Latest Results Confirm Enbridge (TSX:ENB) Is a Stock Every Investor Should Own

Description

This week, North American midstream services and energy infrastructure giant **Enbridge** (TSX:ENB)(NYSE:ENB) released its second-quarter 2019 results. Those results confirm why the stock should be a core holding in every investor's portfolio, despite it being a favoured target of short-sellers; it's ranked as the second-largest short position on the TSX.

Strong results

Enbridge delivered a solid financial performance, including a 1% year-over-year increase in adjusted EBITDA to $3.2 billion, while adjusted earnings soared by 23% to $1.3 billion and distributable cash flow shot up by an impressive 24% to $2.3 billion. This measurable improvement in Enbridge's earnings can be attributed to increased oil and natural gas volumes being transported across its pipeline network, including for those assets commissioned since the end of the second quarter 2018. The company's efforts to reduce debt to manageable levels also contributed by reducing interest expense.

Enbridge's $19 billion capital program is proceeding on plan. The AOC Lateral Acquisition and Stratton Ridge projects have been commissioned, and the remaining assets under development, including the St Nazaire wind farm, will be completed between now and 2022.

The program includes the critical Line 3 Replacement, which was originally expected to commence service in 2019 but was rescheduled for the second half of 2020 because of U.S. permitting issues. The Line 3 forms a critical part of the strategy aimed at ensuring the price differential between the Canadian heavy crude benchmark Western Canadian Select (WCS) and the North American benchmark West Texas Intermediate (WTI) remains narrow. This is because it will help to increase the volume of Canadian crude to critical U.S. refining markets.

Existing capacity constraints mean that there is considerable pent-up demand for Enbridge's oil and natural gas pipeline infrastructure. Once that curtailment comes to an end, Canadian oil production will resume growing at a steady clip, creating greater demand for Enbridge's infrastructure.

It should be recognized that even record crude-by-rail shipments failed to reduce local oil stockpiles in Western Canada prior to the introduction of production cuts. This emphasizes that the volumes transported on Enbridge's pipeline network will continue to grow even if crude-by-rail shipments are ramped up once again.

That places Enbridge in the position where, by virtue of the length and breadth of its pipeline network, which sees it transporting a quarter of all crude produced in North America, it holds a dominant role in Canada's energy patch. This and the lack of competition caused by steep barriers to entry to the industry mean that Enbridge is operating in an oligopolistic market, allowing to be a price maker rather than price taker.

For those reasons, Enbridge's earnings will keep expanding at a solid clip.

The midstream company's profitability will also increase significantly. This is because Enbridge is focused on cutting costs, reducing debt and driving greater operational efficiencies. Enbridge is targeting a range for consolidated debt of 4.5 to five times adjusted EBITDA, which, on a trailing 12-month basis, it had achieved by the end of the second quarter with debt of 4.6 times adjusted EBITDA.

Foolish takeaway

After gaining a very modest 5% for the year to date, Enbridge is attractively valued, as highlighted by its share price being 16 times projected earnings and 1.4 times book value. For the reasons discussed, the midstream giant's combination of solid, almost guaranteed growth and defensive characteristics mean that earnings will continue to expand at a decent clip.

This will give Enbridge stock a healthy boost, particularly with its second-quarter results indicating that it is on track to achieve its full-year guidance. While investors wait for Enbridge's stock to pop, they will be rewarded by its sustainable dividend, which, after being hiked for a stunning 23 years straight, is yielding a very juicy 6.7%.

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