Should You Buy Enbridge Inc. (TSX:ENB) for Big Income?

Description

Enbridge (TSX:ENB)(NYSE:ENB) has been a celebrated dividend stock for a long time. There's no surprise there, as the leading North American energy infrastructure company has paid dividends for more than 60 years and increased its dividend for 22 consecutive years.

To put it in perspective, an investment in Enbridge 10 years ago now offers four times the original dividend income. At 12% per year on average, total returns were also not too shabby.

De-levering the balance sheet

The stock traded as low as the $37-per-share range this year, as markets worried about Enbridge having too much debt and little growth. However, the company managed to sell a bunch of non-core assets, which led to rapid debt reduction from the balance sheet.

Specifically, Enbridge announced $7.5 billion worth of non-core asset sales this year. In the third quarter, it received $5.7 billion of proceeds from asset sales, which helped the company reduce its debt-to-EBITDA ratio to 4.7, which was lower than the 2018 target of five. Its long-term target is a debt to EBITDA of 4.5 times.

Increasing the business predictability

The non-core asset sales will help the company focus on its core regulated pipelines and utility operations, which should increase the predictability of the business.

The core businesses are supposed to be stable through commodity cycles with stable and predictable cash flow generation, which are largely supported by long-term agreements and have no direct exposure to volatile commodity prices.

Sparking growth

So far this year, Enbridge put more than $5 billion worth of projects into service, which immediately helped with boosting cash flow. The key project, the Line 3 replacement project, which is expected to come online in the second half of 2019 is progressing well. More than 850 kilometres of pipelines (i.e., over 80%) are laid. The project is worth $9 billion or about 70% of the investments for next year. So, there better be no hiccups on the project.

Management estimates that the $22-billion investment projects from 2018-2020 will support dividend growth of 10% per year on average through 2020. If so, we're looking at annualized total returns of roughly 16% from an investment today, which is attractive.

Beyond 2020, Enbridge is eyeing at least $5 billion of investments in each of its businesses across liquids pipelines and terminals, gas transmission and storage, gas utilities, and offshore renewables.

Investor takeaway

Income investors can pick up the stock today and get a yield of about 6.1%. If the company's projects progress well, the stock will have decent upside potential. Over the next 12 months, **Thomson Reuters** analysts estimate there's almost 22% upside potential from $43.59 per share as of writing.

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kayng