1 Top High-Yield, Cheap Energy Stock to Buy in November

Description

Energy stocks seem to be falling a bit too far this fall season (pardon the pun). Take **Enbridge** (TSX:ENB)(NYSE:ENB), for example. Shares of the energy infrastructure giant have shed nearly 8% in just the past couple of months, as of the time of this writing, extending its year-to-date fall to nearly 17%.

With that, Enbridge stock now yields a hefty 6.5%. While the company still has its fair share of challenges to deal with, its current price offers an opportunity for long-term investors for three reasons.

Latest earnings report confirms Enbridge is on the right track

In its just-released earnings report for the third quarter, Enbridge reported adjusted net earnings of $0.55 per share compared with $039 earned in the year-ago period. Management credited the growth to three broad factors:

- Strong results from all business segments, particularly liquids pipelines which benefited from higher capacity and supply.
- New projects coming online in liquids pipelines, gas transmission and midstream, green power and transmission, and gas distribution segments in recent quarters.
- Contribution from the recently acquired Spectra Energy.

Most importantly, Enbridge's distributable cash flow (DCF) surged nearly 19% year over year to $1.59 billion. To help you understand better, DCF is like free cash flow, or the excess cash a company has to distribute to shareholders after capital expenditures.

As you might've already guessed, Enbridge's dividends depend on its DCF growth, and there's good news here.

Enbridge's dividends look safe, for now

In the quarterly release, Enbridge's CEO Al Monaco reiterated that management still expects to grow cash flow and dividend per share at a compound annual growth rate of 10% through 2020.

That's an incredible but seemingly ambitious goal. Yet Enbridge is confident it can achieve it thanks to its deleveraging efforts and projects pipeline, and we must give the company a chance here.

Now, no discussion about Enbridge is complete without a mention of its dividend record. The energy heavyweight has increased its dividends every year for a staggering 22 consecutive years, growing it at a compound rate of 11% during the period.

Enbridge's Q3 report and plans tell me that dividend-growth streak will likely continue, more so because the company is still paying out only around 60% of its DCF in dividends, leaving ample buffer.

Enbridge is working on its biggest concern

A humongous debt load, especially after Spectra Energy's acquisition, has slowed down growth at Enbridge and worried investors.

Management just revealed that Enbridge has already raised nearly $6 billion of its targeted $7.5 billion proceeds from the sale of non-core assets for the full year, and that a "significant portion" of the proceeds will go towards debt repayment.

As of the end of Q3, Enbridge reported a debt-to-EBITDA ratio of 4.7 times, a tad below its full-year target of five times. That's encouraging news for investors.

The real deal: Why Enbridge is a buy

Enbridge's priority to transform its business into a pure regulated pipeline, utility-kind of a model — so it can earn recurring cash flows and reduce volatility in earnings while strengthening its balance sheet — makes it an intriguing energy play.

Enbridge's recent move to acquire four of its controlled entities further simplifies its corporate structure and should allow management to focus better on the productive side of businesses.

Let's be clear: any misstep could cost Enbridge heavily, but for now, there are more reasons to be optimistic about Enbridge, especially for income investors given the company's best-in-class dividend record in the midstream space, tidy yield, and dividend-growth potential.

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