3 Reasons Why Enbridge Inc. (TSX:ENB) Stock Could Soar

Description

What a roller-coaster ride it's been for **Enbridge** (TSX:ENB)(NYSE:ENB) investors over the past few years. Although the peaks and troughs were wild, investors with a strong-enough stomach were able to collect their fat dividend payouts to go with generous double-digit dividend hikes as per usual.

If you don't look at the chart, it's not all too bad if stable quarterly income is what you're after. Management is committed to keeping its dividend growth trajectory in spite of the considerable amount of debt on the balance sheet and the company's less-than-stellar financial health.

Moreover, near-future growth projects are more than likely going to fuel cash flow generation that'll alleviate the stress on the balance sheet, provide a means for financing further projects, and allow management to renew its dividend-growth commitment beyond 2021.

Without further ado, here are three reasons why Enbridge could surge over the next year and beyond.

Shares are severely undervalued

Mr. Market is pricing shares of Enbridge a lot lower than where they should be based on the company's true intrinsic value. The company's promising pipeline of growth projects, I believe, is being heavily discounted by the market over short-term issues that shouldn't concern long-term thinkers.

The stock trades at a 17.4 forward P/E, a 1.3 P/B, and a 7.4 P/CF, all of which are considerably lower than both the industry average and Enbridge's five-year historical average multiples. At just 1.3 times book, the stock is priced like there's little to no growth on the horizon, which is just not true. Enbridge can profit profoundly from an environment where the demand for heavy crude transportation is remarkably high and will remain like that over the medium to long term.

Simply put, the stock is way too cheap and could be overdue for a correction to the upside over the next year.

Demand for midstream services will continue to surge

Heavy crude supply is continuing to swell, and as this happens, the demand for midstream services is going to continue to be off the charts. In time, the bottleneck and growing glut of heavy crude stores will eventually be alleviated, and it'll be Enbridge that'll play a key role in getting oil flowing from Alberta's oil patch, which looks poised to continue to beef up production as WTI prices continue to show signs of strength.

Regulatory hurdles will need to be navigated, so investors need to be patient with Enbridge as it jumps through hoops to get its cash cows online.

The imminent Line 3 network replacement will bolster growth and efficiency

The Line 3 network has been used and abused. It's been plagued with leaks, and that's resulted in enormous expenses that have eaten into Enbridge's financial position.

Over the next few years, the much-anticipated Line 3 replacement will alleviate a considerable amount of financial stress and will allow Enbridge to use its additional cash towards growth initiatives rather than patching up an old pipeline that's on its last legs.

Foolish takeaway

If you've got a long-term time horizon of at least five years, there's no question that the risk/reward trade-off is pretty attractive at current levels if you're able to deal with more event-driven swings in price.

The stock remains a bargain for new entrants as well as existing investors who want to increase their dividend yield basis. At the time of writing, the stock yields 6.32%, which is well above the average, and, believe or not, it could realistically swell beyond the 7% mark courtesy of continued dividend hikes and further pressure on shares.

Although the three reasons mentioned in this article may not be timely, I believe a chain reaction of positive events will eventually cause shares to pop like a coiled spring. Over the next three years, I find this rebound likely. In the meantime, you can keep patient as you scoop up the bountiful, growing dividend.

Stay hungry. Stay Foolish.

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