



Enbridge (TSX:ENB) Stock: This Dividend Paying Giant Is Trading at a Massive Discount!

Description

Oil stocks are not a favourite among investors right now. Low oil prices and a scenario where oil consumption might never go back to pre-pandemic levels have put a dampener on most oil stocks. However, there is an outlier in the game: **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)).

Enbridge is one of the [largest midstream companies](#) in North America, engaged in the storage and distribution of oil and natural gas. Enbridge also has a growing portfolio of renewable assets. The stock is currently trading at \$38.6, just 16% over its March lows. Here's why I think the stock presents a tremendous buying opportunity.

Oil won't disappear

While the prospects for oil look bleak right now, it is not as if the commodity is going to disappear from our lives overnight. The world depends on oil and natural gas for everything from planes to shipping containers to cars. Apart from fuel, oil has multiple use cases and is used in the manufacturing of products as diverse as candles, trash bags, roller skates, tennis racquets, and fishing boots.

Enbridge transports 66% of all Canadian crude exports and around 25% of all crude oil in North America. Even if the continent reduces dependency on oil, plenty of countries around the world are still dependent on it.

When it comes to generating electricity, natural gas is emerging as a good substitute for coal and the trend is picking up across the world. This could mean that Enbridge's natural gas business could gather momentum down the years. The company already supplies natural gas to over 170 million customers in North America.

Enbridge contracts are “take-or-pay,” which means that the buyer has to give a minimum guarantee on purchases or pay the seller for any shortfall. This insulates Enbridge from commodity price movements at least in the short term.

While oil is still the company’s base play, Enbridge has invested over \$8 billion into renewable projects and now has a net generation capacity of 1.8 GW.

Enbridge stock has massive upside potential

Enbridge’s forward dividend yield is a tasty 8.4% right now. The company has consistently increased its dividend payout for the last 25 years. Since 1995, its dividend growth CAGR is an enviable 11%. Enbridge has increased its dividend payout even as the pandemic caused other companies to cut or entirely suspend dividends.

Enbridge stock has delivered a return of 15.8% from 1995-2019, compared to 8.9% on the **S&P TSX** and 10.6% on the S&P 500. The company has \$14 billion worth liquidity that can bridge its requirement through 2021 even if it doesn’t get access to debt capital markets.

Its full-year [distributable cash flow guidance per share](#) remains unchanged at \$4.5-\$4.8, indicating a payout ratio of less than 70%. Enbridge’s distributable cash flow per share was \$4.5 in 2019. The company guidance indicates that it will grow its dividend yield by around 4% over the next couple of years.

Enbridge has strong fundamentals, is diversifying, and has the capacity to pay out regular dividends. Analysts tracking Enbridge have a 12-month average target price of \$52 for the stock which is 35% above its current trading price. After accounting for its dividend yield, total annual returns might be close to 45%.

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