Enbridge Inc. Could Be Your Ticket to Financial Freedom

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is still off 17.4% from its April 2015 high. The company offers a terrific yield and is well positioned to increase its dividend by a large amount over the next few years. The company recently merged with Spectra Energy Corp., making the combined company one of the largest energy infrastructure businesses in the world.

What can we expect from this merger?

The combined company owns over 55,200 km worth of pipelines and 415 billion cubic feet worth of natural gas storage. That's a lot of pipeline! This builds up the moat even more; it would take a competitor many years and billions of dollars to get that much pipeline up and running. Enbridge will enjoy the feast of higher oil prices without the indigestion of low oil prices. It's a safe play, even if oil prices tank like they did during the early part of last year.

What about synergy opportunities?

You can bet there are synergies that are unlocked by the merger. The experienced management team aims to improve operational efficiency, and this will be a huge driver of long-term free cash flow. It's expected that $540 million worth of synergies will be unlocked by the conclusion of 2018. This cash will go right back into the pockets of shareholders through generous annual dividend increases.

Enbridge is a dividend-growth king that has been increasing its dividend by leaps and bounds over the last decade. Enbridge estimates that it will enjoy up to a 14% cash flow-per-share growth rate with a 10-12% dividend-growth rate through to 2019. The dividend still has a lot of room to run, and long-term investors will be rewarded greatly through dividend payments and capital gains, as the stock rebounds out of its slump.

The combined company will have $48 billion in expansion projects, and that's going to be a driver of dividend growth for many years. It's rare to see such a high dividend yield over 4% that is almost guaranteed to grow by 10% or more per year. If you're an income investor, you should load up on shares and hold them while you collect the growing dividend, which is currently at 4.31%.

Valuation

The stock currently trades at a 28.2 price-to-earnings multiple with a 3.6 price-to-book multiple, both of which are lower than the company’s five-year historical average multiples of 65.6 and 4.5, respectively. The stock is trading at a huge discount to its intrinsic value right now, so I’d hop on the opportunity before shares start taking off.

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