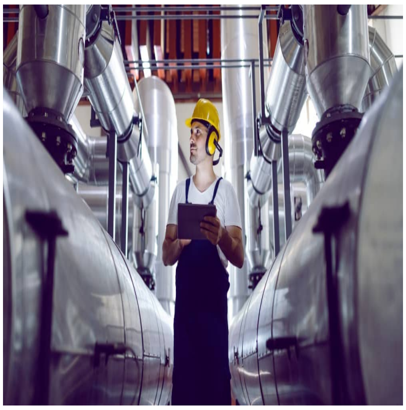

Enbridge (TSX:ENB) Q3 Earnings Call: 3 Key Takeaways

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is one of Canada's energy transportation and distribution giants. Its oil and gas assets and operations in North America make up a big chunk of the energy infrastructure. Enbridge also has renewable assets in North America and Europe, and these assets ensure Enbridge's long-term health and viability.

Today, Enbridge reported its third quarter earnings. Here are the most important takeaways.

Enbridge reaffirmed its guidance

Like most other companies, Enbridge's results were weaker than last year due to the coronavirus pandemic. But this did not interfere with Enbridge's guidance for the full year. In fact, Enbridge explicitly reaffirmed its 2020 guidance of distributable cash flow per share of between $4.50 and $4.80.

Enbridge's mainline volumes were once again negatively affected by reduced demand due to the pandemic, but Enbridge is expecting a gradual recovery. Gasoline demand is still down, jet fuel is still down, while heavy oil demand is strong. We can and should think of any weakness in demand as a temporary blip. We should be more concerned with Enbridge's long-term outlook.

So with Enbridge's immediate results meeting expectations in 2020, let's see what Enbridge is doing to ensure its long-term survival and prosperity.

Energy transition: New ESG targets for Enbridge

As we all know, the energy industry is transitioning to clean energy. To this end, Enbridge is targeting net-zero emissions by 2050 and a 35% reduction in emissions by 2030. In the meantime, Enbridge is positioned in the best way for this gradual shift to clean energy.

The global demand for energy will rise, driven by population growth and urbanization. North America has an opportunity to increase its global market share — which reflect the fact that Canada's energy is among the lowest cost and cleanest in the world. The transition to clean energy will be a gradual process. Many forms of energy will be needed for years to come.

The coronavirus has hit economies hard, and everyone is working hard to get economies back to growth. Access to energy is essential if economies are to return to pre-COVID levels. And of course, infrastructure is needed in order to achieve this. So there we have it: Enbridge's path to growth.

Share buybacks increase as Enbridge stock is pricing in the worse

Enbridge transports approximately 25% of the crude oil produced in North America. The company also moves almost 20% of the natural gas consumed in the U.S., and it owns the third-largest North American natural gas utility. Enbridge is cemented into the North American energy grid. It plays an essential role in powering our lives and livelihoods, which ensures that Enbridge will continue to provide investors with stability, predictability and dividend income.

But a crisis in the oil and gas sector has hit this once stable and predictable stock. The biggest concern has been the political stand against pipelines. This has hit Enbridge hard. But its diversification, strong liquidity and healthy balance sheet should help it survive and eventually thrive again. Enbridge stock is trading at doomsday valuations, with an 8.73% dividend yield, which makes it a screaming buy today.

The bottom line

Third-quarter results were yet more proof of the resiliency and predictability of Enbridge's business model. Cash flows of $2.3 billion in the third quarter and continued cost reductions highlight its strength.

Yet, Enbridge's stock price remains grossly undervalued. The stock is supported by strong cash flows and a very generous dividend yield. As the company prepares for a slow and gradual transition to clean energy, it will continue to benefit from its highly diversified asset and revenue base.

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