Enbridge Inc. (TSX:ENB) Stock Looks Unsustainably Undervalued and Ready to Rocket Higher

Description

With a dividend yield that's now swelled to 6.4%, **Enbridge** (TSX:ENB)(NYSE:ENB) stock is a must-own for long-term income investors with a strong stomach. The company has been hit with the perfect storm of problems over the past few years, the most recent one being the explosion of an Enbridge-operated gas pipeline in Prince George, which needed to be repaired promptly.

The company has a considerable amount of debt on the books, so many investors are questioning the longer-term sustainability of the dividend in spite of management's commitment to continue rewarding shareholders with double-digit annual dividend hikes over the next three years.

Investors have a right to be concerned, as the company's financial footing has been less-than-stellar of late. Given today's severely oversold conditions and a somewhat brighter longer-term growth outlook, however, the stock appears to offer a relatively low risk, high reward play that could allow today's investors to lock-in a chunky 6.4% yield to go with substantial medium-term capital gains.

Enbridge's $8 billion Line 3 replacement is nearly underway; if everything goes smoothly, we could see the new pipeline come online in two years' time. The much-anticipated pipeline placement would provide Enbridge with a considerable amount of growth and financial relief, potentially allowing management enough flexibility to renew a new dividend hike commitment to shareholders as it continues to chip away at its debt.

Indeed, the Line 3 replacement project looks to be a major medium-term lifeline, but there's a real risk that the project could see further delays such that the new pipeline may not be operational until well after 2020. Although the State of Minnesota gave the project the green light, environmental and U.S. Native American groups in the area are continuing to do everything in their power to convince state regulators to reverse their decision.

Enbridge isn't out of the woods yet, but when you consider the near-term relief that the Line 3 replacement will provide and the explosive long-term growth opportunities, the future certainly looks a lot brighter than the past or present.

Foolish takeaway

Today, the stock trades at a 17.2 forward P/E, and a 1.4 P/B, both of which are substantially lower than the company's five-year historical average multiples of 64.7, and 4.2. I think shares are unsustainably cheap, so if you consider yourself a patient investor, buy the stock, collect the fat dividend, as you wait for the stock to correct to the upside.

The widely publicized Prince George pipeline explosion has exacerbated the pessimism of investors. I'd treat the event as short-term noise and would encourage investors to back up the truck before the Street has the opportunity to warm up to the company's promising growth profile.

Fellow Fool contributor Karen Thomas put it best: "Enbridge stock is trading at such depressed levels that it won't take much to get the stock going again."

She's right on the money.

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