In-Depth Analysis: Is Enbridge (TSX:ENB) Really a Defensive Stock to Buy and Hold Forever?

Description

Every now and then I like to go through all of the available data for a stock and see whether my analysis of the ticker in question matches up with the accepted wisdom being touted for it in the headlines. Below you will find my latest contrarian calculations for a very big Canadian energy player. Let's comb through the facts and figures and see whether this stalwart of the TSX index really is a stock to buy now and hold for life.

Enbridge (TSX:ENB)(NYSE:ENB)

Whether you're new to investing and are buying your first stocks, or wondering how to set up a TFSA or RRSP and need some stocks that will make you rich, you'll want to start with at least a few defensive dividend stocks with some growth ahead. New investors or seasoned shareholders alike might want to look at market capitalization as one indicator of defensiveness: Enbridge's, for example, is suitably weighty at $73 billion.

Past performance is also a good indicator of whether or not to buy a stock. This one has a one-year past earnings growth of 36.8% compared to the industry's average of -1.4% for the same period, as well as a five-year average past earnings growth of 32.9% similar to its one-year figure that you can see a glimpse of just how steady-rolling this stock is. A PEG of 1.7 times growth is about right, though debt of 90.9% of net worth, and more inside selling than buying in the last 12-month period, should be made note of, especially if you are an investor of the risk-averse variety.

Value, quality, and momentum: how to screen a stock

Over the summer, I took apart a few stock screening tools and built my own one using the three factors common to all of them. Having put a few stocks through this tool by now, it's interesting to see how each analysis compares with the overall consensus for a stock.

Staring with value, we can see that Enbridge has a P/E of 28.7 times earnings, P/B of 1.4 times book, and dividend yield of 6.26%. This is a largely strong start, giving a score of 28/33, using a three-factor system.

Quality is next, and Enbridge does all right, but not amazingly, which was something of a surprise. A past-year ROE of 4% is not very good, though an EPS of $1.49 is solid, and a 16.4% expected annual growth in earnings isn't bad for an energy stock. Altogether, Enbridge scores 19/33.

In terms of momentum, Enbridge gained 2.88% in the last five days; its beta of 0.93 indicates low volatility: perfect for a defensive stock, but not so good for momentum investors, while its share price is equal to its future cash flow value. This gives a score of 14/33, adding up, along with the other scores, to a total of 61%, indicating a moderate buy signal. This agrees exactly with the accepted analysis.

The bottom line

While a current reading can't tell you how long you could hold a stock for, the reading for Enbridge at the moment indicates a stock that should stand the test of time, so long as the industry follows its current course and the global economic outlook does not shift too drastically. Allowing for some degree of slowdown, this stock looks like a long-term keeper that's sturdy enough to require little maintenance.

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