Enbridge Inc.: Buy the Dip Now

Description

About a year ago, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) announced that it was merging with Spectra Energy, which would make it the largest North American energy infrastructure company. The merger completed in 2017, but, naturally, when you're combining two massive companies, it can take some time and things can look inefficient.

Back in August, I suggested that Enbridge was a classic buy-the-dip stock. And now, with shares down by 5% since reporting its quarterly results, investors are presented with a great opportunity to take advantage of the market's irrational fears and buy the dip once more.

Let's dive in to try and understand what happened during the quarter. Revenue was up to $9.23 billion from $8.49 billion a year prior with earnings coming in at a strong $765 million — this is a big boost from the $103 million loss it took last year. On an adjusted basis, earnings were $632 million compared to $437 million a year prior.

Part of what might have caused the drop is that its natural gas pipeline volumes dropped, although they were offset by the new assets brought online through the Spectra acquisition. Natural gas pipeline volumes averaged 1.53 million cubic feet per day, which was down 1%. In the United States, Enbridge moved 1.64 million cubic feet per day, down 2.4%. Fortunately, its liquid pipelines business was up, which effectively saved the day.

So, why did shares drop so much?

Honestly, this sounds like a classic example of investors and analysts having greater expectations than they perhaps should have. When a company doesn't at least match what analysts are predicting, it can mean a short-term drop in the price of the stock. But this presents an opportunity for you.

The thing is, this dip is just a continuation of the slow and steady drop in Enbridge's share price, which is down 17% since the beginning of the year. It is my belief that due to the restructuring taking place with the Spectra merger, Enbridge is not operating at peak efficiency. This, in turn, is making investors worried.

However, you don't need to worry. Enbridge is in a great position. Enbridge continues to invest in a number of projects, which, when completed, should add additional cash flow projects to the portfolio. Between now and 2019, the company expects to invest $32 billion. And there is an additional $48 million in long-term development projects waiting for approval.

Ultimately, the market is acting irrationally when it comes to Enbridge. It consistently generates strong earnings and, although there have been some hiccups, the Enbridge/Spectra merger makes this company so much stronger, and in time it will be more efficient.

But you should take advantage of the market's irrationality. Because shares are beaten down so much, investing now gets you a 5.21% yield, which is good for a quarterly distribution of $0.61. The way I see it, if the market wants to make it possible for me to earn more dividends, who am I turn down that opportunity? Load up on Enbridge now while the yield is strong, because when the market starts thinking rationally again, shares will increase quite nicely.

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