Enbridge (TSX:ENB) Is Down 40% — Time to Buy?

Description

Enbridge (TSX:ENB)(NYSE:ENB) stock used to be one of Canada's best market darlings for the perfect combo of growth and income. With the latest COVID-19-induced hailstorm in the energy sector, though, Enbridge has been feeling immense pressure, and its stock has fallen nearly 40% from its all-time highs.

Enbridge now sports a juicy (and safe) 8% yield

With a bountiful dividend, currently sporting a mouth-watering 8% dividend yield, though, the potential rewards and upside from the battered midstream player have the potential to be profound, as headwinds gradually look to fade away. Amid this pandemic, things could get a lot uglier for the battered energy scene before they get better.

And while Enbridge's dividend is safe, it's been stretched. Fortunately, the shareholder-friendly management is unlikely to bring its payout to the chopping block after it swam to great lengths to keep it intact thus far (the company sold around $8 billion worth of non-core assets before the pandemic struck).

Moreover, management is more likely to pull other levers to shore up further liquidity than slashing income payments to investors, many of whom view investment income as critical amid today's unprecedented unemployment crisis.

Enbridge's management team is shareholder-focused, but is it enough to sustain the company's swelling dividend?

There are cash-flow-generative projects on the horizon that could provide Enbridge with some much-needed financial relief. However, the company still faces high regulatory hurdles, and until such hurdles are passed, shares of Enbridge are likely to remain under pressure.

Fellow Fool contributor Andrew Walker noted that Enbridge has businesses to help relieve the pressure faced in the oil patch and encouraging projects that could improve the odds that the firm's dividend will survive this crisis.

"Enbridge has utility and renewable energy assets that provide steady revenue and cash flow. The company also has more than $10 billion in secured capital projects underway to support revenue growth," said Walker, who called Enbridge one of his top two income picks to buy amid the market crash.

While it's comforting to know that Enbridge has a more diversified business than most give it credit for, such utility and renewable assets, I believe, won't be a needle-mover for the stock so long as the energy sector is in the state it's in.

Between now and the end of this pandemic, there's likely to be more pain for Enbridge and its peers. ENB shares could pullback further, and we could see the stock sport a yield north of 9% again. That said, the stock is currently close to the cheapest it's been in recent memory at 1.4 times book value, and for those with a time horizon of at least five years, the risk/reward is attractive right now.

Foolish takeaway

Oil prices could fall under further pressure should we be in for another round of lockdowns, but they're not going to remain at these depths forever. In due time, the energy sector will recover from this crisis, and as a top-tier midstream player, Enbridge is likely to lead the group higher over the next five years.

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