northern Gateway project, which would build a pipeline through northern Alberta and northern B.C., sending crude from oil sands producers to be exported from a port near Kitimat, B.C.

The feds didn't give Enbridge free rein to do whatever it pleased, however. Ottawa's approval was given with more than 200 conditions attached — 209, to be precise — including making the pipeline 25% thicker when it crosses environmentally sensitive areas, proving that it adequately consulted potentially affected First Nations groups, and requiring the company to get shippers to commit to using the port in advance. For construction to even begin, Enbridge must satisfy 113 of the conditions, a process industry observers estimate will take up to 18 months.

This obviously is positive news for the company. The \$7.9 billion project would carry more than 500,000 barrels per day worth of oil to the western coast. It would be a nice addition to the bottom line. Still, I'm not sure if Enbridge is a buy on this news. In fact, here are three reasons I'm bearish on the company.

Its scale isn't that big

Even if Enbridge doesn't get any major resistance on the project, it's unlikely that bitumen will flow to Kitimat anytime before 2018 or 2019. Investors looking for Northern Gateway to goose the bottom line are going to be waiting for years.

When you look at the proposed pipeline's potential, it's not that game-changing. The company already transports more than 2 million barrels of energy equivalents per day through its network, and further anticipates more than a million boe worth of capacity coming online by 2017. By the time Northern Gateway is ready, it might only represent a 10% boost to the company. It's a nice bump, but hardly revolutionary.

Political opposition

Perhaps the biggest story coming from the government's conditional approval of Northern Gateway is just how many groups of people are vehemently opposed to the project.

Both NDP leader Thomas Mulcair and Liberal leader Justin Trudeau very vocally came out against the project, vowing to nix the plan if either were elected in 2015. Additionally, B.C. premier Christy Clark continues to be opposed to Northern Gateway, even going as far as to issue a set of conditions the province would require above and beyond the conditions placed by Ottawa. To say Clark is strongly opposed to the project would be an understatement.

First Nations groups have strongly come out and opposed the project as well, especially ones living in the affected areas. Their concerns include environmental impact and financial issues.

Investors are discounting the number of hurdles Enbridge must still clear in order for the project to happen. If opposition is too great, the 21 Conservative MPs in B.C. could get voted out, which would put an obvious dent in Stephen Harper's majority government. Harper may be intimidated into eventually scrapping the pipeline.

Valuation

Enbridge's shares are hardly what I'd describe as a good value.

The company trades at more than 80 times trailing earnings, and more than 26 times forward earnings. Yes, the company is projected to grow its net income nicely over the next few years, but investors are paying a generous premium for this growth.

Enbridge has watched its results get steadily worse year over year. Earnings in 2010 were \$951 million, and fell all the way to \$659 million in 2013. Even though results have been weak, the company's share price has done well, rising more than 160% since 2009. This puts the current dividend at just 2.6%, low for Enbridge, which has traditionally yielded closer to 4%.

Enbridge is a good company with a solid growth plan. Northern Gateway could end up being a nice boost to the bottom line, but investors must remember the project is at least five years away from completion. Besides, there are legitimate concerns that the pipeline won't even get built. At this point, considering the uproar, the stock is just too expensive.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date

2025/09/13

Date Created

2014/06/18

Author

nelsonpsmith

default watermark

default watermark