3 Reasons Why Enbridge (TSX:ENB) Stock Is a Steal at $47

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is one of the cheapest stocks on the market. Typically when you want to find a stock this cheap, you need to dig into the bargain bin, sorting through broken stories and turnaround plays.

Enbridge is different. Its business is running on all cylinders, generating tons of cash while investing for a bright future. Today, investors receive a fully backed 6.2% dividend and exciting growth prospects that should persist for a decade or more.

This isn't a high-risk situation either. After digging into the underlying dynamics of Enbridge's business — not to mention its strong balance sheet — you'll find that this is actually a rock-solid business capable of performing well even during the next bear market.

This really does look like a rare buying opportunity, offering immediate dividend income, long-term growth upside, and resiliency during market volatility.

Income delivery

With Enbridge stock down to $47 per share at writing, the dividend yield has been pushed up to historic levels. Over the last 12 months, the dividend has averaged roughly 6% but at times, surpassed 7%. From 2016 through 2018, for comparison, the dividend averaged just 4%.

The increased dividend yield isn't just due to a stalled share price, however. Enbridge has boosted its dividend every year since 1999, a 20-year run. Over the last decade, the dividend has grown by an average of 12.9% annually.

While the recent pace has been a bit slower, Enbridge has still bumped its dividend by double-digit annual rates over the last three years.

As we'll see, this dividend has at least a decade more of growth ahead of it. Plus, even during a recession, investors should be able to rely on the payout. Finding a stable and growing 6% dividend is rare, but Enbridge fits the mold.

Favourable trends

Enbridge makes money by shipping oil and gas. The more oil and gas that's produced in Canada, the more demand there will be for Enbridge's pipelines. Fortunately, energy production can be forecast with relative ease.

For example, we already know the reserves of every energy company in the industry. We also know the drilling records and breakeven prices. Factoring in reserve and drilling growth, the Canadian Association of Petroleum Producers predicts that domestic output will increase by 1.27 million barrels per day to 5.86 million barrels per day by 2035.

While that doesn't represent huge growth, the only thing that really matters is that demand for pipeline capacity will increase, as the supply of pipelines is difficult to improve. It can take a decade or more and billions of dollars to develop a new pipeline.

With slow but positive growth, it's more likely that existing pipeline operators will expand capacity, which will keep competition at bay while increasing pricing power for firms like Enbridge.

Built for battle

Enbridge therefore delivers a unique blend of high-yield income and structural, long-term growth. Even more exciting is the company's resiliency. Pipeline companies like Enbridge typically charge on volumes, *not* commodity prices. So if oil prices fall to $50 per barrel from $60 per barrel, Enbridge will still generate a similar profit.

Consider 2014, when oil prices plummeted by 50%. Enbridge still generated a healthy profit with the stock price *increasing* during the downturn. As long as volumes keep rising, Enbridge can turn a profit, thereby supporting its big dividend. Buying cheap stocks is a proven way to outperform the market, and Enbridge looks like an ideal bet.

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