Enbridge Inc.'s Q3 Misses Expectations: Should You Buy on the Dip?

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) saw its share price drop over 4% in trading on Thursday, as the company released its Q3 results, which failed to impress investors. Revenues totaling $9.2 billion were up 9%, and earnings of over $1 billion were a big improvement over the $237 million loss the company recorded a year ago.

However, the company's adjusted per-share earnings fell short of expectations, resulting in negative stock activity. Expectations aside, let's take a look at whether or not Enbridge is a good buy today.

EBIT boosted from merger

Back in February of this year, Enbridge closed on a merger transaction with Spectra Energy Corp. and credits those new assets and operations with helping drive a significant part of the company's growth this quarter.

No new update on planned pipeline upgrade

One of the uncertainties I mentioned that is likely causing concern for investors is the proposed upgrade for Line 3, which is still being debated in Minnesota courtrooms. Unfortunately, with many projects facing issues in Canada, investors are undoubtedly concerned about how likely the project is to proceed.

However, in its release, Enbridge stated that "management continues to anticipate an in-service date for the project in the second half of 2019."

Change in revenue mix sees transportation sales grow

Commodity sales, which, a year ago, were over $6.1 billion, were just $5 billion this quarter for a year-over-year decline of 18%. However, transportation and other service sales rose 73% and made up nearly 40% of total revenue compared to just 25% in the prior year.

Decrease in commodity costs offset other rising expenses

Commodity costs in Q3 of $5 billion were down $863 million from the prior year and helped to offset increased costs in gas distribution ($116 million), operating and administrative ($486 million), and depreciation and amortization ($286 million). Investors should note that many operational expenses would have increased as a result of a greater asset pool and more staff from the merger with Spectra Energy.

Enbridge saw a favourable improvement in its operating expenses, as asset impairment charges of $992 million last year were not present this year, and helped to provide a positive year-over-year improvement in the company's operational earnings.

However, even without impairment expenses hampering 2016's comparable figures, operating income this year would still be close to double last year's tally as a result of strong sales growth coupled with a less than 1% difference in total operating costs.

Is Enbridge a buy?

The market has been unduly rough on a stock that has already been trading near its 52-week low. The one benefit for investors is that the decline in the share price has sent Enbridge's dividend yield higher, and that is a great deal when you consider the company has a strong reputation for regularly increasing its payouts.

As oil and gas prices continue to rise, and production increases in the oil and gas industry, Enbridge's stock could see tremendous upside. Year to date, the share price has lost 16% in value, and the company has been putting together some strong quarters recently, making it unlikely that the price won't see a recovery sometime soon.

Enbridge is a great long-term buy, and investors shouldn't be too concerned about short-term performance.

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