Should You Remain on the Sidelines?

Description

It's no joke when the market doesn't like a stock. The shares of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) have declined ~30% in the last 12 months. One of the things that scares investors is probably the company's debt load. At the end of 2017, the company had $79.7 billion of total debt, and its net-debt-to-EBITDA ratio was ~6.3 times. By the end of the year, it aims to reduce it to five times.

In the meantime, Enbridge's debt will weigh on its stock, which will be especially sensitive to interest rate hikes. Last year, interest was Enbridge's largest expense; it came out to $2.42 billion.

How is Enbridge going to reduce its debt?

The leading North American energy infrastructure company transports ~28% of the continent's oil and 20% of its natural gas, and it processes ~12% of its natural gas.

It's no wonder Enbridge's liquids pipelines are its largest cash flow generator followed by its gas transmission and midstream assets and gas distribution utilities, which raked in $5.48 billion, $3.35 billion, and $1.38 billion, respectively, last year. Although Enbridge has a power portfolio, it pales in comparison to the previous assets, bringing in only $379 million in the period.

This year, Enbridge estimates its liquids pipelines, gas transmission and midstream assets, gas distribution utilities, and power portfolio will generate ~50%, ~31%, ~13%, and ~3.4% of its cash flow. Its cash flow generation will help pay down the debt. Additionally, the company aims to sell some assets as well as finance through hybrid instruments to accelerate the de-leveraging process.

How Enbridge pays its dividend

Last year, Enbridge had $5.61 billion of distributable cash flow after subtracting expenses, such as maintenance capital of $1.26 billion. It came out to $3.68 of distributable cash flow per share. So, its 2017 payout ratio was ~66%.

This year, management estimates the company will generate distributable cash flow per share of $4.15-4.45, which would imply a payout ratio of ~62% based on the midpoint. In fact, management believes its distribution cash flow growth will allow the company to increase its dividend per share by 10% per year on average through 2020.

Investor takeaway

Once Enbridge lowers its debt to a level that more aligns with its peers, as early as the end of the year, the stock should recover to higher levels, perhaps above $50 per share.

Right now, the analyst consensus at **Thomson Reuters** has a 12-month target of $52.90 per share on the stock, which represents ~33% upside potential from the recent quotation of ~$39.80 per share. Let’s not forget that Enbridge offers an enticing yield of nearly 6.8%. So, an investment today can deliver total returns of ~40% in the near term.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

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

Tags

1. Editor's Choice

Date
2025/08/06
Date Created
2018/04/23
Author
kayng