Is Enbridge Stock a Buy Below $40?

Description

Enbridge (TSX:ENB) (NYSE:ENB) continues to suffer from negative investor sentiment toward the energy industry. The sell-off appears overdone and contrarian investors wonder whether Enbridge stock is simply too cheap to ignore today.

Pandemic impact on Enbridge's stock

Enbridge doesn't produce oil or natural gas. The company simply moves the commodities from the producers to refineries or other customers. As a result, changes in the market prices of the commodities have limited direct impacts on Enbridge's revenues.

However, the pandemic lockdowns and travel restrictions hammered global fuel demand. Planes remain grounded and commuters continue to work from home. This means there is less consumption of jet fuel and gasoline.

Enbridge's pipelines effectively operate like toll booths, collecting fees for moving energy products. In fact, Enbridge transports about a quarter of all oil produced in Canada and the United States. The drop in demand for crude oil to make fuel hit Enbridge's throughput in Q2 2020. The Q3 numbers will likely show pain as well.

New waves of COVID-19 in the United States and Europe threaten to extend travel bans and keep people at home well into 2021. The result could put more pressure on Enbridge's oil pipeline revenues leading into next year.

This is part of the reason the stock currently trades below $40 per share, compared to the 12-month high around $57. The other reason lies with a major shift of funds away from oil and gas towards renewable energy.

The opportunity

At the time of writing Enbridge's stock trades for $39 per share and provides a dividend yield of 8.3%.

In the Q2 report the company said it completed its debt funding program and has more than $14 billion in available liquidity to move forward with $11 billion in capital projects. This means Enbridge won't need to access capital markets in 2021.

Distributable cash flow (DCF) in Q2 actually exceeded the same period in 2019 and Enbridge confirmed its full-year 2020 guidance for DCF of $4.50-4.80 per share.

Throughput on the liquids pipelines normally operates near capacity. Once COVID-19 vaccines become widely available travel restrictions should ease and people will start going back to the office.

In the meantime, Enbridge's renewable energy and natural gas utility assets continue to perform well.

As new assets go into service and the company finds additional growth opportunities across the various lines of business, DCF is expected to increase at a rate of 5-7% per year through 2022.

This provides support to the existing dividend and could even lead to more payout increases.

Is Enbridge stock a buy at this price?

Enbridge appears cheap below $40 per share. The dividend should be safe, so you get paid very well to ride out the pandemic.

Investors with a buy-and-hold strategy might want to consider adding some Enbridge stock to their portfolios ahead of the Q3 earnings release. There is a chance that the results and guidance could surprise to the upside.

Enbridge stock bounced from the March low around $33 to $46 in early May on the initial rebound, so there is attractive upside potential on a shift in sentiment.

Five years from now, Enbridge's stock price could easily be back above $55 per share.

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