



## Analysts Love Enbridge Inc., but Is It Worth the Price?

### Description

**Enbridge Inc.** ([TSX: ENB](#))([NYSE: ENB](#)) is Canada's largest crude oil and liquids pipeline operator, and a favourite amongst both analysts and investors. Since the beginning of 2013, Enbridge has shown a 40% price appreciation, as well as a dividend increase.

As of September 29, the company has earned an average rating of "buy" from the nine firms that are covering the company, including four holds and five buys. This is not surprising as Enbridge operates 25,420 km of pipeline and transports over half of U.S.-bound Canadian production.

Despite this, Enbridge is expensive compared to its peers, and is lacking the strong fundamentals to justify the premium. Even with positive analyst consensus, Enbridge may not be worth the price. Here's why:

### Weaker fundamentals

Compared to major competitor **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)), Enbridge is showing weak fundamentals. Enbridge has seen a declining net income as a percentage of revenue every year since 2009, falling from 12.5% to 2013's 1.9%. Earnings per share has followed suit, also declining annually, and investors should be searching for companies with a growing EPS, not a falling one.

This poor performance is also reflected in Enbridge's gross profit, which is currently only 18%, and has also been decreasing. This is a stark contrast with TransCanada, which is showing an impressive 71% gross profit margin, and has been steadily growing its net income and gross profit as a percentage of revenue annually, a good indicator of a business with good control over its costs and a strong competitive edge.

To make matters worse for Enbridge, its capital expenditures have greatly exceeded its cash flow from operations for the past several years, and Enbridge has funded this difference with debt and equity issuances. In 2013 alone, Enbridge's capital expenditures exceeded its cash flow from operations by \$5.1 billion.

This has hurt Enbridge's balance sheet, with steadily growing debt. It currently has a debt-to-equity ratio of 4.26 — that is to say, \$4.26 of debt for every dollar of equity — compared to TransCanada's 2.90.

Unfortunately, Enbridge has been unable to translate all this debt into substantial earnings growth as it currently has a low return on invested capital of only 5.86% for the previous 12 months. ROIC is a great measure of how well a company is using both debt and equity to generate returns.

### **More expensive than the competition**

With poorer performance, investors should expect a poorer valuation, but with Enbridge the opposite has happened, and Enbridge is currently one of the most expensive Canadian pipelines with a price-to-earnings ratio of 34.8. This compares to TransCanada's reasonable price-to-earnings ratio of 23.3.

Enbridge is also trading at 4.9 times its book value, compared to TransCanada, which is trading at 2.4 times book value. Many investors would justify this difference in pricing by saying that Enbridge has great long-term growth potential due to its \$42 billion capital project backlog. TransCanada has similar capital growth projects with \$38 billion of commercially secured contracts, however — at a far cheaper price.

The case for Enbridge being too expensive for both its current fundamentals and future growth seems clear, and despite the positive analyst consensus and solid past returns, investors should look elsewhere.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:ENB (Enbridge Inc.)
4. TSX:TRP (TC Energy Corporation)

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