



How Enbridge Inc. Fits Into My Retirement Portfolio

Description

In the long term, the need for energy continues to grow globally. In the business of delivering energy, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) is preparing for the growing need by developing and executing a slate of energy infrastructure projects.

The energy industry is a big part of the Canadian economy. Other than integrated oil producers, the pipeline company is an alternative and perhaps a safer way to invest in energy because the pipelines generate a more predictable cash flow.

Enbridge creates value for its shareholders

Enbridge's value-creation strategy for shareholders is based on three components: industry-leading growth, a reliable business model, and a reliable, growing income stream.

Enbridge's business generates predictable earnings and cash flow even in challenging market conditions. So, management is able to give a consistent record of meeting its earnings per share (EPS) guidance. In addition, the pipeline maintains a strong balance sheet, as well as strong investment-grade credit ratings. Its S&P credit rating is A-.

Total return compared to TransCanada

Enbridge's comparable peer is **TransCanada Corporation**. If the past indicates the future in any way, it would be insightful to compare the past performance of the two companies in different time frames.

The following table shows the total return (with dividends reinvested) of Enbridge and TransCanada.

| Total Returns | 1 Year | 3 Years | 5 Years | 10 Years |
|---------------|--------|---------|---------|----------|
| ENB | 29.2% | 20.7% | 22.9% | 16.5% |
| TRP | 12.2% | 12.8% | 11.3% | 9.1% |

Enbridge's total return performance beats TransCanada in every time frame.

Enbridge's income growth compared to TransCanada

In the past decade (to the end of 2014), Enbridge's annualized payout grew an average of 11.8% per year, ranging from a growth of 7-15% per year. Comparatively, in the same period TransCanada's annualized payout grew an average of 5.2%, ranging from a growth of 4.4-6.3% per year.

TransCanada yields 3.7%, while Enbridge pays out only 2.9%. Nonetheless, Enbridge's growth potential should not be ignored.

Enbridge's outstanding performance is supported by business performance

Earnings per share is an essential indicator of the profitability of a business. Since 1996, Enbridge's EPS has been in a long-term upward trend. Its EPS has increased from \$0.38 in 1996 to \$1.90 by the end of 2014. This was an annual growth of 9.4% over the 18-year period. More recently, its five-year EPS growth was 10% per year. This shows the pipeline's earnings are accelerating.

What to expect from Enbridge

Enbridge has paid dividends for more than 62 years, and it has raised that payout for 19 consecutive years. The company targets its payout ratio to be 75-85% of earnings, retaining enough earnings for opportunities to grow the company.

Enbridge already has a \$44 billion capital plan that's expected to drive EPS growth through 2018 and beyond. \$34 billion of the \$44 billion is already commercially secured, with the energy infrastructure projects projected to be online by the end of 2018. Enbridge expects these projects to increase EPS by 10-12% per year through to 2018.

With the payout currently at 74%, it implies Enbridge should increase its dividend more than 10% per year till 2018.

Enbridge continues to be a growth story and the company has developed a culture to grow its dividends. The growth will not only provide a reliable, growing income stream for shareholders, but should also pay off handsomely in terms of capital gains for the long term. I believe Enbridge is a good long-term buy, but more so on dips.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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