Is Enbridge (TSX:ENB) A Top Pick Heading Into 2020?

Description

The energy sector hasn't had a great year. Year to date, the S&P/TSX Capped Energy Index is in negative territory with a loss of 0.67% thus far. In comparison, the S&P/TSX Composite Index is enjoying one of its best years in a decade, up 18.25% in 2019. Volatile oil and natural gas prices, pipeline constraints, and oil curtailments are just some of the headwinds holding the sector back.

That being said, not all energy companies have struggled, and there have been some notable standouts. Case in point, Canada's largest energy company: **Enbridge** (TSX:ENB)(NYSE:ENB). In 2019, Enbridge's returns have far outpaced the sector and eclipsed that of the TSX, as it is up 19.46% year to date. It is a welcomed rebound for a company that lost almost 16% of its value the year prior.

This past week, the company held its annual investor conference. Is Enbridge a top pick heading into 2020? Let's take a look.

A top dividend-growth company

Let's start with the dividend, as Enbridge is considered one of the best income stocks in the country — for good reason. This midstream giant is a Canadian Dividend Aristocrat and has the 10th-longest dividend-growth streak in the country. This past week's 10% raise marks the 25th consecutive year of dividend growth. It is an impressive feat considering how volatile the energy sector has been over the past decade.

Speaking of its 10% raise, the company held true to its commitment to raise dividends by 10% from 2018 through 2020. When management keeps their word, it re-enforces their status as a reliable income company. Enbridge is targeting a 65% dividend-payout ratio as a percentage of distributable cash flow (DCF). As of end of year, the ratio stood at exactly 65%, and as such, investors should expect the dividend to rise in line with DCF. Post 2020, the company expects to achieve 5-7% DCF per-share growth.

With a 5.77% yield and mid- to high annual dividend growth, Enbridge remains one of Canada's top income stocks.

Strong growth opportunities

To sustain its momentum, Enbridge will have to successfully deliver on its $5.5 billion of secured growth opportunities in 2020. To do so, it aims to keep the debt level below five times EBITDA. This is well and good, but all eyes are on the delayed Line 3 expansion. Previously scheduled for 2019, there remains no clarity on when the project could be operational. Line 3 is expected to double capacity of the existing pipeline and provide strong cash flows.

Somewhat timely, Enbridge received a bit of good news the day before its investor conference. Minnesota's Department of Commerce found no serious threat to Lake Superior in the event of a crude oil pipeline leak. Despite this, even if all goes smoothly from here on out, Line 3 won't contribute to financials until at least 2021. Likewise, another delay or setback could have a negative impact on the company's share price.

Decent value

Last year's selloff was clearly overdone, and despite impressive gains in 2019, Enbridge remains attractively valued. It is currently valued at a reasonable 16.78 times next year's earnings. Furthermore, it is trading at a steep discount to its own five-year historical price-to-book, price-to-sales, and price-to-earnings historical averages. These also happen to be at or below industry averages.

Analysts remain bullish, as nine analysts rate the company a "buy" and have a one-year price target of $55.30 per share.

A top energy stock for 2020

Considering the company's strong performance, Enbridge is riding a wave of positive momentum heading into 2020. With a hefty backlog of projects, the company will continue to drive growth and remain a very attractive dividend-growth stock.

The biggest risk is news related to Line 3, which can lead to significant share price volatility. Positive developments will no doubt lead to a strong 2020 and outperformance. On the flip side, more setbacks could lead to a down year, such as the one it experienced in 2018. Since company estimates do not factor in Line 3, any dip in share price as a result of related news should be viewed as a buying opportunity.

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