Why Enbridge Inc. Is a Strong Buy Now

Description

Stocks are known to be volatile. Even quality industry leaders such as **Enbridge Inc** (TSX:ENB)(NYSE:ENB) cannot avoid the volatility. From its high of $65 per share, Enbridge has declined to $55 per share. It's now 15% cheaper than three months ago. Instead of being concerned, shareholders should think about buying more shares.

No one likes to see their holdings lose value, but if you think about it, it's an unrealized loss. If you don't sell, you don't lose any money. If the business is intact, a price decline is actually an opportunity to invest more. In the long term, investors get higher returns by buying on stock price dips. First, let's explore why you might invest in Enbridge.

The business

Enbridge is an energy distribution leader; 95% of its earnings comes from transporting liquids and gas. Enbridge's number one priority is safety and operational reliability because if it fails to meet these goals, the strategic plan laid out in October would not be achieved.

Enbridge's projected capital program is its biggest ever. Successful execution is essential, and that's why Enbridge has a focus on project management and preserving its financial strength and flexibility.

Reliable, low-risk business model

Enbridge's solid business model is supported by strong fundamentals, conservative commercial structures, a disciplined investment process, major projects execution, and prudent financial management.

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Enbridge Inc earnings per share

Source: Enbridge July 2015 presentation

From 2008 to 2014, Enbridge has generally achieved its earnings per share (EPS) guidance. At the same time, its available cash for dividend hikes grew steadily as well, as shown by the uptrend in the dividends per share (DPS). As a result, Enbridge has outperformed the index as well as industry peers.

Enbridge Inc performance

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Source: Enbridge July 2015 presentation

Quality, growing dividend

Enbridge has a long history of paying dividends, 62 years to be exact, and it has been paying a rising dividend for 19 consecutive years. Over a 10-year period, it has on average increased by 11-14% each year. That's amazing income growth!

What's more, the energy distribution leader is continuing that growth by investing $44 billion. This growth capital program was initiated in October 2014, and $34 billion are commercially-secured projects with projected in-service date of 2017 or earlier.

With this 2014 strategic plan, Enbridge estimates EPS compound annual growth of 10-12% in the next five years. The company is so sure of this growth, that it projects DPS to grow between 14-16% from 2016 to 2018.

What total returns should you expect?

At $55 per share, Enbridge almost yields 3.4%. Between 3.3-3.5% yield is when I believe it's a good time to buy Enbridge shares. The 3.4% yield in addition to the 14-16% growth of that yield implies an estimated total return of 17.4-19.4% per year for the foreseeable future.

In other words, with its history of success, track record of growing dividends, growth outlook, and its reasonable price, Enbridge is a strong buy now as a core holding for any portfolio, no matter if you're looking for income, income growth, or growth.

CATEGORY

1. Dividend Stocks
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1. Editor's Choice

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