Enbridge Inc. Stock Is Cheaper Than You Think: Here's Proof

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is turning out to be among the worst performers in the S&P/TSX so far this year, shedding nearly 18% in value, as of this writing, versus the TSX's 3% drop.

While the energy infrastructure giant has had its share of problems, one chart proves why Enbridge stock is now too cheap to ignore for both value and income investors.

Income investors, pay attention

Debt is Enbridge's biggest concern right now. Last year, Enbridge added a hefty amount of debt to its books after the acquisition of Spectra Energy. While the merger created North America's largest energy infrastructure company with an asset base of $160 billion, Enbridge's long-term debt shot up to nearly $61 billion as of December 31, 2017, from $36.5 billion as of December 31, 2016.

To add to investors' chagrin, ratings company **Moody's** downgraded Enbridge's debt to just short of junk status at Baa3 in December in the wake of the piling debt. Fears of rising interest rates have only added fuel to the fire.

Not surprisingly, Enbridge stock started losing favour with investors in recent quarters, as is evident from its 30% drop in the past one year. That's nearly twice the drop in rival **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) shares during the same period.

The steep fall, however, has sent Enbridge's dividend yield soaring to 6.7% currently compared with TransCanada's 5% yield. Given Enbridge's incredible dividend record, income investors may not want to ignore the stock anymore.

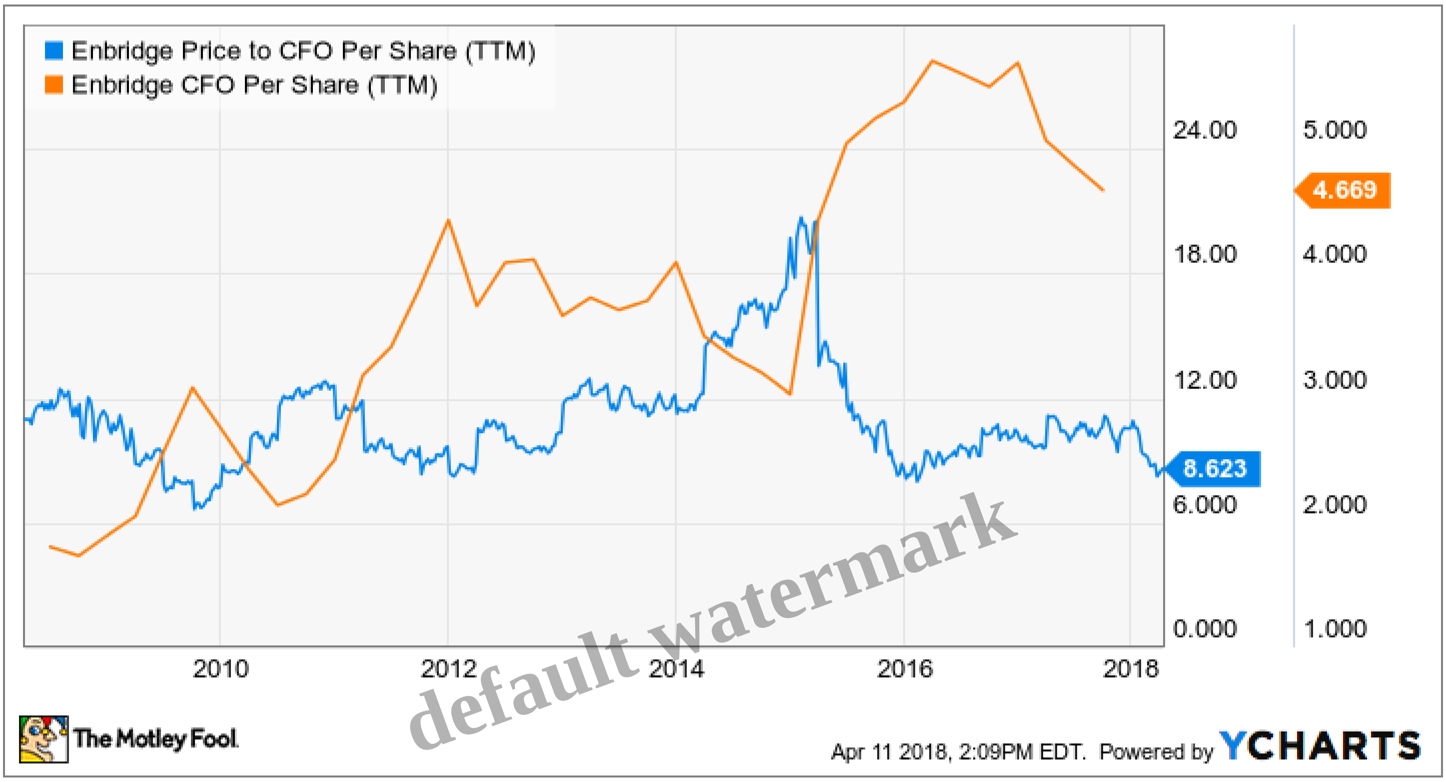
For those seeking value, one chart reveals why you might finally want to get serious about Enbridge.

Why Enbridge stock is a steal

As much as the market is worried about Enbridge's debt, it's not that management is sitting still. Late last year, Enbridge outlined firm plans to deleverage, which include divesting non-core assets worth

$10 billion in the near future, including $3 billion worth of sales this year.

At the same time, Enbridge is confident of growing its operating cash flow per share and dividend at a compounded average annual clip of 10% between 2018 and 2020. Now that's where things start looking cheap.



ENB Price to CFO Per Share (TTM) data by YCharts

As you can see in the chart above, Enbridge's cash from operations (CFO) have grown steadily since 2015. That means at a price-to-CFO multiple of 8.6 times, Enbridge is now trading close to multi-year lows, despite the fact that its CFO per share is way above its 10-year average.

TransCanada is trading at a similar P/CFO as Enbridge, but its metric is also close to its five-year average.

In other words, while Enbridge's stock price has fallen and pulled the numerator in P/CFO down, an upward trending CFO is driving the denominator up. That's a positive sign for investors.

In fact, Enbridge's CFO for the trailing 12 months is the highest it's been in at least five years! Factor in Enbridge's cash flow and dividend-growth commitments, and the energy stock starts to look like a real bargain at current prices.

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nehams