



Now Is the Time to Sell Enbridge

Description

Not so long ago, **Enbridge** ([TSX: ENB](#))([NYSE: ENB](#)) made headlines after receiving a conditional approval from the Canadian government for its \$7.9 billion Northern Gateway pipeline project. The stock spiked as the news reinforced the good times yet to come for the pipeline company.

Investors are all the more bullish on Enbridge due to its increase in dividend over the years. In the past three years, the company has increased its dividend by an average of about 7% to 10% a year. And with a yield of almost 3%, everybody wants a slice of Enbridge.

Let the good times (un)roll

However, if you scratch below the surface, you will find that the company is not a great investment; in fact it is a dangerous one.

The main reason investors should worry about Enbridge is its contradicting strategy with regards to its dividend policy and capital raising practices.

As mentioned above, Enbridge has been steadily increasing its dividend over the last 3 years; however, at the same time it has also been issuing shares to raise capital. Just last month, it announced an issue of 7.86 million common shares to raise approximately \$400 million to support additional funding required for its capital program.

It is a bizarre strategy. Why raise dividend and then go out and issue shares?

My concern is that Enbridge seems to be using all of its cash to meet its dividend commitments and is not retaining any profits for growth.

Its constant dependence on equity markets for growth is disturbing since, if at some point the markets do not favour Enbridge anymore, the company's growth potential will go downhill.

Selling is your best bet

Analyzing Enbridge's valuations defers depending on which side of the fence you are sitting on. If

you own the stock, selling it now would be a good option since it is trading at around 80 times its trailing earnings. But if you plan on buying Enbridge, I would think twice. After all, the markets value the company at approximately 26 times its forward earnings which, to say the least, is a tad expensive.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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