If You Don’t Buy Enbridge (TSX:ENB) Shares Today, You’ll Be Kicking Yourself Later

Description

One thing I find useful when researching a potential investment is looking at what can go wrong. I’m intentionally trying to build a bearish case to see whether these predictable risks are acceptable.

It can be a very sobering exercise. Many stocks become uninvestable once you look at them from this perspective. There’s just too much risk.

A select few companies rise to the top when you look at them from this unique point of view. They not only pass the test, but they are in the enviable position to gain from the risks of their industry. In other words, these elite companies will keep getting stronger no matter what happens.

I believe **Enbridge** (TSX:ENB)(NYSE:ENB) is in such a position today. Here’s why it’s a no-brainer buy today.

The future of pipelines

The results of the Canadian election proved it. There are large tracts of the population that don’t support new pipelines. In fact, a significant minority of voters supported parties that had very specific anti-pipeline views in their platforms.

This would appear to be quite bearish for Enbridge and its peers on the surface, but it’s actually the opposite. Plenty of pipelines is good for the energy sector in general, but it’s not great for the pipeline companies themselves. This limits pricing power. A limited number of pipelines is best for long-term cash flows, especially for the companies that own these pipelines today.

As the leader across North America, Enbridge benefits from this. There’s no doubt about it.

This will impact the company’s long-term growth prospects, but the good news is there are plenty of smaller oil projects it can do in more energy-friendly jurisdictions. It can also grow both the natural gas pipeline and the company’s renewable energy power generation divisions, two areas of the company that should be able to deliver solid long-term growth. And it can always expand the utilities division by making acquisitions. That’s the beauty of having multiple divisions.

Why today is the best time to buy

Many investors are looking at the bearish outlook for oil pipelines and declaring Enbridge as a poor investment. They don’t realize a future with lower pipeline capacity will be a good thing for the leader in the sector.

Shares are down some 20% over the last three years, which is always a good time to buy. And the stock trades at a low valuation, especially considering the stability of the underlying assets.

Enbridge is projected to earn between $4.30 and $4.60 per share in distributable cash flow in 2019. Shares currently trade hands at just over $47 each. That puts us at just over 10 times distributable cash flow — a nice valuation for most any stock. It’s a fantastic valuation for a group of assets as fine as Enbridge’s.

Investors who get in today will lock in a 6.2% yield, one of the best payouts on the entire TSX index. Management has already promised 10% annual dividend increases through 2020, with 5-7% annual raises projected after that. Enbridge has hiked its dividend each year since 1996, so I like its chances to continue growing the payout.

The bottom line

I believe Enbridge will easily provide investors a 10-12% annual return for decades to come based on continued organic earnings growth, new projects coming online, and the valuation expanding. That’s enough for an excellent long-term result.

I own a bunch of Enbridge in my own portfolio and truly believe anyone who isn’t buying at today’s level is ignoring a huge opportunity. You don’t want to miss out on this.

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