Enbridge (TSX:ENB) May Never Be This Cheap Again

Description

The beautiful part of investing during a market downturn is the bargains. When there's a bull market, investors often have to sacrifice quality to buy a stock trading at a cheap price. There's no such trade-off taking place today, with many excellent companies currently on sale. I think **Enbridge** (TSX:ENB)(NYSE:ENB) is one such stock.

You could certainly argue today's economy is having an impact on the company, as it has to deal with the impact of low oil prices on its business. But that doesn't mean the stock should be down so much; shares have cratered some 30% over the last couple of months.

In a market filled with bargains, I think Enbridge is one of the best deals out there. Let's take a closer look at this stock and why it may never get to levels this low again.

Fantastic assets

Enbridge has three different divisions. The most important one is the company's pipeline business — assets that criss-cross North America transporting both oil and natural gas. A little over 50% of earnings come from this division, which boasts an energy infrastructure network that simply couldn't be replaced today. There's just too much opposition.

Another major part of the company's business is its natural gas utility, which serves more than 12 million customers in Ontario. This delivers plenty of predictable earnings that aren't correlated to underlying commodity prices. After all, you continue to pay your gas bill, even if it's much higher than expected. The economic impact of COVID-19 might impact this part of the business somewhat, but that should only be a temporary issue. Again, this is a terrific asset that can't be easily replaced.

Finally, Enbridge also has a renewable power generation division. Although this part of the company is much smaller than the other two divisions, it's still a solid contributor to the bottom line. It also boasts a pretty interesting growth profile as coal-fired power plants are replaced around the world.

The valuation

Enbridge has excellent assets. That’s a well-known fact. What’s different now is investors can load up on the stock at an excellent price.

In 2019, the company earned $4.57 per share in distributable cash flow. The stock currently trades at just a hair over $40 per share on the Toronto Stock Exchange. That puts the stock at approximately nine times distributable cash flow — a metric most investors use as a proxy for Enbridge’s true profitability.

Earnings per share is less effective because the company has huge depreciation charges — something that impacts earnings but not cash flow.

Investors should also remember Enbridge is also likely to increase its cash flow this year, too. It has numerous projects that are slated to come online in 2020 — assets that are already protected with contracts in place. Yes, there is a risk some of these counterparties will go bankrupt, but that supply will be inevitably replaced.

Enbridge’s succulent dividend

The recent sell-off has been good news for income investors with cash to put to work. Folks who buy Enbridge shares today are locking in an 8% yield.

Remember, it was just a few months ago when Enbridge told investors it still planned on raising its dividend by 8-10% by the end of 2020, an increase that should still happen in December. But even if the company decides to forego the increase this year and hoard a little more cash, that’s still a prudent move to make in today’s economic environment.

The bottom line on Enbridge

At $40 each, Enbridge shares are a screaming deal. It isn’t very often investors have the opportunity to buy such great assets at such a low price.

In fact, I’d be willing to argue the stock price will never be this cheap again. With the Canadian government seemingly opposed to pipelines and the U.S. government potentially in the same position come 2021, it could bode really well for Enbridge’s existing assets — as well as for shareholders.

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