Enbridge Inc. Is Down 13% Year to Date: Should You Buy?

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) shares are struggling. Shares are down 13% year to date and investors are concerned that the market might have fully turned on the company, pushing its shares even lower. It's a legitimate concern and one worth discussing. That said, it helps to understand the bipolar nature of the market.

Ben Graham, Warren Buffett's mentor, described this irrational behavior through the Mr. Market parable. Mr. Market operates a business that you own a piece of. Every day, Mr. Market agrees to buy your piece or sell you more; every day, Mr. Market gives you a different price. Sometimes that price is rational, but other times that price is driven by either fear or excitement.

As an investor, you get to decide when you sell. As Graham wrote in his famous *The Intelligent Investor*, "The true investor scarcely ever is forced to sell his shares, and at all other times he is free to disregard the current price quotation. He need pay attention to it and act upon it only to the extent that it suits his book, and no more."

However, I believe Mr. Market is being irrational right now, creating an opportunity for investors.

One reason Enbridge is down so much is that Moody's downgraded Enbridge to a rating of baa3, just short of junk. This wasn't entirely uncalled for given that the company is sitting on $65 billion, up from $41 billion a year prior. This is due to the Spectra deal in which Enbridge agreed to take on $22 billion of Spectra's debt.

However, I'm not sure this is a particularly fair analysis. Before the acquisition, the debt to equity ratio for Enbridge was more than 2 times. However, the debt to equity actually dropped much closer to 1 as the year progressed. Nevertheless, management is cognizant that the debt is massive and is working on deleveraging its balance sheet and reducing its debt to cash flow to 5 times.

To achieve this, it issued $2.1 billion in common equity, which was dilutive, but also provided cash to the business. It has identified $5.5 billion in non-core assets that it has already sold or will be selling this year. Knocking a bit of debt off the books will help alleviate investor concerns.

Another reason investors are concerned is that Enbridge has been a stalwart dividend stock for many years now, and some are questioning whether the dividend is safe. Management is confident that it can continue growing cash flow by 10% per year, which means that the dividend is not only safe, but should also be increased by the same amount until at least 2020.

The reality is … Enbridge is in a fine position. The company is continuing with the integration of Spectra and is managing its debt in a responsible manner. However, investors are concerned, which has driven the company's shares down. Frankly, with the stock trading where it is, I believe long-term investors should pick up shares. After all, it's not often you can get a $0.67 per quarter dividend that's good for a yield of 6.28%. This could therefore have a major impact on your portfolio over the long haul.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/07/22
Date Created
2018/02/28
Author
jaycodon