Enbridge Inc. Is Still My #1 Choice

Description

Despite of the continued decline in **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) in the last couple of months, it's still my number one pipeline company choice. As oil-related companies, pipelines are safer investments than oil and gas producers and explorers. Pipeline companies' performance aren't directly related to oil and gas prices. Instead, for each barrel of oil and gas that flows through their pipes, they earn cash flow.

default watermark

Price decline doesn't reflect business performance

At about $57 per share, Enbridge is down over 13% from its 52-week high of $66. The price decline does not reflect how the business is doing. In fact, the pipeline leader's earnings per share (EPS) continues to increase. The company forecasts its EPS to grow by 10-12% per year in the next few years.

Earnings growth supports dividend growth

Even if Enbridge's payout ratio of about 75% remains constant, with the lower end of the company's forecasted earnings growth, the dividends can still grow by 10% per year.

Enbridge actually gives higher dividend-growth projections than that. Because the targeted payout ratio is between 75-85%, Enbridge has more expansion room for its dividends. The company projects dividends to increase at a compounded annual growth rate of 14-16% up to 2018.

Earnings growth and dividend growth leads to higher returns

Given proper valuations, earnings growth supports dividend growth, and in turn, both earnings growth and dividend growth leads to higher prices. Assuming Enbridge's shares are fairly valued today, dividend growth of 14% will not only increase your income, but will also lead to stock price appreciation in the long term.

It’s easy to approximate the total returns by summing the current yield and expected dividend growth. Enbridge’s total returns for the next few years is estimated to be 17.3%.

But is Enbridge fairly valued today?

Valuation

Today, Enbridge’s shares sit at a price-to-cash flow ratio (P/CFL) of 13.1. Using a forward P/CFL of 10, Enbridge would be considered fairly valued today. Using the same multiple, the long-term annualized rate of return is estimated to be close to 11%, which is a pretty good return for today’s market.

If you are more bullish on Enbridge’s prospects, you might use a multiple of 12 instead, indicating an annualized rate of return of 16% for the long term, which would be excellent.

In conclusion

In the short term, the market can bid down Enbridge’s shares, but the company continues to do well and even forecasts double-digit growth for its near-future earnings and dividends.

Considering that Enbridge is a high-quality company with double-digit growth prospects in its earnings and dividend, I would argue that its shares are undervalued at about $57.

An excellent company gives investors confidence to buy more of its shares when its prices are down. Enbridge is one of the few that gives me that confidence.

default watermark

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

Date
2025/08/28
Date Created
2015/06/24
Author
kayng

default watermark