



Will You Scoop Up Enbridge Inc. Shares for Income Growth?

Description

As we near the end of the year, investors might review the stocks in their non-registered accounts that are underwater and sell them at a loss to offset taxes from capital gains.

[Tax-loss selling](#) activities may go into December, and it may be an opportunity for you to buy depressed stocks at a value.

Enbridge Inc. ([TSX:ENB](#))([NYSE:ENB](#)) is a stock that is subject to tax-loss selling. Most investors who'd bought the stock in the last 12 months are sitting on unrealized losses. The stock has declined about 15% in the last year. Here are [some reasons why Enbridge's shares have been dragged down](#).

Lower profitability

Since Enbridge completed merging with Spectra Energy Corp. in late February, the company is much different than it was before, and it wouldn't be right to compare its recent results with the results from the same period in the previous year.

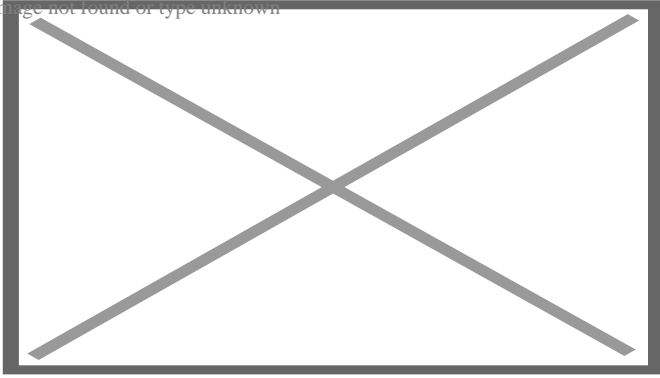
Nonetheless, the market looks at profitability. The fact is that the merger led to dilution, and Enbridge's earnings and cash flow this year are expected to be lower than last year on a per-share basis.

Specifically, in the first three quarters, Enbridge generated ~16.6% lower available cash flow from operations per share than it did in the same period in 2016. And its adjusted earnings per share were ~22.7% lower.

There are also integration costs that come with the huge merger. Because of the lower profitability on a per-share basis, Enbridge stock has reason to be down.

The question is if earnings and cash flow will recover and head higher in coming years.

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Dividend growth

With a more diversified business, which involves complex networks of oil and gas pipelines, natural gas processing and storage, and power generation, Enbridge has more investment opportunities.

Enbridge has paid a dividend for more than 60 years and has increased its dividend for 21 consecutive years. With a payout ratio expected to be about 62-68% of cash flow this year, the company should continue growing its dividend.

When reporting its third-quarter results, Enbridge indicated that it plans to increase its dividend per share on average by 10% per year through 2019.

Investor takeaway

Investors should look into this year's losers on the market and potentially buy them on any further weakness if you believe they will be winners in the future.

In the case of Enbridge, as the largest energy infrastructure company in North America, it is here to stay. The depressed stock should attract long-term income-focused investors. Currently, Enbridge offers an above-average yield of 5.2%.

It'll take some time for Enbridge to absorb the Spectra Energy merger. After it does, and as it continues to invest, its profitability metrics should turn around.

The Street consensus from **Thomson Reuters** has a 12-month target of \$60.30 per share on the stock, which represents nearly 29% upside potential in the near term.

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