



Enbridge (TSX:ENB) Stock: We May Never See These Levels Again!

Description

While TSX stocks maintained a stable recovery, Canadian pipeline giant **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) stock kept trading weak in the last few months. It has corrected almost 36% amid the pandemic and is currently trading close to its nine-year lows.

Enbridge: Q3 earnings

The energy midstream company will report its third-quarter earnings on November 6 before the market opens. According to analysts' estimates, the company is expected to report \$9.7 billion in revenues, a fall of 16% compared to the same quarter last year. On the earnings front, analysts anticipate a marginal fall for the quarter ended on September 30, 2020.

The expected fall is much lesser compared to what big oil companies have exhibited this year. It's because of Enbridge's low-risk business model that stays relatively resilient, even in market downturns.

Importantly, it generates a large portion of its earnings from long-term, fixed-fee contracts. Thus, Enbridge's earnings remain stable regardless of oil prices. For instance, crude oil prices have almost halved since 2018, but Enbridge's profits consistently [grew](#) in this period.

The pandemic has had a terrible impact on global energy markets this year. Although Enbridge's cash flows are comparatively immune to volatile oil prices, if the oil production falls, lower volumes will flow through Enbridge's pipelines, ultimately denting the company's profits.

However, I think it should not be a problem in the longer term. Oil demand is way below normal this year. Once the pandemic subsides, and travel restrictions are lifted, crude oil prices could once again reach some respectable levels.

Low-risk business model

Despite many uncertainties, Enbridge management is confident of achieving its full-year earnings

guidance for the current year. It forecast to generate distributable cash flow per share of \$4.5 to \$4.8 this year. Interestingly, when almost all the energy companies have withdrawn guidance amid the pandemic, Enbridge has given and even maintained guidance for 2020.

Enbridge stock currently offers a dividend yield of 9%, one of the highest among Canadian giants. Also, that's way higher than its own average historical yield.

If an investor invests \$10,000 in Enbridge stock, he or she will receive approximately \$900 in dividends. Considering the historical trends, Enbridge will likely continue to increase its dividends by nearly double digits for the foreseeable future.

In the last 25 years, the pipeline company has managed to increase dividends by 11% compounded annually. Because of the stable dividend profile, it makes Enbridge one of the prudent investments for uncertain times.

Enbridge stock has returned almost 700% in the last 20 years, including dividends, notably outperforming the **TSX Composite** and **S&P 500**.

Bottom line

ENB stock is currently trading at \$36.4, close to its March lows. It looks remarkably [undervalued](#) against its average historical valuation. That does not mean Enbridge stock will only soar from its current levels. However, it could have a very limited downside from here, and investors will have a higher margin of safety.

Enbridge will most likely report subdued Q3 earnings. Even if the near-term uncertainties weigh on the stock, it will likely continue to outperform in the longer term. Stable earnings, a super-juicy dividend yield, and a discounted valuation make Enbridge an attractive buy at the moment.

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