Why Enbridge (TSX:ENB) Stock Is up 42.5% Over the Past 6 Months

Description

Oil and gas giant **Enbridge** (TSX:ENB)(NYSE:ENB) saw its market value eroded alongside its rivals in 2014 when the price of oil collapsed. Unlike its rivals, the company has been staging a comeback in recent months, and its stock is now up by 42.5% since October 2019.

Here's what's driving the stock.

Overlooked fundamentals

It seems like the market completely overlooked Enbridge's robust fundamentals. Despite the oil crash, Enbridge not only maintained its lucrative dividend but also expanded it over time. The company has paid an annual dividend for 64 years and has managed to increase it every year for the past 24.

With its latest dividend boost of 10%, Enbridge has entered the Dividend Aristocrats club. This track record of consistent shareholder payouts seems to have been overlooked by investors, who pushed the stock price down roughly 40% between 2015 and 2018.

Turnaround

In late 2017, Enbridge's management decided to overhaul the company's strategy. They identified nearly $10 billion in non-essential assets that could be offloaded to fund critical expansions and new projects for the next few years.

One of the first things the company did was acquire natural gas transmission firm Spectra Energy to diversify its earnings. The team also launched new projects to cement the company's position as a leading energy provider.

This strategy was implemented in 2018 and started being reflected in 2019, which is when the management team announced it had enough funds to boost dividends every year for the next five years and sustain expansion projects without the need for external funding. Signs of this turnaround helped push the stock higher.

Brighter outlook

Despite its recent surge, Enbridge still seems undervalued based on its improved growth prospects. The company expects distributable cash flow (DCF) to grow between 5% and 7% annually for the foreseeable future. Meanwhile, the dividend-payout ratio is expected to remain under 65%, despite 5-7% hikes planned every year for the next five years.

Recently, the Minnesota Public Utilities Commission (MPUC) approved the Line 3 Replacement Project, which is another positive catalyst for the company. The completion of this critical piece of infrastructure will help the company expand the supply of North American crude oil to Minnesota and the surrounding region, boosting earnings further.

The company reportedly has plenty of other projects that could boost its cash flows over the next few years. Enbridge's expanding oil and gas distribution network is a competitive advantage that is difficult to replicate, which should allow the company to rake in higher margins and better profits down the line. In fact, some analysts expect these positive catalysts to kick in as early as 2023.

With that dividend and earnings growth trajectory in mind, Enbridge probably deserves a better valuation.

Bottom line

It's been a rough few years for the energy sector. Investors have seen billions of dollars in wealth eroded, as the global oil market struggled to find its footing. Now that the dust has settled, midstream companies with robust infrastructure, such as Enbridge, can finally start reaping the rewards of years of cutting out inefficiencies and boosting capital investments.

The stock seems to finally be reflecting Enbridge's brighter prospects and competitive advantages.

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Date
2025/07/27
Date Created
2020/02/09
Author
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