# Enbridge Inc.: Are You Willing to Catch This Falling Knife?

## Description

**Enbridge Inc.** (TSX:ENB)(NYSE:ENB) shares have sunk 19% since the start of 2018.

Now trading at a historically low valuation, is it time you considered picking up shares in this blue-chip energy stock, or are you better off steering clear?



**Expect slowing dividend growth going forward**

Shares have lost just shy of 30% of their value over the past two years, as investors continue to navigate the company's new business model.

In 2016, Enbridge made a transformative acquisition in acquiring Spectra Energy for $37 billion.

The purchase made Enbridge the single largest energy infrastructure company in North America.

But the acquisition also came with a hefty price tag — while the Spectra assets will help drive growth in the coming years, it also means that Enbridge will now need to allocate a lot of its cash flow to pay down the debt it used to fund the acquisition.

Paying debt is the absolutely the right move in Enbridge's situation, but the more cash that is used to pay back the company's bondholders, the less cash that's available to invest in a growing dividend.

That's not to suggest that Enbridge's board of directors will be cutting the company's dividend any time soon, but it does mean that you shouldn't expect the historical pace of dividend increases to continue going forward.

The result is that Enbridge is undergoing a bit of an "identity conflict" at the moment as it shifts from being a growth company to becoming more of a traditional utility, similar to **Altagas Ltd.** or **TransCanada Corporation**.

**Enbridge's Line 3 project will drive growth over the next decade**

In addition to last year's Spectra Energy acquisition, Enbridge is also counting on its Line 3 Replacement Program to drive growth and support future dividend increases well into the next decade.

The Line 3 project is the largest project in Enbridge’s history and will incorporate some of the newest and most advanced pipeline technology.

The project, which will cost the company upwards of $8.9 billion, will replace 1,031 miles of existing Line 3 pipeline between Alberta and Wisconsin and will go a long way to supporting the pipeline capacity growth needed to meet the growing demand of Canadian crude oil producers and U.S. refineries.

**Enbridge isn’t going anywhere: Feel confident taking your shot**

Companies experiencing sharp declines in the value of their share prices, or “falling knives,” as they’re sadistically called, can be difficult trades to make even at the best of times.

That’s because trends in the market tend to persist longer than they reasonably should.

In other words, even when you think a company is really “cheap,” it can always get cheaper.

Even if Enbridge shares have solid value at current prices — which they probably do — the “bearish” momentum behind them could cause them to fall even further still.



But they won’t continue to fall forever.

In the company’s latest conference call, CEO Al Monaco said that the company’s pipeline capacity is expected to be full well into 2020.

And while expectations around future dividend growth may have been altered somewhat over the past 12 months, Enbridge’s 6.40% yield is particularly attractive in light of the company’s future growth prospects.

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