Lock In a 6% Yield by Buying This Top Energy Infrastructure Stock Now

Description

Energy infrastructure giant **Enbridge** (TSX:ENB)(NYSE:ENB) has been attracting considerable negative attention in recent months as several issues weigh on its outlook. While the North American benchmark West Texas Intermediate (WTI) has soared by almost 24% since the start of the year, the risk perceived to exist in Enbridge's operations has seen its vale decline by roughly 14%. The company is now the third most heavily shorted stock on the TSX.

Nonetheless, this has created an opportunity for investors seeking to bolster their exposure to oil by acquiring North America's premier energy infrastructure provider and the ability to lock in a tasty 6% dividend yield.

Now what?

Enbridge's woes stem from a bloated balance sheet in an operating environment where interest rates are rising, causing the cost of capital to increase. The $37 billion deal with Spectra Energy caused Enbridge's debt to balloon to a monster $61 billion, which was negatively viewed by the market because such a high level of debt will inevitably cause expenses to rise sharply. This is because higher rates coupled with such a large amount of debt cause financing costs to soar, impacting Enbridge's bottom line.

However, Enbridge has moved to significantly reduce that debt by divesting itself of non-core assets. By the end of the second quarter 2018, it had sold $7.5 billion of assets, which was more than double the $3 billion planned for the year. Those funds will be directed to reducing debt and enhancing Enbridge's financial flexibility. By the end of the second quarter, Enbridge had decreased its long-term debt to just $60 billion.

Another major initiative underway is the plan to roll-up all of Enbridge's listed vehicles into a single entity. That project is proceeding well with Enbridge announcing that it has definitive agreements in place to acquire the shares of Enbridge Energy Partners and Enbridge Energy Management. It also has similar arrangements established for Spectra Energy Partners and Enbridge Income Fund Holdings.

This simplified corporate structure will help to reduce costs, improve trading liquidity, enhance Enbridge's credit profile further, helping to reduce financing costs and deliver tax synergies. Those improvements coupled with growing earnings bode well for Enbridge to further reduce debt and continue funding its considerable portfolio of projects under development.

The company reported second-quarter earnings per share of $0.63, which was almost 13% greater than the same period in 2017. Cash from operating activities surged to $3.3 billion or was almost 1.7 times greater than a year earlier. That can be attributed to the additional assets acquired as part of the Spectra deal, growing utilization of Enbridge's pipeline network and a range of projects beingcompleted and coming online during the quarter.

Earnings should continue to grow at a decent clip. Enbridge has a secured $22 billion portfolio of assets under development, of which $7 billion is expected to enter service during 2018.

Higher crude bodes well for greater demand for the utilization of Enbridge's pipeline network.

You see, the marked increase in the price of WTI has caused many upstream oil producers across North America to boost their spending on exploration and well development. As a result, drilling and other activity aimed at bolstering oil production continues to expand at a solid clip. That additional oil output combined with rising natural gas production and existing pipeline capacity constraints means that demand for Enbridge's transportation and storage infrastructure will grow exponentially.

So what?

Despite being the third most-shorted stock on the TSX, Enbridge is an appealing means of playing higher oil. Its growing portfolio of projects under development coupled with higher demand for its infrastructure and services will give earnings a healthy boost. While investors wait for that to occur, they will be rewarded by Enbridge's dividend, which yields a juicy 6%.

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