Why You Should Start Lapping Up Enbridge (TSX:ENB) Stock

Description

Shares of **Enbridge** (TSX:ENB)(NYSE:ENB) are down about 18% this year. The pandemic took a toll on the demand and supplies of crude oil and other liquid hydrocarbons that Enbridge transports. A reduction in demand following a low oil price environment is negatively impacting the throughput and revenue of its mainline system.

The mainline throughput and load reductions could continue to hurt Enbridge's near-term performance. A decrease in volumes transported could affect its revenues and earnings.

However, investors should note that Enbridge's problems are short-lived and mainline throughput is likely to show recovery in the second half of 2020. Besides, Enbridge runs a resilient and diversified business that continues to support its cash flows and payouts.

Strong fundamentals to support upside

Enbridge's diverse sources of cash flows and low-risk business model provide a solid foundation for long-term growth. While the reduction in mainline volumes remains a drag in the short-term, Enbridge's other businesses are relatively stable and continue to support its cash flows.

Besides, Enbridge's take-or-pay contracts and cost of service arrangements with credit-worthy counterparties largely mitigates the negative impact of reduced throughput in its mainline system.

Further, the reopening of the economy should drive recovery in Enbridge's mainline volumes in the second half of 2020 and support its EBITDA and cash flows. Enbridge's 2020 adjusted EBITDA is backed by businesses that are relatively stable and are unlikely to see disruptions due to their contractual framework.

Investors should note that about 98% of its EBITDA is supported through long-term take-or-pay and cost of service contracts. As well, the mainline's competitive positioning and strong supply fundamentals protect it during commodity and economic downturns.

Enbridge generates about 30% of its EBITDA from the gas transmission business, which has reservation-based revenue contracts and is unlikely to be impacted by the pandemic. Meanwhile, Enbridge's gas business accounts for 13% of its EBITDA operates through an incentive framework with long-term contracts.

Its renewable power business, which contributes about 5% to its consolidated EBITDA, is backed by long-term power-purchase agreements. All of these businesses generate predictable cash flows and are relatively stable.

Enbridge is also reducing costs to support its bottom line and cash flows. The company is planning to lower costs by $300 million in 2020 and has available liquidity of about $14 billion.

Buy Enbridge stock for its dividends

Enbridge's resilient business and predictable cash flows enable it to boost shareholders' value through higher dividends. Enbridge is a Dividend Aristocrat, and over the last 15 years, its dividends have grown at a compound average annual growth rate of 11%.

Enbridge's dividends are pretty safe and could continue to grow in the coming years. Management reaffirmed its guidance on the distributable cash flow (DCF) and expects to generate DCF per share to be $4.50 to $4.80 in 2020. Also, Enbridge's cash flows at risk are less than 2%, an encouraging sign.

Enbridge's forward yield of 7.7% is not only juicy but also very safe thanks to the low-risk business and resilient cash flows.

Bottom line

The pullback in Enbridge stock presents an excellent opportunity to buy and hold it for decades. Despite short-term challenges, the long-term energy demand remains intact, and Enbridge with its diverse assets and geographies remains well positioned to capitalize on the same.

The company's EBITDA and dividends are backed by the diversified business line coupled with the stability and predictability of its cash flows.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks

Date
2025/08/25
Date Created
2020/06/22
Author
snahata