



Is Enbridge (TSX:ENB) a Buy at These Levels?

Description

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) has recovered over 27% from its March lows. However, it is still 18% down for this year. Amid the pandemic, the economic activities across the world had slowed down, lowering the oil demand. However, oil producers kept producing, which led to a demand-supply imbalance, causing oil prices to crash.

Oil price movements do not impact Enbridge's revenue. But the decline in oil prices caused oil producers to cut their production, which is hurting Enbridge's mainline throughput and revenue.

But I believe these issues are short-lived and could abate soon. Also, the company earns a significant part of its revenue from regulated assets or through long-term contracts, which supports its stable cash flows.

Enbridge's growth drivers

Enbridge runs a well-diversified business, which covers liquids pipelines, gas transmission, gas distribution and storage, renewable power generation, and energy services.

The company's gas transmission segment serves utility customers under long-term contracts. Meanwhile, the gas distribution and storage segment services a diversified residential customer base under regulated agreements.

Also, the company's renewable power business has the backing of long-term purchase contracts. So, the pandemic will not impact these segments. The three segments together account for close to 50% of the company's EBITDA.

As the economic activities are beginning to rise, oil prices are also moving up. I believe this could prompt oil producers to increase their production levels, thus driving the throughput and revenues of Enbridge's mainline segment.

Further, Enbridge continues to make advancements in its \$10 billion secured growth capital program,

which is likely to be completed in 2022. Once operational, these projects could drive the company's near- to medium-term growth and strengthen its liquidity.

Despite the impact of the pandemic, Enbridge has reiterated its guidance for this year. It expects the distributable cash flow per share to come in the range of \$4.50-\$4.80 for this year.

Liquidity and dividend yield

Enbridge has been supporting its shareholder by distributing dividends for the past 65 years. It is a Dividend Aristocrat, which has increased its dividends consistently for the last 25 years at a CAGR of 11%.

Yesterday, the company [announced](#) its quarterly dividends of \$0.81 per share, which represents an annualized payout of \$3.24. The decline in Enbridge's stock price has increased its dividend yield to an attractive 7.7%.

In the first quarter, Enbridge generated \$2.81 billion through its operating activities. It also raised \$7 billion additional capital through various debt facilities to strengthen its liquidity position. At the end of the quarter, the company's liquidity stood at \$13.2 billion. So, the company is well capitalized to fund its future projects and continue paying dividends.

Meanwhile, the company's management has planned to cut its expenses by \$300 million this year. It has also announced to defer its \$1 billion of its capital spending amid the pandemic.

Bottom line

Currently, Enbridge's valuation looks attractive. It trades at a forward price-to-earnings multiple of 15.9 compared to its average multiple of 18.3 over the last three years. Despite the near-term challenges, the long-term energy demand is still intact. The company, with its diversified, low-risk businesses, is well positioned to capitalize on it.

Given the strong growth prospects, attractive valuation multiple, and high dividend yield, [Enbridge is the ultimate dividend-growth stock](#).

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