Is Worst Over for Enbridge Inc. (TSX:ENB) Stock?

Description

It has been really tough for investors this year to remain faithful to **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) stock. North America's largest pipeline operator has struggled to convince investors that there is nothing wrong with the company's balance sheet and that its cash flows are strong enough to sustain its promised dividend hikes.

Judging by the recent performance of its shares, it seems investors are finally listening. Its stock has recovered about 10% after touching the lowest point in April during the past year, and there are signs that the worst is over for the stock that income investors love to own.

The biggest threat for Enbridge's future dividend stream is the company's high debt. After last year's acquisition of Spectra Energy, the company's debt load surged to over $60 billion, raising red flags and prompting credit agencies to cut the company's credit rating.

In late December, Moody's Investors Service Inc. announced that it had downgraded Enbridge's debt to one notch above junk status on concerns that the company's recent plan to improve its finances won't produce the desired results quickly.

Asset sales accelerating

The latest developments suggest that the company is acting fast to get out of this debt quagmire. As part of its $3 billion asset-sale plan to cut its leverage, Enbridge has concluded deals, such as the $1.75 billion sale of a 49% interest in North American onshore renewable power assets, its interests in two German offshore wind projects to the Canada Pension Plan Investment Board, and a US$1.1 billion deal to divest its U.S. midstream business.

The tax changes in the U.S. for master limited companies (MLPs) was another drag on Enbridge shares after a recent U.S. court ruling deprived the company's MLPs from tax advantages. Enbridge, last month, announced that it would buy its independent units, including **Spectra Energy Partners** and **Enbridge Energy Partners** as well as its pipeline assets, to bring them under a single listed entity.

This move, which will allow Enbridge to mitigate impact from the tax-related changes, was welcomed by investors.

Besides these company-specific issues, energy infrastructure companies also came under pressure, as the central banks in North America began to raise interest rates, making it tougher for the large borrowers to fund their projects at attractive rates. But, at least in Canada, it seems that the central bank won't be as aggressive as was expected early this year.

The bottom line

Trading at $41.21 and with an annual dividend yield of 6.62%, Enbridge is offering compelling valuation for investors looking to buy a stock that has the potential to grow its dividend. Even after the recent gains, the stock is still trading far below analysts' average price estimate of $51.11 for the next 12 months. I think it's a good time get greedy about this top dividend stock.

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