Is it Time to Put Enbridge Inc. in Your RRSP?

Description

The stock price of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) is down significantly over the past year, and contrarian investors are wondering if the selloff is getting out of hand.

Let's take a look at the energy infrastructure giant to see if it deserves to be in your RRSP portfolio today.

Dividends

Enbridge purchased Spectra Energy last year in a $37 billion deal that created North America's largest energy infrastructure company. Spectra added important gas assets to complement Enbridge's heavy focus on liquids pipelines, providing a nice boost to the capital plan.

In fact, Enbridge is working its way through $22 billion in near-term commercially secured projects that should be completed through 2020. As the new assets go into service, Enbridge expects cash flow to increase enough to support dividend hikes of at least 10% per year. The company raised the payout by 15% in 2017 and bumped it up by an additional 10% for 2018.

Enbridge has a strong track record of dividend growth, so investors should feel comfortable with the guidance. At the time of writing, the payout provides an annualized yield of 6.7%.

Risks

The stock has declined from $56 per share a year ago to the current price of $40. That's a big drop for a company that is an industry leader with a revenue stream that primarily comes from regulated assets.

What's going on?

Rising interest rates have investors concerned that debt-intensive businesses such as utilities and energy infrastructure companies will see cash flow available for distributions take a hit in the coming years. This could put pressure on the pace and size of dividend increases if new revenue sources do not offset the rising borrowing costs. In addition, the negative sentiment toward big pipeline projects could hinder Enbridge’s efforts to grow over the long term.

These are certainly valid concerns, but the pullback in the stock might be overdone.

Enbridge is undergoing a strategy shift to primarily focus on regulated pipeline and utility businesses. This includes the three core business segments of liquids pipelines and terminals, natural gas transmission and storage, and natural gas utilities. As part of the process, the company has identified $10 billion in non-core assets it plans to sell, with $3 billion slated for disposition in 2018.

Management intends to reduce debt by $4 billion through 2020 and lower debt-to-EBITDA to 4.5 times over that period. The company is already making progress on the metric, with a reduction from six times in 2016 to an expected level of five times at the end of 2018.

Should you own Enbridge?

Enbridge should be a solid buy-and-hold pick for a dividend focused RRSP portfolio. The existing distribution already provides an above-average yield and the dividend-growth outlook through 2020 is attractive. Beyond that timeframe, investors could see the company make additional strategic acquisitions that fit the focus on regulated assets.

If you have some cash sitting on the sidelines, it might be worthwhile to add a bit of Enbridge to the portfolio while the stock is out of favour.

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