Attention Passive Income Investors: This Dividend Superstar Is Currently at a Discount

Description

Enbridge Inc (TSX:ENB)(NYSE:ENB) hardly needs an introduction. After all, it is North America's largest pipeline operator by a large margin, boasting a complex crude and liquid transportation network spanning over 27,000 kilometres across North America. Enbridge is also the largest natural gas utility in Canada, supplying 3.7 million retail customers in Ontario, Quebec, New Brunswick and New York state.

Lately however, Enbridge's stock has come under a bit of pressure stemming from a delay in its Line 3 Pipeline project. I believe this momentary setback is a buying opportunity to pick up this dividend all-star at an 8% discount from recent highs, as its combination of free cash flow (FCF) generation and yield is hard a combo to beat, especially amid this low interest rate environment.

Line 3 delay selling overdone

In case you weren't aware, Line 3 (L3) is Enbridge's most ambitious project ever. Currently estimated to cost the company some $9 billion, the large-scale infrastructure will replace all existing pipeline between Hardisty, Alberta and Superior, Wisconsin. All told, the program will fully replace 1,660 kilometers of pipeline and facilities in Canada and the United States. More important, L3 will add much-needed capacity to support Canadian crude production, which, as we all know, continues to suffer from supply bottlenecks.

Unfortunately for Enbridge however, a Minnesotan court ruled earlier this month that the company's environmental impact statement was inadequate, thus raising concerns around Enbridge's earlier projected second half 2020, in-service date for the pipeline. That said, I believe this is just a minor setback; I'm sure L3 will go ahead as planned as we draw closer to election time down south.

Regardless of the outcome, however, the near-term market reaction to the news has presented a decent buying opportunity for this strong performing yield play. For example, Q1 2019 EBITDA came in at $3.769 billion, which was above the top end of earlier guidance ($3.548 billion). Moreover, the Q1 numbers also showcased an increase in Mainline volumes of 2,717k barrels per day (bpd), versus 2,625k bpd in 2018, while oil sands volumes came in at 1,751k bps compared to 1,629k bpd the year prior.

For the income-oriented crowd, Enbridge also guided to distributable cash flows per share in the $4.30 to $4.60 range, and a dividend increase of 10% for this year. Based on FY2018, I can that this will be a very sustainable payout, as the company's free cash flow payout ratio (FCF minus maintenance CAPEX) was a very manageable 45%.

Finally, Enbridge is also in the midst of its deleveraging program, with expected 2019 debt to come in around 4.7 times EBITDA, which is well below 2017 and 2016's ratios of 5.7 times and six times EBITDA, respectively.

In summation, Enbridge should remain a stalwart dividend superstar. To further bolster the bullish case, bear in mind that we are expected to see interest rates remain low throughout this year. As a utility play, Enbridge stands to benefit from this low interest rate environment while also shielding the portfolio against unwanted volatility; notably, Enbridge was one of the few names that outperformed the greater market during the 2008 sell-off.

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Date
2025/08/20
Date Created
2019/06/30
Author
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