Buy, Sell, or Hold Enbridge Inc. (TSX:ENB) Stock?

Description

It has been tough two years for investors who own **Enbridge** (TSX:ENB)(NYSE:ENB) shares. North America's largest pipeline operator has lost about quarter of its value during this period, as it struggled to convince investors that its dividend is safe, despite mounting debt on its balance sheet.

During that period, Enbridge stock also tested investors' faith in this rock-solid energy infrastructure company, which is so crucial for the region's energy economy and one of the staple stocks in many income portfolios.

Judging by the recent actions that the company is taking to put its house back in order, its shares are close to breaking out of the bearish spell. 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.

Business restructuring gaining pace

The latest deal activity shows that Enbridge has been moving quickly to sell assets and to achieve its stated goal of becoming a pure regulated pipeline/utility. The operator is in the process of concluding asset sales of worth $7.5 billion to help reduce debt.

The recent deals include a $4.31 billion sale for its Canadian natural gas gathering and processing business to **Brookfield Infrastructure Partners**, 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.

But despite these positive developments, there are also some negative moves that are still keeping investors on the sidelines and its share value depressed.

First, the interest rate environment remains negative for utility stocks. Both the Federal Reserve and the Bank of Canada are set to hike interest rates this year and in 2019. Utility stocks such as Enbridge tend to underperform when rates go up.

Another setback for the Enbridge investors is that the company plans to tap equity market extensively — a move that will dilute the existing shareholdings. To complete the roll-up of its subsidiaries, it will have to issue about 295 million shares — 17% of all shares outstanding. Also, as part of its 2018-2020 funding plan, management intends to issue another $6 billion in stock and hybrid securities.

The bottom line

Trading at $42.30 and with an annual dividend yield of 6.13%, I think Enbridge stock offers a compelling risk/reward for long-term investors. The company has a huge growth portfolio, strengthened by the Spectra acquisition and its massive Line 3 Replacement project. Even after the recent gains, the stock is still trading far below analysts' average price estimate of $53 for the next 12 months.

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