Enbridge Inc.: a Reliable Dividend-Growth Stock for the Long Term

Description

You've probably heard that **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) is a great business. Its storage and pipeline assets are necessities to store and transport oil and gas. Further, its renewable energy portfolio of solar, wind, and geothermal power has the capacity to generate 1,800 megawatts of power, enough electricity to power close to 600,000 homes.

A reliable and predictable business

Enbridge runs a predictable business that generates stable and growing cash flows. They support its ever-growing dividend. Most of its earnings and cash flows are generated from tolls and fees charged for energy-delivery services.

The company has taken measures to mitigate the impact of falling commodity prices. For example, the protection against volume risk is achieved via regulated cost of service-tolling arrangements, long-term take-or-pay contract structures, and fee for service arrangements. About 62% of its business is under those three arrangements.

From 2008 to 2014, Enbridge gave earnings-per-share (EPS) guidance that matched with the actual results. In the same period, the stock provided superior returns compared with peers and the TSX Index.

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Enbridge Inc Performance relative to TSX Index and Peers

Source: Enbridge Annual Investment Community Conference: Strategic Overview (October 2015)–Slide four

Growth going forward

Enbridge has a $38 billion capital program that gives transparent growth through to 2019. So far, 63% of it is fully secured. For the five-year outlook from 2015 to 2019, Enbridge forecasts available cashflow from operations to grow at a compound annual growth rate (CAGR) of 15-18% and adjusted EPSto grow at a CAGR of 11-13%.

Dividend growth

From 2005 to 2015, Enbridge's dividend would have grown from an annual payout of $0.52 to $1.86 per share, assuming it pays the same quarterly dividend of 46.5 cents per share in November, which Enbridge forecasts to be so. In this period, its dividends will have grown at a CAGR of 13.6%.

Going forward, the business expects dividend per share to grow at a CAGR of 14-16% through to 2019. So, an investment in Enbridge shares today at about $55 for a yield of 3.4% would translate to a yield on cost of 5.6-6% by 2019.

Track record of solid execution

Enbridge has a solid track record of delivering projects on time and on budget in difficult environments. From 2008 to the third quarter of 2015, it managed to deliver 41 of 50 projects either early or on schedule. For its $38 billion capital program, investors can expect Enbridge to execute its projects with those kinds of execution results.

Valuation

Investors are in luck. Enbridge has come down in price along with the fall in commodity prices. After falling 16% below its 52-week high of $66, Enbridge yields 3.4% today, which is a relatively high yield for the high-growth company.

According to its normal price-to-cash flow ratio, Enbridge has a fair value range of $60-65. So, the shares are 8-15% undervalued. Given its double-digit cash flow and EPS growth, Enbridge is priced at a value today.

In conclusion

With $38 billion of growth projects down Enbridge's pipeline, Enbridge is forecasting double-digit growth through 2019. With Enbridge's history of solid execution and superior returns, Enbridge is worth consideration by investors looking for reliable growth and income growth. An investment in Enbridge today, with its 3.4% yield, would lead to a yield on cost of 5.6-6% by 2019 based on company forecasts.

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