TFSA Investors: 3 Reasons to Own Enbridge (TSX:ENB) Forever

Description

Pipelines are at the heart of the economy and are wonderful businesses due to the economic importance of them in addition to the natural high barriers to entry the existing companies have.

When talking about pipelines, it's almost impossible to go without talking about one of the best pipeline operators, **Enbridge** (TSX:ENB)(NYSE:ENB).

Enbridge is a top stock for long-term and income investors for a number of reasons; these can be summed up into three categories, which will give you the gist of why an investment in Enbridge will be one of the best investments you make.

Operations

The reason everyone knows of Enbridge is because of its sheer size and importance to the economy. It currently delivers 20% of natural gas consumed in the United States and transports roughly 25% of the crude oil in North America.

Though it's known for its pipeline services, Enbridge also has a quality utilities business that naturally diversifies its revenue base.

The business is divided into three core segments: liquids pipelines, gas transmission, and gas utilities.

Liquids pipelines account for roughly 50% of the companies estimated 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA). It's what Enbridge is known for, as it has one of the world's longest and most sophisticated crude oil pipelines system.

In total, it transports roughly three million barrels a day between its massive Mainline system and its Express pipeline. This puts Enbridge at the core of the North American economy.

There are many near-term growth opportunities as well, with Enbridge targeting another 820,000 barrels a day of capacity to be added to its pipeline system by 2023.

The gas transmission business has more than 192,000 miles of natural gas and NGL pipelines across North America and key supply regions bringing the gas to demand hubs.

The segment is expected to do roughly 30% of Enbridge's consolidated EBITDA and has no exposure to commodity prices and only small exposure to volumes.

Its gas utilities business is expected to make up the remaining 15% of the company's estimated 2019 EBITDA and is the largest natural gas utility in North America.

With more than 3.7 million customers it delivers gas to, that number keeps on growing and only strengthens Enbridge's cash flow.

Strong financials

The strong operations allow Enbridge to target attractive dividend growth of 10% through 2020. This is on top of the more than 100% increase to its dividend it has seen since 2014.

That's not surprising though, considering Enbridge has a lengthy history consisting of 24 years of sustained dividend increases. Enbridge continues to raise the dividend while keeping it stable, only paying out roughly 65% of its distributable cash flow (DCF).

The DCF has been growing nicely and management is guiding toward DCF of $4.30-$4.60 for 2019.

On the balance sheet side of things, it continues to target debt reduction as a priority. It has been working hard to reduce its leverage and has currently gotten its consolidated debt-to-EBITDA ratio into its target range of 4.5 to five times.

The debt reduction and strong financial management of Enbridge ensures it takes every step it can to protect investors capital and keep its dividend sustainable.

Low-risk model

By having most of its revenue in stable long-term or regulated cash flows severely reduces the company's risk, which makes it such a great stock for passive-income seekers.

This is because you know the company makes prudent decisions regarding the dividend and wants to increase it as much as possible, without creating instability and having to trim it down the line.

This is why it sticks to a payout ratio of just 65% of its cash flow for distribution.

Besides the dividend, the low-risk business model allows Enbridge to thrive in all market conditions and continue to grow its EBITDA through thick and thin.

Bottom line

Enbridge is a top stock for a number of reasons but mainly due to its impressive businesses and assets, strong and recurring revenue, minimized company risk, strong financial management, and, lastly, its integration and importance to the North American economy.

This makes Enbridge one of the best stocks in Canada and a must-buy for any investor seeking to add a core holding to their portfolio.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/02
Date Created
2019/10/30
Author
danieldacosta