

Enbridge Inc. Stock: Does Moody's Debt Downgrade Mean More Downside?

Description

The new year for **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) investors doesn't look it will be a straightforward one.

The company, which is already struggling to convince investors that its acquisition of Spectra Energy last year was a step in the right direction, now faces another challenge.

In late December, Moody's Investors Service Inc. announced that it had downgraded Enbridge's debt to one notch above junk status on concerns that the company's recent plan to improve its finances won't produce the desired results quickly.

"Our assessment of the plans is that the actions articulated are insufficient to improve the financial profile of the company in a timely manner to be in line with our previously stated expectations for a Baa2 rating," Moody's vice-president Gavin MacFarlane said in a statement.

Keeping an investment grade rating is crucial for Enbridge, which needs to access the debt markets to fund its massive development plan. But Moody's downgrade makes this task much more difficult for the management, which is trying hard to cut its more than \$60 billion long-term debt.

Just before the downgrade, Enbridge <u>put together a plan</u> aimed at improving its financial health and reassuring investors that the company was on the right track.

That plan included issuing \$1.5 billion in new shares, selling \$3 billion of assets in 2018, and growing dividends which meet the lower end of its earlier 10-12% growth guidance.

Moody's wasn't impressed by this plan, saying the debt levels will not fall quickly enough for Enbridge to keep its previous credit rating. It said Enbridge must achieve a debt-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio of 5.5 times for a sustained period to retain its previous rating.

Implications for Enbridge stock

Trading at \$49.87, Enbridge stock is well on track to trim its losses for the past one year. During the past two months, the stock has gained ~13%, suggesting investors have given a vote of confidence to

the company's future growth plans, its dividend policy, and its efforts to cut the debt load.

And there are indications that the management doesn't plan to change its course after the Moody's downgrade.

"We believe the plan provides prudent funding flexibility going forward and significantly de-levers the business and reduces financial risk," investor relations director Jonathan Gould said in a note to analysts. "Note that this plan does not require any further follow on issuance of Enbridge Inc. common equity."

Is Enbridge stock a buy?

For long-term income investors, Enbridge stock is trading at attractive levels and offers a good buying opportunity. I don't think the company will find it difficult to fund its \$22 billion worth of growth projects, given its dominant position in North America's energy sector, with no near-term threat to its business.

The recovery in oil prices will also make it easier for the company to offload its non-core assets and improve the quality of its balance sheet. I strongly recommend buying Enbridge shares to take advantage of its juicy dividend yield, which is close to 5% at the time of writing. default watermark

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