Enbridge (TSX:ENB) Stock Is a Crazy-Good Bargain Today!

Description

Enbridge (TSX:ENB)(NYSE:ENB) is a stock that ought to be a staple for every Canadian's portfolio. The recent market crash has presented a great opportunity for investors to pick up a sweet 8% dividend and some upside potential from here. Unlike many of the Canadian utilities and infrastructure stocks, Enbridge has failed to have a real significant rebound. Yes, it is up from its March lows by 16%, but in comparison, the **S&P/TSX Capped Utility Index** is up over 27%.

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Utility-like pipeline

Many would say Enbridge is not really a utility, but the nature of its business is quite similar. It provides oil and gas pipelines, midstream services, regulated gas utilities, and even power production. Its pipelines (its largest business segment) transport 25% of North America's oil and 20% of its natural gas. While it is heavily exposed to the oil and gas sector, its business is not much riskier than many regulated utility companies.

98% of its adjusted EBITDA is contracted or regulated. Cash flows are derived through 40 different operations that are geographically and functionally diverse. Less than 3% of its business is exposed to actual energy pricing. Likewise, 95% of its revenue comes from counter parties with investment grade credit ratings. Its top customers are a mix of oil and gas producers, refiners, and utilities, including the likes of **Imperial Oil**, **BP**, **Suncor**, **Fortis**, and **NextEra**.

Many of its oil-producing customers are certainly hurting in this low-oil environment. Yet, Enbridge's cash flows should remain relatively stable. Right now, its customers need Enbridge's assets. North America has a severe oil supply glut. Oi producers desperately need storage capacity. Fortunately, Enbridge has the expertise to utilize some creative methods to create storage capacity for its customers.

Improved balance sheet

Although its business operates fairly consistently, Enbridge stock has been somewhat choppy over the years. Investors were concerned about its balance sheet and level of debt. Fortunately, over 2019, the company reduced leverage and further stabilized and diversified the quality of its cash flows.

Management recently noted that after paying its dividend and maintenance costs, its development program is almost completely self-funded. It is sitting on $12 billion of liquidity. Management believes this should be sufficient to fund short-term development plans and still repay any major debt maturities in 2020 and 2021. Overall, the company appears to be in a strong financial position to weather 2020.

More upside from here

Enbridge stock has good upside potential from here. Enbridge has $11 billion of capital growth projects due for completion between now and 2022. These could potentially add $2.5 billion of EBITDA to Enbridge's results by 2022.

However, investors should be a bit cautious about those estimates in this market. Some of those projects could be liable for delays or pruning if today's oil prices persist.

The largest concern is its U.S. Line 3 replacement project. It is Enbridge's largest pipeline project to date. The project has struggled with permitting delays as well as concerns of costs overriding. The COVID-19 could further add to permitting and construction delays, although it has made no indication of this yet.

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Despite these concerns, management still anticipates 5-7% cash flow growth from organic (contract escalations) growth and its development pipeline. Dividends are expected to grow at a similar rate. Today, Enbridge stock is already yielding 8%. Further growth is just a cherry on the cake for investors!

Enbridge stock is a bargain

Enbridge stock has historically traded with a dividend yield of 4.8%. Today, it yields over 8%! Management has affirmed that despite the COVID-19 crisis, business remains relatively steady, and the dividend safe. The company performs with the consistency of a utility, but is not trading like one.

This makes it an intriguing opportunity. Of course, any company exposed to the oil sector right now is riskier than, say, a regulated power utility. However, Enbridge will have considerable upside over a utility if the world normalizes and oil markets balance. So, be patient. Invest for the long run. Lock in that growing 8% yield if you are happy to just sit and wait for the world to get better.

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