Enbridge Inc. Stock: Is the Next Stop at $60?

Description

The uncertainty regarding **Enbridge Inc.'s** (TSX:ENB)(NYSE:ENB) dividend policy is finally over. The outcome is not much different than what was predicted in this article.

Enbridge shares have been under a severe selling pressure since the company announced its third-quarter earnings early November and decided not to reiterate its 10-12% dividend guidance. Investors took this as a bearish signal and a major policy shift, sending Enbridge shares tumbling 7%.

But on November 29, Enbridge came up with a detailed plan to fund its major development projects and streamline its operations following its takeover of Spectra Energy.

That plan includes issuing $1.5 billion of shares and selling at least $3 billion in assets. Enbridge also said it plans to hike its dividend by 10% each year through 2020.

These steps are very positive and helpful to restore investors' confidence in this top dividend stock, which currently offers one of the highest dividend yields among mature Canadian companies. Reacting to this positive move, Enbridge shares jumped as much as 8% a day after the plan was announced.

Enbridge will concentrate on its three "crown jewel" businesses: liquids pipelines and terminals, natural gas transmission and storage, and natural gas utilities, according to CEO Al Monaco.

"The acquisition of Spectra Energy has significantly diversified our asset base and opportunity set, and repositioned Enbridge for the future, particularly with respect to natural gas, which we see as having excellent fundamentals and opportunities going forward," he added.

Deleveraging

Maintaining healthy dividend growth is a great thing for Enbridge investors, but cutting the company's debt level is key for the management to maintain the company's A-rated credit profile. This funding plan is likely to address that issue.

DBRS Ltd., a credit-rating agency, estimates that Enbridge's consolidated debt, including Enbridge's subsidiaries, is about $63 billion, which the company targets to reduce by $4 billion in coming years.

Enbridge has also identified another $7 billion in non-core assets to divest, including unregulated gas gathering and processing businesses and onshore renewables in the U.S. and Canada.

And the timing to achieve this goal seems right, as oil prices have started to recover, and buyers are back in the energy space to snap deals.

Is Enbridge stock a buy?

After a 6% jump on November 30, Enbridge stock is still down 9% this year and well below the $60 12-month price target by analysts.

With a dividend yield of 4.96%, this stock is still a strong buy for income investors, especially now that the uncertainty about the company's dividend is out of the way, and the management is very serious about reducing the company's indebtedness.

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