Why Enbridge Inc. (TSX:ENB) Might Be About to Take Off!

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) has been on a rough ride for the past year. Even though oil prices were climbing, the big oil and gas stock just couldn't find much momentum. However, recently we have seen a bit of a recovery from the stock, and with oil prices being somewhat stable in the range of $60 to $70, it could be a good time to invest in this blue-chip stock.

Although year to date the stock is still down around 6%, in the past three months Enbridge has risen more than 13%. Earlier this month, the company released its Q2 results, which proved to be yet another good quarter for the stock. Investors have come to expect good performances from Enbridge, as over the past five quarters it has been able to average a solid profit margin of 6.8%.

It's that stability that makes Enbridge stock a good buy — and why I believe it's been undervalued for far too long. At a price-to-book ratio of just 1.5, investors are getting a bargain price for one of the best dividend stocks on the TSX. Its yield currently sits at around 5.8%, but that might not last long if the price continues to rise.

One of the risks when it comes to stocks that are influenced by commodity prices is that it doesn't always matter how well the company is doing; it depends on the outlook for the industry. And even though oil prices have been climbing, the industry in Canada still hasn't gotten back to where it was before the downturn hit, and it may never.

The key thing to consider is the outlook for oil prices, as that will weigh heavily on Enbridge and other oil and gas stocks. With some stability in the price of oil, the focus might finally be shifting from the industry as a whole and onto individual stocks instead, and that's where Enbridge's value will come shining through to investors.

Bullish sign could be a sign the stock is about to take off

A few weeks ago, Enbridge's 50-day moving average (MA) crossed over its 200-day MA, which is known as a "golden cross" and could trigger a lot more buying. While technical analysts pay a lot of attention signals like these, they shouldn't be ignored by value investors either. After all, it helps to signify how far Enbridge stock has come, as the 50-day MA has been below the 200-day mark for the past 12 months, which could indicate that things are not only stabilizing, but that Enbridge's stock could also be starting a new trend — in the opposite direction.

Bottom line

The stock has been overdue for a recovery, and we could finally be seeing the start of that. While there's still a bit of risk when it comes to the industry, investors will find that relative to the overpriced valuations we currently see on the markets, Enbridge is still a good value buy that has many opportunities to grow, especially since the oil and gas industry in Canada has a lot of room for improvement.

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