Should Dividend Growth Investors Buy or Avoid Enbridge Inc.?

Description

There is no doubt **Enbridge Inc.** (TSX:ENB) (NYSE:ENB) has been a favourite with dividend investors for years and long-term shareholders have enjoyed solid capital appreciation along the way. Today, the decision to buy Enbridge might not be as easy as it was in the past.

Let's take a look at the company's current situation and see if Enbridge is still a good bet for investors seeking reliable dividends and capital growth.

Asset diversification

Enbridge is primarily known for its liquids pipelines network but the company has a host of other assets. It owns crude oil storage sites, rail facilities, renewable energy operations, power transmission grids and Canada's largest natural gas distribution utility.

The assets that work together as part of the crude oil transportation network make sense. It is too soon to know if the investments in renewable energy will reward shareholders in the long run as much as they benefit the planet.

Capital projects in the pipeline

Enbridge's core development strategy is now focused on transporting crude oil and gas liquids to the coast where they can be shipped to international markets.

In its Q2 2014 earnings statement, Enbridge reported a growth capital program of $42 billion. The important point for investors is that $37 billion is already commercially secured and expected to be in service by 2017.

For example, Enbridge has essentially completed the construction of its Seaway Twin Project and the Flanagan South project should be finished in the fall, providing an incremental capacity of 600,000 barrels per day of heavy crude transportation to important refining operations on the U.S. Gulf Coast.

Al Monaco, Enbridge's CEO, said in the Q2 report that Enbridge should see 1.7 million barrels per day of transport capacity added to the company’s network by the end of 2016.

This is important given the fact that Enbridge management is targeting annual earnings per share growth of 10% to 12% through 2017.

The concern for investors is what is on deck beyond 2017. Enbridge’s $6.5 billion Northern Gateway project recently got approval from the Canadian government, but that doesn’t guarantee the pipeline will get built as quickly as Enbridge hopes. Pipeline companies are having a tough time getting communities and local governments to accept new projects.

Funding projects with stock and debt

One beef the investing community has with Enbridge is that it consistently goes to the capital markets to raise funds for its development projects instead of using free cash flow. For example, in the second quarter alone, the company raised $3.3 billion through a combination of new debt and stock issuances.

The concern for investors on the funding front is twofold:

First, there is always a risk that markets will one day refuse to buy new stock or new debt issued by Enbridge. Second, low interest rates are not going to last forever, and Enbridge relies heavily on debt to finance its capital projects.

For the moment, the company has plenty of buyers when it needs to raise capital.

History of dividend growth

Enbridge has a strong history of dividend growth over a long period of time. The company has increased its dividend in each of the past 19 years and has indicated that the dividend should track higher at the same rate as the 10% to 12% of expected earnings growth.

The bottom line

Enbridge shares are not cheap, currently trading at about 37 times earnings. The company should deliver on its promises through the next three years. Beyond that, earnings growth will depend on new capital projects being approved and financed at reasonable rates.

I think Enbridge deserves a place in a long-term investor’s portfolio but the decision to buy the stock requires the belief that Enbridge will continue to expand its asset base and grow earnings at better than 10% per year.

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