Enbridge Inc.: Does the Post-Earnings Drop Represent a Buying Opportunity?

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB), the largest owner and operator of pipelines in North America, announced strong third-quarter earnings results on the morning of November 5, but its stock has responded by falling over 5% in the trading sessions since.

The stock now sits more than 21% below its 52-week high of $66.14 reached back in April, so let's break down the quarterly results to determine if we should consider using this weakness as a long-term buying opportunity, or if we should wait for an even better entry point in the trading sessions ahead.

A solid quarter of top- and bottom-line growth

Here's a summary of Enbridge's third-quarter earnings results compared with its results in the same period a year ago.

Metric	Q3 2015	Q3 2014
Adjusted Earnings Per Share	$0.47	$0.41
Revenue	$8.32 billion	$8.30 billion

Source: Enbridge Inc.

Enbridge's adjusted earnings per share increased 14.6% and its revenue increased 0.3% compared with the third quarter of fiscal 2014. The company's double-digit percentage earnings-per-share growth can be attributed to its adjusted net earnings increasing 15.7% to $399 million, driven by 77.8% growth to $224 million in its Sponsored Investments segment.

Its slight revenue growth can be attributed to its revenues increasing 9.1% to $5.84 billion in its Gas Pipelines, Processing, and Energy Services segments and 9.6% to $388 million in its Gas Distribution segment, but this growth was almost entirely offset by declines in its other two major segments.

Here’s a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Revenues decreased 17.2% to $1.83 billion in its Sponsored Investments segment
2. Revenues decreased 31.2% to $263 million in its Liquids Pipelines segment
3. Average deliveries increased 7.6% to 2.34 million barrels per day in its Lakehead System segment
4. Average deliveries increased 8.5% to 2.21 million barrels per day in its Canadian Mainline segment
5. Average deliveries remained unchanged at 690,000 barrels per day in its Regional Oil Sands System segment
6. Average throughput decreased 10.3% to 1.49 billion cubic feet per day in its Alliance Pipeline U.S. segment
7. Average throughput decreased 11% to 1.34 billion cubic feet per day in its Alliance Pipeline Canada segment
8. Gas distribution volumes remained unchanged at 44 billion cubic feet
9. Cash provided by operating activities increased 21.3% to $905 million
10. Cash flow from operations increased 9.7% to $668 million

Enbridge also announced that the National Energy Board has finally approved its Line 9 pipeline, and it will be put into service in December. However, it had originally expected to begin shipping on this line in early 2015, so the delay caused the company to update its full-year outlook on fiscal 2015. Enbridge is now calling for adjusted earnings per share at the lower half of its projected range of $2.05-2.35.

Should you buy or avoid Enbridge today?

It was a great quarter overall for Enbridge, but its reduced outlook put a damper on the results, so I think the post-earnings weakness in its stock is warranted. With this being said, I think the weakness also represents a great buying opportunity for long-term investors, because the stock now trades at even more attractive forward valuations, and it has a high dividend and is dividend-growth play.

First, Enbridge’s stock now trades at just 25.2 times the low end of its per-share outlook for fiscal 2015 and only 20.2 times analysts’ estimated earnings per share of $2.56 for fiscal 2016, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 66.2.

At the very least, I think Enbridge’s stock could consistently trade at a fair multiple of 25, which would place its shares upwards of $64 by the conclusion of fiscal 2016, representing upside of more than 23% from today’s levels. This projection is also very reasonable when you consider that it would still trade more than 3% below its current 52-week high of $66.14.

Second, Enbridge pays a quarterly dividend of $0.465 per share, or $1.86 per share annually, giving its stock a 3.6% yield. It has also raised its annual dividend payment for 19 consecutive years, with an average growth rate of 14% over the last decade, and it expects to increase it by another 14-16% annually through 2019, making it one of the top dividend-growth plays in the market.

With all of the information provided above in mind, I think Enbridge represents one of the best long-term investment opportunities in the market today and the best long-term investment opportunity in the pipeline industry. All Foolish investors should take a closer look and strongly consider using the post-earnings weakness to begin scaling in to positions.

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