



Why Enbridge Inc. (TSX:ENB) Is Still a Top Income-Producing Stock to Own

Description

It's been a tough year for investors in midstream services provider **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)). While oil has rallied substantially to see the North American benchmark West Texas Intermediate (WTI) up by around 14% for the year to date, Enbridge has lost 20% as a series of concerns over its outlook agitated the market.

These concerns even saw Enbridge become a favourite target of short sellers, with it ranked as the third most shorted stock on the TSX. While risks and headwinds abound, Enbridge's outlook is far brighter than many pundits believe.

Now what?

Many of the issues that garnered the markets attention relate to the considerable pile of debt, totaling \$60 billion at the end of the second quarter 2018, which was amassed by Enbridge after it completed the US\$28 billion acquisition of Spectra Energy Corp. in 2017.

This has become a particularly pressing issue in an environment in which interest rates are rising and the U.S. dollar is firming, making much of Enbridge's dollar denominated debt more expensive. Those factors are also increasing the cost of capital and making it increasingly difficult for Enbridge to obtain further debt at competitive rates.

Enbridge's propensity for issuing equity to fund dividend increases, rising maintenance costs and growing regulatory constraints in what is a tightly governed industry are also fueling concerns.

The company's convoluted capital structure, where it owns a range of subsidiaries that operate its assets and are used to recycle capital, is amplifying those anxieties.

While investors should be fully cognizant of these issues and other potential headwinds, including fears that oil as well as natural gas prices will slump yet again, causing demand for Enbridge's infrastructure to deteriorate, the company is an attractively valued income-producing stock that possesses a wide moat.

Management has instituted a strategy aimed at reducing debt primarily through the sale of non-core assets and simplifying the corporate structure. By the end of the second quarter 2018, Enbridge had announced that it had agreements to sell \$7.5 billion of assets, which was more than double its \$3 billion target for the entire year.

Enbridge is also in the process of rolling up all of its sponsored vehicles to simplify its capital and corporate structure. On completion, this will deliver a range of benefits including reduced costs, increased liquidity, a simpler business and an enhanced credit profile.

Investors should also note that Enbridge has been successfully [expanding earnings](#) at a solid clip. For the second quarter 2018, it reported EBITDA of \$3.2 billion, which was a notable 23% year over year increase, while net earnings shot up by a healthy 17%. Enbridge was also free cash flow positive for that period.

The company's earnings will continue to grow. [Higher oil](#) and natural gas prices have stimulated activity in North America's energy patch, causing production to expand at a solid clip, which along with existing pipeline and other transportation capacity constraints, will drive greater demand for Enbridge's infrastructure as well as services.

So what?

Enbridge is attractively valued, and there are signs that the improvements being made to the business will unlock greater value for investors. By investing now, they can lock in a regular dividend payment yielding a very juicy 6.5%. While there is some concern over whether the dividend is sustainable because of the payout ratio being well in excess of 100% moves to reduce costs, including finance expense, along with growing cash flow and earnings will sustain the payment.

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Author

mattdsmith

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