Why I’m Planning to Buy Enbridge Inc.

Description

When **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) was down 13% year to date, I told investors that I thought they should buy shares. Shares are now down over 20% year to date, and my stance hasn’t changed. However, this time, I’m planning to put my money where my mouth is.

But what’s going on at Enbridge that the company is shedding so much value?

It all comes back to the Spectra merger. Enbridge was forced to take on a considerable amount of debt, which, in the short to medium term, will be a burden on the company, as it looks to pay that debt down. More cash flow will be allocated to debt reduction than it has historically needed.

But to make matters worse, **Moody’s** gave Enbridge a rating of Baa2, which is just short of junk status. Effectively, Moody’s argued that it would be risky to lend to Enbridge because of how much debt the company has on the books.

And let’s not delude ourselves … it’s a lot of debt. It has $65 billion in debt on the books, up from $41 billion a year prior, thanks to the $22 billion Spectra brought with it. That amount of debt can be really burdensome to a company, and it has investors concerned that things might not work out.

I’m not as concerned.

First, management issued $2.1 billion in common equity to start paying the debt back. Although it was a dilutive event, the added cash will reduce the debt some.

Second, the company has identified up to $10 billion in non-core projects that it will sell to allocate to debt repayment. Cutting that much off the debt should put investors at ease.

But why am I looking to pick up shares of a stock so beaten down?

Because the company is beaten down. Mr. Market has investors believing that Enbridge is not a good investment. That has spooked weaker hands, resulting in the drop in price. However, I actually see a tremendous growth opportunity over the coming years, making this a smart buy.

The Line 3 Project is going to be worked on over the coming years and will help support the capacity increases that the Canadian oil market needs. This $8.9 billion project will replace over 1,000 miles between Alberta and Wisconsin and will have a significant impact on revenue.

And the reality is, there are tens of billions in near-term projects that are waiting to come online. CEO Al Monaco explained that pipeline capacity should remain full until at least 2020, if not longer. That's a solid business model.

And let's be completely frank; when shares get beaten down as much as they have, the yield naturally increases. If we buy at these prices, we're getting close to a 7% yield. I first started looking at Enbridge when it had a yield around 4%, so this creates a great opportunity for income investors. You get more income for less investment.

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