



## Why Enbridge (TSX:ENB) Stock Fell 1% in August

### Description

**Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) stock fell 1% last month, while the **S&P/TSX Composite Index** rose by nearly 1%. The underperformance doesn't seem that notable until you dive a bit deeper.

From 2006 to 2015, Enbridge stock rose an incredible 300%. When including dividends, the total return was closer to 400%. Over the same period, the TSX rose by just 38%. Enbridge solidified a reputation for market-beating returns. Lately, however, that reputation has been spoiled. Since 2015, shares have actually *lost* 23% of their value. The TSX, meanwhile, has *risen* by a few percent. This August, Enbridge posted yet another month of underperformance.

Many investors have soured on the company, but *you* shouldn't. In reality, the company's future looks bright. And at today's discounted price, you can lock in a reliable 6.6% dividend yield.

### Here's what happened

There was a ton of news on Enbridge last month.

On August 2, the company reported second-quarter results. It was difficult timing considering the day before, an explosion rocked the company's gas pipeline in Kentucky, killing one.

Quarterly EBITDA increased by just 1% to \$3.2 billion, although operating cash flow was cut by one-fourth, falling to \$2.5 billion from \$3.3 billion the year before. Still, the company reaffirmed full-year guidance for distributable cash flow, which should come in between \$4.30 and \$4.60 per share. Adjusted EPS of \$0.67 beat consensus estimates by \$0.08, while GAAP EPS of \$0.86 beat by estimates by \$0.28.

The biggest news, however, dealt with Enbridge's mainline pipeline system. Liquids production throughout Canada continues to surge, yet regional pipelines are at full capacity. Excess supply forced Alberta to institute strict production cuts last year. On August 20, the provincial government extended the curtailment program to December 2020, highlighting the difficulty of transporting Canadian fossil fuel production. These difficulties, however, play to Enbridge's advantage. The company's mainline

pipeline system recently started booking long-term contracts with very favourable terms. In some cases, the contracts guarantee Enbridge a fixed-price for nearly a decade.

Unfortunately, many major customers are pushing back against the company's pricing power. On August 19, the CEO of **MEG Energy** petitioned the National Energy Board, calling for it to force Enbridge to abandon its fixed-price, long-term contract demands. Seven days later, **Suncor Energy** and **Royal Dutch Shell** joined the fray, arguing that Enbridge's terms were an abuse of market power.

The best outcome for investors would be for the contract terms (multi-year, fixed-price arrangements) to stick. But these contracts won't take effect until 2021 and require regulatory approval, so plenty is still at risk.

## What to expect

Enbridge stock has been in a rut. The latest backlash from customers adds to the concerns. But it's important to note one thing — Enbridge only has this problem *because* it has such a powerful business model. Customers are pushing back against Enbridge's monopolistic pricing because the company *is* a monopoly of sorts. While other investors take the recent news as a negative, long-term shareholders should remain excited.

In August, management stated that they've identified \$2 billion in near-term growth opportunities. Long-term, the prospects look even better. For at least the next decade, Canada will be capacity constrained. Energy producers will need to compete aggressively to secure pipeline space — without it, their businesses are in peril. "Post-2020, we will have a lot of free cash flow to fund new growth capital and fill in our annual \$5 billion to \$6 billion growth bucket," Enbridge's CEO said on the conference call.

While you wait for these growth projects to gain traction, you'll be satisfied with a fully backed 6.6% dividend. This really does appear like the perfect growth *and* income stock.

### CATEGORY

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