Enbridge (TSX:ENB) Has Become Too Cheap to Ignore

Description

Enbridge (TSX:ENB)(NYSE:ENB) stock has been a ridiculously volatile roller-coaster ride over the past five years. The top pipeline play has fallen under a considerable amount of pressure ever since energy prices fell off a cliff back in 2014. The COVID-19 pandemic, which sent oil prices off another cliff, acted as salt in the wounds of an already challenged company that's suffered from what seemed like a perfect storm of headwinds.

Today, Enbridge stock sports a 7.5% yield. The swollen dividend is starting to look suspect amid unprecedented pressures. Still, given the shareholder-friendly nature of management and subtle signs of recovery in the midstream space, I think the dividend will survive the crisis. So, if you have the stomach for volatility and the courage to go against the grain, there's an opportunity to lock in a massive yield alongside a shot at outsized capital gains with the name.

Deep value to be had from Enbridge stock after the COVID sell-off

Fellow Fool contributor Andrew Walker thinks that Enbridge stock is a great value buy for Gen X TFSA investors: "Enbridge cleaned up its balance sheet before the pandemic, putting it in decent shape to ride out the downturn. The company sold nearly $8 billion in non-core assets and streamlined the company structure," wrote Walker his prior piece aimed at self-guided TFSA investors. "Management reconfirmed guidance for 2020 distributable cash flow when the Q2 results came out. The second half of the year could surprise to the upside as economic activity rebounds in Canada and the United States."

The bar has been set way too low here, and I think Walker is right on the money regarding Enbridge's chances of pole-vaulting over expectations for its coming quarters. The company has demonstrated far more resilience during the worst of the COVID-19 crisis than expected. Enbridge expects to cut its capex by approximately $1 billion for 2020 and increase it by a similar amount in 2021 when COVID-19 headwinds have a chance to fade.

Enbridge's reaffirmed guidance for the year is encouraging and speaks to management's confidence in the firm's abilities to bounce back from this unprecedented crisis. The generous dividend program is to be maintained. Once delayed projects get moving again, count me as unsurprised if Enbridge announces a new dividend-growth program that could extend past 2021.

A big dividend at a ridiculously low price

Enbridge stock is currently 23% below its February 2020 pre-pandemic highs. The stock trades at 1.5 times book value, 8.8 times cash flow, and 16.9 next year's expected earnings, all of which are considerably lower than the stock's five-year historical average multiples of 2.4, 9.5, and 19.7, respectively. Historically speaking, shares of Enbridge are severely undervalued.

While it may be a bumpy road to recovery from the COVID-19 crisis, which could quickly worsen at the drop of a hat, I think long-term investors have a lot to gain from Enbridge with shares that are now close to the cheapest they've been in recent memory.

The 7.5%-yielding dividend may be stretched, but it looks safe given cash flows are still relatively stable.

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