Enbridge Inc (TSX:ENB): Buy, Sell or Hold?

Description

Enbridge Inc (TSX:ENB)(NYSE:ENB) is one of top oil and gas stocks on the TSX and it has been up 2% in the past month. However, its share price remains down 24% over the past two years. With oil prices struggling yet again, investors may be wondering whether the stock is a good buy or if it is doomed for mediocrity. Let's take a closer look at the stock and assess whether you should add it to your portfolio today.

Oil prices remain volatile

Late last year, the Government of Alberta announced that it would be making cuts in order to help boost the price of Western Canada Select (WCS), which was trading below $15 a barrel. It has worked so far, as the price of WCS has now reached over $30, and about where it was before the big decline that happened in October. However, West Texas Intermediate (WTI), one of the benchmarks in North America, fell to below $50 in December, a big blow considering it was over $60 for much of 2018 and had even hit above $75.

The biggest risk when it comes to investing in Enbridge or any other oil and gas stock comes down to commodity prices. And while it's encouraging to see that the gap between WTI and WCS has shrunk, how long that will remain is anyone's guess. However, with the province's support, there is clearly a desire to help keep WCS prices up, so I wouldn't expect a prolonged decline in the commodity price if another dip happens. That's a very good thing for Enbridge and similar stocks.

Should you consider the 6% yield?

It's tempting to look at Enbridge and invest for the payout, which currently pays over 6.1% annually. After all, the company recently hiked its payouts by 10% and since 2013 they have more than doubled. It's a great quarterly dividend, but there could be valid concerns around its sustainability. In the trailing 12 months, Enbridge has paid out $3.3 billion in dividends, well in excess of the $1.7 billion that it generated in free cash flow during that time.

If the stock continues to fall, it may only be a matter of time before the company considers an adjustment to its payouts, especially if the industry can't find a way to recover.

A look at valuation

Due to a poor quarter in its most recent earnings, Enbridge stock is now trading at 47 times its earnings and 1.7 times book value. While the latter is a decent multiple, it's the former that's a bit high. However, even with a decent quarter, it likely would still be trading at around 30 times earnings, which is a bit difficult to justify under these circumstances.

Bottom line

There's a bit too much risk to make Enbridge a good buy today. While I can see a path where investors could make a decent return if the stock recovers, even if it hits $50 this year, it would be a modest return for a whole lot of risk. If the stock were lower, then at least the risk might justify the potential reward.

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