



## Should Dividend Investors Buy Surging Enbridge Inc.?

### Description

Yesterday was a good day to be an **Enbridge Inc.** ([TSX: ENB](#))([NYSE: ENB](#)) shareholder.

Shares surged as much as 18% in early trading, in reaction to the company announcing it would divest itself of more than \$17 billion worth of assets by dropping them down to its subsidiary, **Enbridge Income Fund Holdings** (TSX: ENF). Shares of both companies ended the day up 10.3% and 8.3%, respectively.

The good news didn't stop there. Enbridge also told investors to expect a 33% dividend hike in the first quarter of 2015, which puts the company's forward yield at 3.1%. Management also said investors should expect dividend hikes to continue, to the tune of an average between 14 and 16% annually until 2018.

Naturally, this is welcome news for dividend investors. One of the knocks against Enbridge over the years has been its low dividend. As shares continued to run up, new investors were seemingly willing to accept less and less yield. Before the decline in oil caused shares to be weak, investors were willing to accept a yield below 2.5%. Compared to its competitors on both sides of the border, that was a pretty anemic yield.

Now that the company has finally gotten serious about paying an attractive dividend, should you be loading up on shares? Well, maybe not.

Let me say that there is nothing wrong with Enbridge as a company. It remains a nice place to be, especially for energy investors nervous about the price of crude. Oil and natural gas will keep on gushing through the company's pipelines no matter how poorly oil does going forward.

The company also has some massive expansion plans going forward. Between now and 2018, some \$44 billion worth of projects are expected to come online, and that's not even including the hotly contested Northern Gateway Pipeline, which is slated to transport oil sands bitumen for export from the Pacific coast of British Columbia. It'll come later, assuming everyone can come to an agreement on it.

All this translates into earnings growth, and lots of it. Management said investors can expect earnings

to increase between 10-12% annually, through 2018. Earnings in 2015 are projected to be between \$2.05 and \$2.35 per share.

There's where my support for Enbridge breaks down. Even based on the most bullish scenario of 12% growth of earnings of \$2.35 per share, I'm paying \$60 today for a company projected to earn, at best, \$3.30 per share three years from now. In a best case scenario I'm still paying 18 times 2018's earnings. In a worst case scenario based on \$2.05 2015 earnings and a 10% growth rate, I'm paying 22 times 2018 earnings.

That just isn't something I can get excited about, even with the growth.

There are plenty of dividend growth investors who view Enbridge as a quasi-bond type holding. I can see the appeal of that in a low interest rate world, but as rates increase and bonds become more attractive, investors will move out of companies like Enbridge and back into fixed income. This could also weigh on shares going forward.

This doesn't mean that the company won't outperform. After all, management is so bullish that they just raised expectations until 2018. But at today's prices, Enbridge has to execute almost perfectly for the next three years for it to even trade at a reasonable level in 2018. That just isn't the kind of scenario I'd invest in.

Enbridge is still a fine company. If shares fell to the low \$50 range, I'd take a serious look at it. But right now, it's just too expensive.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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