3 Takeaways From Enbridge Inc's (TSX:ENB) Q3 Results

Description

Enbridge (TSX:ENB)(NYSE:ENB) released its Q3 earnings on Friday. The results were a little disappointing, as the company recorded a loss of $90 million, which is down from a profit of $765 million a year ago. Sales of $11.3 billion were well up from the $9.2 billion that the company recorded a year ago, but, unfortunately, impairment costs brought the company's financials into the negative.

Let's take a closer look at the results to see how Enbridge did and whether investors should consider buying the stock. Below are three key takeaways from the company's most recent earnings report.

Operating expenses soar due to one-time charges

As impressive as Enbridge's 23% sales growth was, its operating expenses saw an even bigger increase, rising 36% year over year. The reasons for the increase were primarily higher commodity costs, which were up 36%, or about $1.8 billion, as well as goodwill impairment costs of $1 billion that were not incurred in the prior year.

A positive takeaway for investors is that if not for the non-recurring write-down, the company's operating income would have been up 26% from a year ago. Instead, operating income came in at $854 million, nearly half of the $1.49 billion that was generated last year.

Cash flow remains strong

I'm generally not too concerned with a company's income statement, since it can be subject to a lot of manipulation and noise, and looking at the statement of cash flow can offer a lot more insight, and here, Enbridge did very well.

Despite earnings being lower, the company's operating cash flow came in a shade under $8 billion for the trailing nine months, as it was able to add back impairment charges and depreciation. Last year, the company only generated $5.3 billion in operating cash flow during the same period.

Enbridge did have less capital spending over the past nine months, and it was able to offset a lot of those costs with proceeds from dispositions and investments, which resulted in investing activities only using up $3 billion in cash, giving the company a lot of free cash flow.

Line 3 construction slated for early next year

In its earnings release, Enbridge stated that construction on the Line 3 Replacement project, which was approved earlier this year, is expected to start in Q1 of 2019. It's an important milestone on a project that will hopefully generate significant growth for the company over the long term.

Should you buy Enbridge on these results?

The company had a strong quarter with good growth numbers and a solid bottom line, despite impairment charges weighing down the results.

While it will come as a bit of a disappointment that the company is discontinuing its dividend-reinvestment program, investors will still be getting a good yield on a stock that has a lot of upside and opportunity to grow, particularly with the Line 3 program set to go.

The stock has failed to generate much momentum this year, but Enbridge is still a solid, long-term buy, and it could generate significant returns for investors that aren't afraid of taking on a little risk.

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