Enbridge Inc. Is a Great Buy Now

Description

From a 52-week high of about $65, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) has fallen almost 28% to $47 per share. Thanks to the drop in price, the dividend-growth stock now yields close to 4%. In the past 10 years it only hit that yield once before. The next favourable yield level it usually oscillated between was 3.3% and 3.5%.

Why the fall in price?

Enbridge is an energy infrastructure leader. The majority of its business involves liquids pipelines, gas distribution, and gas pipelines, processing and energy services. Pretty much any stock related to oil and gas has retreated in price this past year due to lower resource prices.

Additionally, on November 25 Enbridge announced the acquisition of the 103 megawatt (MW) New Creek wind project from EverPower Wind Holdings for US$0.2 billion. The investment has strong fundamentals, fits Enbridge's low-risk, value proposition, and is a nice addition to its renewable portfolio.

When a business invests in something, its cash position is reduced (or it borrows money to invest), so its price usually falls in the short term. This is the case with Enbridge, too. However, in the long term, the investment is expected to bring in increasing cash flows for the business if everything is done right.

Since 2002, Enbridge has invested roughly $5 billion in renewable power generation and transmission. In total, Enbridge has interests in almost 2,000 MW of net renewable generating capacity that's operating, secured, or under construction.

Dividend safety and growth

Enbridge has $9 billion of available liquidity from unused bank lines. With an S&P credit rating of BBB+, Enbridge remains an investable-grade company.

Enbridge's dividend is paid from its available cash flow from operations (ACFFO). In the third quarter of 2015, it generated ACFFO that was 9.6% higher than 2014's. The company expects 2015 ACFFO to be in the range of $3.3 and $4 per share.

Assuming Enbridge maintains ACFFO at the lower-end range and using its current quarterly dividend, the forward ACFFO payout ratio would be under 44%. So, Enbridge dividend remains safe.

From a five-year-growth outlook between 2014 and 2019, Enbridge expects its $38 billion capital program to drive growth:

- Adjusted earnings per share are expected to grow at a 11-13% compound annual growth rate (CAGR)
- ACFFO is expected to grow at a 15-18% CAGR

The growth would also drive dividends-per-share (DPS) growth. Enbridge anticipates dividends to grow at a 14-16% CAGR from 2015 to 2019. That is, this year's payout of $1.86 DPS would end up at about $3.14 per share in 2019.

So, an investment of $4,700 today (100 shares) starts you with a 4% yield, and you would end up with a yield on cost close to 6.7%.

In conclusion

Enbridge now yields almost 4%. This historically high yield will somewhat put a cap on its falling share price.

Enbridge is an industry leader that has a strong record of growing dividends–19 consecutive years to be exact! With an investment-grade balance sheet and strong growth guidance, Enbridge is a great buy today for growing income and price appreciation.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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kayng