Enbridge (TSX:ENB) Is Still a Buy, but Not for Long

Description

When it comes to stock recommendations, I've been recommending **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) for a while now. And frankly, I still do.

It's not a light decision. I bought a few of these stocks in the new year and have seen them continue on a steady rise since then. Since reaching near 52-week lows at the end of December near $39, the stock is now trading at 52-week highs at just under $50 per share at the time of writing.

So you might be wondering whether you've missed the boat when it comes to buying Enbridge. While I'd still say you haven't, that ship is about to sail. And soon.

Enbridge just has too much going for it, and with analysts constantly recommending the stock as a buy, it's no wonder that it's been rising at a steady rate.

Recession proof

Enbridge is enormous. The company is one of the largest energy producers, distributors, and transporters across North America. It's a strong company with cash flow, expansion projects, and long-term contracts that will support the company for years.

But what really makes this stock recession proof is its dividend. Enbridge currently offers a dividend yield of 6%, thereby beating many other stocks in the same category.

This dividend has been paid out non-stop with increases every year since 1996. Not only can investors be certain that the payout will be secure, but Enbridge has a history of growing that dividend over time. By 2020, Enbridge predicts the dividend will increase 10% annually, with 5-7% afterward.

Expanding rapidly

So knowing that you might be going into a recession with cash in your pocket is already great news, but what's even better is Enbridge's expansion plans.

Recently, the most important project reported on headlines was the Line 3 Replacement and Expansion Project. The $9 billion project was waiting (and waiting… and waiting) for the green light to start. Then a few weeks ago, there it was. The company now expects Line 3 to be ready and operational by the second half of 2020.

When it's up and running, the project should see 750,000 barrels of oil per day transported from Alberta to Wisconsin. But that's not all the growth this company has in store.

Enbridge has $16 billion allocated toward growth projects that should come into service over the next two years, and that alone should fuel a lot of earnings growth for the company. However, Enbridge is also planning to self-fund $5 to $6 billion annually toward expansion projects *after* 2020.

Broken down, the projects should consist of $2 billion toward pipelines, $2 billion toward gas transmission, and about $1 billion for gas utilities each year.

Enbridge is also in the initial stages of creating an offshore loading terminal in the Texas Gulf Coast with **Kinder Morgan**, which is expected to be in service by 2021 or 2022. So needless to say, investors shouldn't be worried that Enbridge is taking a break after the Line 3 replacement.

Earnings growth

Now let's get back to how Enbridge has grown in the last little while. In 2018, the company's earnings per share rose 35%, with its adjusted EBITDA rising 25%. This comes in part from the company's restructuring plan, where Enbridge has been selling assets to pay down debt. In fact, the company beat its $3 billion target and completed $7.8 billion in asset sales during 2018.

But still undervalued… for now

Like I said, this stock is still far and away from where it should be. Right now, analysts are saying that the stock is worth between $55 and $60 per share, yet it's trading at about $50 at writing. Now that's a great deal, but it's really not all that far away from where it should be.

That leaves little opportunity for investors to get in on this stock price. In the next 12 months, the stock will almost certainly hit that fair value estimate. Once Line 3 starts running, I would expect to see the stock jump even further.

If you're still not convinced to buy now, I just wouldn't wait until May 9 when the next earnings report is released. Investors already invested with Enbridge will definitely have a smile on their faces, but those who waited too long may not like what they have to see.

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