This $75 Billion Energy Company Has 30% Upside According to Analysts

Description

Perhaps one of the most under-appreciated energy companies in the oil patch today has to be **Enbridge Inc.** (TSX:ENB)(NYSE:ENB). Don't take it from me — a number of high-profile analysts, including Ben Pham of **BMO**, have been touting the long-term potential of Enbridge and called out the recent 20% drop in Enbridge's share price year to date a significant buying opportunity. Pricing models place Enbridge's equity valuation between $58 and $62 per share, though the market has currently determined a valuation of only $45 per share.

Some of the pessimism should certainly be warranted. A recent spill in **TransCanada's** Keystone pipeline has reignited concerns among some analysts and investors that environmental and regulatory headwinds for the sector remain stronger than ever. Combined with the fact that Enbridge did not reiterate its guidance for 10-12% increases in the company's dividend in the coming years during its most recent earnings call, along with upcoming credit-rating decisions, pessimism surrounding the near-term fate of Enbridge's stock price following the aforementioned announcements may be warranted.

That said, from a long-term perspective, Enbridge has rarely appeared more attractive. With a dividend yield currently hovering around 5.5%, dividend-growth rates anticipated at 10-12% per year on an annual basis, and a base of stable and growing earnings supported by a massive backlog of secured projects, Enbridge could be the buy of the year for value investors thinking very long term.

Enbridge is not an oil company

As an energy transportation and infrastructure company with an incredible $31 billion of secured projects in Enbridge's "pipeline" of projects (pardon the pun), Enbridge should be considered an operating business completely detached from the production side of the business; however, this may not always be the case.

The fact that Enbridge's business model is very weakly correlated to the price of oil (less than 5% exposure, according to analysts) is one key factor every investor needs to consider. Enbridge makes money regardless of the direction of the price of oil based on long-term contracts with favourable profit margins built in; transportation costs are very inelastic when compared to market prices for the raw material, and the ability of Enbridge to continue to produce stable and consistent profits (and growth) in a sector that has fallen out of favour should be given priority among investors looking for commodity exposure.

Bottom line

Enbridge is a company I have believed in for some time. Given the year-to-date decline of 20% in the company's equity valuation, along with a potential +30% price appreciation being ascribed to the company by analysts, I see very little downside for investors looking for value with Enbridge at current levels.

Stay Foolish, my friends.

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