Should You Buy Enbridge Inc. Ahead of Earnings?

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is expected to release its quarterly earnings in early November, and with the stock trading near its 52-week low, it could be a great time to buy the shares. In the past six months, the stock has seen its share price drop 13%, and in the last year, the losses have totaled 15%.

Let's take a close look at the company and if you should consider buying it before earnings come out.

Uncertainty remains regarding pipeline upgrade

One item that is likely weighing on the minds of investors and keeping the stock at a low is the uncertainty around Enbridge's proposed upgrade to the Line 3 pipeline, which the company says is necessary to replace. The current pipeline is 50 years old, and Enbridge argues that the aging pipeline should be replaced by one that will follow a different path and that will be able to transport significantly more oil.

The proposed plan to replace the pipeline has seen a lot of opposition and protest, despite claims from Enbridge that the project will be safe and won't endanger the environment. Without the replacement, the aging pipeline will see maintenance costs continue to rise, and the company claims it will be more difficult to transport oil to refineries in Minnesota.

The pipeline runs from Alberta to Wisconsin, and construction on the $7.5 billion project has already started on some parts, including in Wisconsin.

The decision will have a significant impact on the share price, especially given all the difficulty in getting pipeline projects approved in Canada, including Enbridge's Northern Gateway project, which was cancelled by the government.

With many companies cutting back on capital spending, and projects stalling or being cancelled, it's hard to find long-term growth in the industry, and so it's understandable why investors might be a bit hesitant.

Recent results should provide some optimism

Despite a low price of oil, Enbridge has been able to put together some solid quarters with the past three all showing strong profits. In its most recent quarter, Enbridge saw its sales rise by 40% and profits of $1 billion were nearly triple the $372 million in net income that it posted the year before.

Like many that are still left in the industry, Enbridge has found ways to be more efficient in its operations. In 2013, Enbridge's gross margin was just 18%, and the company achieved a slim profit margin of just 2%. In the past four quarters, Enbridge's gross margins have averaged 32%, and profit margins are now up to over 5% of sales.

The strong results should provide investors with confidence that the company will able to continue to perform well even while oil prices are low.

Should you buy Enbridge?

Buying the stock near its 52-week low could set you up for a great opportunity to earn capital appreciation, as well as lock in a higher dividend yield. After the decline in price, Enbridge's dividend is now up to 5%, and the company has regularly raised payouts as well.

Enbridge is one of the better stocks in the industry you can invest in, and given how well the company has been able to do with a low price of oil, there could be significant growth if the commodity continues to rise.

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