Enbridge (TSX:ENB) Stock Is Ridiculously Cheap!

Description

Enbridge (TSX:ENB)(NYSE:ENB) was once a dividend darling on the **TSX Index**. The stock allowed investors to have their cake (a large, growing dividend) and eat it too (steady capital gains) before it turned into an unstable rollercoaster ride in early 2015.

After the latest coronavirus-induced carnage, Enbridge stock now finds itself sporting a gigantic 8% dividend yield. Given the management team that's willing to swim to great lengths to maintain its reputation as a shareholder-friendly company, the now swollen dividend looks a heck of a lot safer than the company's financials would suggest.

Moreover, the company has a promising pipeline of medium-term cash-flow-generative projects that could fuel dividend growth for many years to come. All Enbridge needs to do is to pass those regulatory hurdles and the stock could finally break out of its multi-year funk.

How much cheaper can Enbridge stock get?

While Enbridge is a great cash-flow-generative company with decent fundamentals, the company also has a considerable amount of baggage. But this baggage, I believe, is already baked into the share price — and then some. On a price-to-book (P/B) basis, Enbridge stock is close to the cheapest it's been in recent memory at just 1.35 times book, the lowest it's been in over a decade.

The company has a considerable amount of total debt ($68.6 billion), but most of it isn't coming due anytime soon. With a somewhat decent liquidity position (0.6 current ratio) and projects slated to come online over the medium-term, the debt-load shouldn't be a cause for concern.

But as with most pipeline projects, delays are to be expected along the way. And that's a significant reason why Enbridge's future cash flows may be less predictable relative to most other highly regulated utility-like firms.

With Warren Buffett recently betting nearly US$10 billion on the natural gas assets, value investors looking for top-down clues ought to consider a battered pipeline like Enbridge while the midstream world is at its cyclical low point.

Betting on a cyclical rebound

Buying shares of cyclical companies at or around their cyclical bottoms could pay off big-time when the tides finally have a chance to turn. Such cyclical turnarounds tend to take years, though, so those looking to make a quick buck may want to take their money elsewhere.

While there's no telling when a name like Enbridge will be back on the high road again, those with a long-term time horizon will stand to be adequately compensated for their patience with a handsome dividend while management does everything in their power to insulate shareholders from the hailstorm in the energy scene.

It's unlikely that oil and natural gas prices will remain this depressed forever.

As the coronavirus pandemic subsides, we'll probably witness a steady recovery in demand for such commodities, all while Enbridge looks to pass regulatory hurdles.

The market doesn't seem to share my optimistic forecast when it comes to Enbridge, though, as ENB shares have vastly underperformed the broader markets, with shares still down a staggering 30% from those February 2020 peak levels. I think Enbridge stock is mispriced, and in due time, the stock will correct upwards.

Enbridge: What about the safety of that 8%-yielding dividend?

Enbridge is probably too shareholder-friendly for its own good. Even if the pains across the entire energy sector remain for another few years, I just don't see management putting their dividend on the chopping block, even if the yield swells above the 10% mark again.

Borrowing to finance a dividend may not be the wisest choice. Still, if you're in the belief that the company can navigate past regulatory hurdles while continuing to roll with the punches brought forth by industry headwinds, Enbridge represents a rare opportunity to "lock-in" a huge dividend yield alongside what could be outsized capital gains in a correction to the upside.

If you've got at least five years to invest, I'd look to accumulate shares while they hit the $40 level of support.

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