Enbridge Inc. Shares Are Down 20% Year to Date: Time to Buy?

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) shares have dropped by almost 5% following the release of its third-quarter results on November 2 and are down 20% since the beginning of the year.

In addition to a quarterly profit that missed analysts' estimates, investors were unhappy with Enbridge's refusal to commit to its previously announced plan of raising its dividend by 10-12% per year until 2024.

A third quarter that fell short of expectations

The energy company earned a profit of $765 million, or $0.47 per share in the third quarter, compared with a loss of $103 million or $0.11 per share in the same quarter last year.

On an adjusted basis, Enbridge earned $632 million or $0.39 per share, for the quarter compared with an adjusted profit of $437 million, or $0.47 per share, a year ago. This profit missed analysts' estimates by $0.04; Enbridge was hurt by a decrease in natural gas pipeline volumes, which offset gains from the assets Enbridge gained in the Spectra Energy deal.

Revenue in the quarter amounted to $9.23 billion, up 8.7% from $8.49 billion.

The largest growth drivers for the quarter were the natural gas, liquids, and utility assets acquired in Enbridge's takeover of Spectra Energy earlier this year.

Enbridge made no mention about its previously announced plans to raise its dividend by 10-12% annually until 2024, which surprised analysts and investors. An analyst asked Enbridge's chief executive Al Monaco if the company was planning to lower its dividend growth in the short term to free up capital or pay down debt. Mr. Monaco was non-committal and said it would be premature to answer the question because the company was preparing its financial plan.

Unsatisfied with this lack of clarity regarding Enbridge's dividend-growth plan, investors oversold the stock, which fell by 5% after having fallen since the beginning of the year.

Enbridge will announce the details of its financial plan during its annual investor conference. which is scheduled for December 12 in New York and in December 13 in Toronto.

Investors will have to wait until December 12 to know what will happen with the company's dividend policy. The oil and gas pipeline operator is likely to remain unpopular until this dividend announcement. All scenarios are possible and keep analysts on the sidelines.

Analysts are less pessimistic than investors

Most analysts believe that Enbridge will be able to fund its $9 billion Line 3 pipeline replacement project from Alberta to Wisconsin, while maintaining its institutional quality credit rating and raising dividends at a good pace.

However, the pipeline operator is waiting for approval from Minnesota for its Line 3 replacement project, which will double capacity on the line to 760,000 barrels per day. Enbridge is facing strong opposition from environmentalists and aboriginal groups.

Despite this opposition, the company is making good progress on the line, with construction already underway in Canada and in Wisconsin. Enbridge expects the project to be finished in mid-2019.

Robert Hope of **Bank of Nova Scotia** believes Enbridge may reduce its automatic dividend increase to less than 10% in 2018 and 2019, although the savings would be too modest in relation to reputational damage. He thus expects the company to fulfill its promises. The analyst thinks that the 20% increase in free cash flow for 2018 will give the company the means to satisfy everyone.

Hope believes that Enbridge can rely on its dividend-reinvestment plan, the issuance of hybrid securities, capital calls by its subsidiaries, and the sale of assets to finance itself.

Mr. Hope lowered his target price from $62 to $61.

Is it time to buy Enbridge's stock?

Given the uncertainty regarding its dividend and the risk related to its Line 3 replacement project, I expect a great deal of volatility in Enbridge's stock. Its dividend is still attractive with a yield over 5%, but I find its price too expensive.

Indeed, Enbridge's PEG ratio expected over the next five years is five, which is way above one and means the price is too expensive for an anticipated low growth. I would say Enbridge is a buy for income investors, but not for growth or value investors.

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sbchateauneuf