Is Enbridge Inc. a Safe Investment?

Description

Enbridge Inc. (TSX: ENB)(NYSE: ENB) continues to deliver strong results for its shareholders, but investing in Canada's largest pipeline company comes with risks.

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Enbridge earned $0.40 per share in the second quarter of 2014. The results slightly beat the consensus estimate of $0.39 per share and were on target with the company's forecast. Full-year guidance is $1.84 to $2.04 per share.

Investors in Enbridge have done well. The stock price is up more than 150% over the past five years and the five-year dividend growth rate is 13.7%

Is now the right time to buy shares of Enbridge?

Let's take a look at the company's growth prospects, as well as some risks that investors should be aware of.

Growth prospects

Enbridge President and CEO Al Monaco told analysts on the Q2 conference call that through 2017, the company has an enterprise-wide capital program of $42 billion, of which $37 billion is commercially secured and will be in service by 2017.

Enbridge has been aggressively expanding pipeline capacity across its network. A large reason for this is the increase in production by oil sands producers such as **Suncor Energy Inc.** (TSX: SU)(NYSE: SU).

In 2014 Enbridge plans to bring nearly $10 billion of projects into service. One project is the replacement of its Line 6B. The new pipeline will have a daily capacity of 500,000 barrels, providing extra capacity downstream of Chicago into Sarnia, Ontario.

The completion of the Line 6B project is scheduled to coincide with the Line 9 reversal that will move crude oil from Sarnia to Montreal. Suncor will be one of the main beneficiaries as it plans to use the

Line 9 reversal to send product from Western Canada to its Montreal refining operation.

In total, Monaco expects $19 billion of projects will be placed into service over the next two years.

Earnings and dividend growth

Given the projected pipeline expansions, Monaco said the company should be able to meet its objective to deliver earnings per share growth of 10% to 12% through 2017.

For the dividend, Enbridge expects growth to coincide with the increase in earnings per share. Monaco said there is a chance that strong cash flow growth could allow the company to increase dividends faster than the EPS growth.

Risks

While the growth story looks good for Enbridge, there are some risks. Enbridge relies heavily on the markets to provide funding for its capital projects. The company has been successful at raising equity through share offerings and has taken advantage of low interest rates to borrow money at very cheap levels.

Enbridge gives most of its free cash flow back to shareholders.

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When interest rates begin to rise, Enbridge will have to pay more to borrow the money it needs for capital projects. There is also a risk that the markets might not be as willing to buy new share offerings if the prospects for the stock begin to look shaky.

Enbridge's shares are not cheap. If the company hits the high end of its target and earns $2.00 per share in 2014, the current price of $54 puts the price-to-earnings ratio at 27.

The bottom line

Enbridge has been a great long-term holding for investors. Oil production in Western Canada and the U.S. will continue to grow, so Enbridge should have little trouble filling its pipelines.

The current stock price is lofty and a jump in interest rates will hit the shares of all pipeline stocks, especially those that rely heavily on borrowing to fund projects.

Investors with a long-term view should be OK, but there are some near-term interest rate and market risks that warrant caution.

CATEGORY

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