Will a Strong Second Quarter by Enbridge (TSX:ENB) Spark a Rally?

Description

Enbridge (TSX:ENB)(NYSE:ENB) is one of the most popular dividend growth stocks on the TSX. With a market cap of $89.85 billion, it's the largest TSX-listed energy company. The energy sector hasn't had a great year.

Year to date, the **TSX Energy Index** is down 5.16%, far underperforming the broader market's 16% gain.

For its part, Enbridge has fared better, with a small gain of 3.59% in 2019. Given this, the market was highly anticipating the company's most recent earnings results. Is a strong second quarter by the sector's biggest player enough to turn the tide?

This morning, Enbridge released strong quarterly results. Earnings of $0.67 per share topped estimates by $0.08. The beat should not be surprising. Over the last two years, Enbridge has topped estimates 75% of the time. Will this be enough to spark a rally?

Second-quarter results

Let's take a deeper dive into second-quarter earnings. Adjusted quarterly earnings and adjusted EBITDA increased by 3 and 2%, respectively. Distributable cash flow (DCF), an important metric to analyze the safety of the dividend, jumped to $2.31 billion, up from $1.858 billion.

It also re-affirmed DCF guidance of $4.30 to $4.60 per share in 2019. This is a healthy 24% jump and re-affirms that the company's dividend is safe with ample room to grow.

Although it's nice to see growth year over year despite the challenging environment, it isn't the type of growth that will lead to a huge rally. The company is still saddled with an albatross known as Line 3, which is mired in regulatory delays.

It's still awaiting further guidance, and there were no additional details on a potential resolution to the current issues. Until then, the stock will have a hard time breaking upwards as Line 3 is a key growth project.

Strong results may also be overshadowed by some unexpected news from yesterday: one of its natural gas pipelines erupted near a mobile home park Danville, Kentucky.

There has been one confirmed fatality and at least six mobile homes caught fire; obviously, this is not the type of headline the company needs as it attempts to push Line 3 forward.

A top energy stock

Enbridge is a decent value play. The company is trading at only 16.26 times next year's earnings and is expected to grow at a high single-digit pace over the next five years. For a company the size of Enbridge, these are attractive growth rates.

Enbridge is a Canadian Dividend Aristocrat with one of the longest dividend growth streaks in the country. At 23 years and counting, the company is as reliable an income stock as it gets. Throughout 2020, the company has a targeted 10% annual dividend growth rate.

Post 2020, the dividend is expected to grow in line with DCF, which is expected to see 5-7% annual growth.

If you're looking for exposure to the energy sector, there may be none better than Enbridge. It has a proven track record of performance with a low-risk business model. A model that has enable the company to grow regardless of oil prices.

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