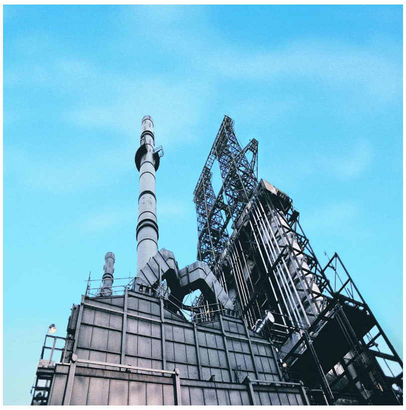

Why Enbridge Inc. (TSX:ENB) Is Still a Buy, But Not for Long!

Description

Just last week, a company that is very well known to investors received approval for a pipeline from a state government in the United States. The company is none other than **Enbridge Inc.** (TSX:ENB)(NYSE:ENB). In spite of this being very good news for investors, it did a lot more than most realize. In addition to moving shares from the $44 range to a closing price of $47 per share, investors were finally able to reconsider this investment under a new positive frame of mind.

For quite some time now, shares of this unique asset had fallen out of favour, as investors saw the risk-free rate of return increase, which led to the generous dividend yield being not so attractive. In spite of this comparison resulting in a share price decline (to increase the yield), there will be the potential for capital appreciation in the future. Case in point, the approval to run a pipeline through the state of Minnesota means that management can get things done — something that investors clearly forgot.

The approval coupled with higher oil prices sent shares up by 7% this past Friday, which may only be the beginning. Now that momentum is finally moving in the right direction, current investors may need to hold their shares, while new investors will only make a reasonable profit. In spite of many companies moving by close to 50% from the low price to the high price during the year, the upside on this particular (defensive) name may not be as high. Instead, a 35% low to high range may be appropriate.

Over the past year, the low price has been no more than $37.36, which offered investors a tremendous dividend yield. If we assume a 35% increase from that price, the high price (between now and the end of the year) is $50.44, which would offer investors a yield just above the 5% mark. Although this may be an above-average yield, investors buying at that price would need to ask themselves why. The yield would be no more than 5%, and there would be very minimal chances for any substantial amount of capital appreciation — this could too easily be “dead money” for a long period of time.

At the current price of $47, the upside remains more than 6% in addition to the current yield of 5.7% — a total return of almost 12% remains above average for a defensive name with a unique business!

When considering the company through Michael Porter’s “Five Forces” framework, investors can take a deep sigh of relief, as these forces can help cover a lot of mistakes. For investors who sometimes purchase a security at too generous a valuation, the potential for excess profit (and the dividend payments) are what make it so much easier to hold the stock and "stay the course." Essentially, the value of a unique asset will always return to an appropriate valuation (even after falling out of favour for a short period of time). Why would Enbridge be any different?

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