Buy Enbridge Inc. for Growing Dividends and Long-Term Gains

Description

A year ago, no one would have imagined **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) with a 4.6% yield. The energy infrastructure leader has fallen about 29% from its 52-week high to $46. A year ago it yielded only 3% and was trading above $60 per share.

Why has its price declined?

The stock price of any company related to energy has been negatively affected. Who can blame the market? From 2014 the WTI oil price has fallen from over US$100 to under US$30. Further, industry leader **Kinder Morgan Inc.** slashed its dividend by 75%, and its shareholders who have held on have seen substantial paper capital losses. The stock has fallen 64% in a year.

Investors may be worried that Enbridge might also cut its dividend; its stock price would fall if that happened.

The business

Enbridge's network of energy assets transports and stores oil and natural gas in North America. Enbridge has 27,600 km of liquids pipelines and distributes gas to 2.1 million customers. It's also in the business of gas pipelines and processing and has the capacity to generate 1,776 megawatts of power.

Is Enbridge's dividend safe?

Enbridge is a lower-risk investment than many other energy companies. Less than 5% of its business is subject to direct commodity price exposure. Further, 95% of its cash flow comes from strong, long-term constructs. At the end of 2015 Enbridge still had ample of liquidity ($9 billion) to draw from if needed.

Enbridge also has $17 billion of secured capital projects to lead cash flow growth through 2019. In a January presentation, Enbridge projects to grow its dividend at a compound annual growth rate of 14-16% through 2019. Its high dividend growth is anticipated to be well covered by its available cash flow from operations (ACFFO).

Enbridge’s payout ratio is about 40% its fiscal year 2015 cash flows. So, its dividend remains secure and is positioned to grow.

Valuation

Compared with eight other peers, Enbridge is expected to grow its ACFFO per share and dividends per share at the highest rate. However, its valuation is in the middle of the group.

At $46, Enbridge is trading at 8.7 times its cash flows. It last traded at a valuation as low as 8.7 times its cash flows in 2010. As a result, I think it’s a rare opportunity to buy Enbridge shares today.

Conclusion

Because of low oil prices, Enbridge’s shares have fallen 29% from its 52-week high. Based on Enbridge’s normal multiple, its fair-value range is between $56 and $62. So, the company is discounted by 17-26%. This pullback also brought Enbridge’s yield to a 16-year high of 4.6%. As a result, interested investors should start buying Enbridge for growing dividends and long-term gains and buy more on dips.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date

2025/08/26
Date Created
2016/02/03
Author
kayng