Enbridge Inc.: Could This Oversold Dividend Stock Soar in 2018?

Description

Stock markets continue to trend near all-time highs, but some top companies have taken a beating in 2017, and contrarian investors are wondering if big gains could be on the way.

Let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see if it might be an attractive pick heading into next year.

Oversold?

Enbridge is finally catching a bit of a tailwind, but the stock remains down significantly for 2017.

The company came under pressure this year amid a broader sell-off in the energy sector, and disappointing Q3 2017 numbers added some fuel to the fire.

Enbridge missed earnings expectations by a few cents due to a weak performance from the gas assets. This wasn't great news, but Enbridge confirmed its full-year available cash flow from operations guidance of $3.60-3.90 per share. In addition, the company said Q4 should be better, supported by stronger liquids volumes and contributions from new assets.

The company has about $31 billion in near-term commercially secured projects, which should provide a nice boost to revenue and cash flow in the coming years.

In previous earnings reports, Enbridge has said it expects cash flow growth to support annual dividend increases of 10-12% through 2024. The statement was left out of the Q3 report, which might be why investors initially dumped the stock, but the sell-off looks overdone.

Why?

Even if dividend growth doesn't hit the top end of the target, investors are still looking at impressive returns. The existing payout should be very safe, and investors who buy at the time of writing can pick up a yield of 5.2%.

Upside potential

Enbridge currently trades at $47 per share, which is significantly off the 12-month high of $58.50, so there might be some nice gains on the way if bargain hunters continue to move back into the pipeline giant.

Risks

Rising interest rates could be a headwind, as some investors shift funds from dividend names to fixed-income alternatives.

In addition, higher rates increase borrowing costs and can put a pinch on cash flow available for dividend payments.

At this point, it looks like rates will rise at a slow and measured pace, and it might be several years before a GIC comes close to matching Enbridge's current yield.

Should you buy?

Enbridge is a proven performer for buy-and-hold investors, and dips in the stock tend to be attractive buying opportunities.

The current trailing 12-month price-to-book ratio is just 1.5 times, which looks pretty cheap compared to the company's historical averages.

Given the extent of the pullback this year, investors could see a nice turnaround in 2018. If you have some cash on the sidelines, it might be worthwhile to add a bit of Enbridge to the portfolio while the stock remains out of favour.

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