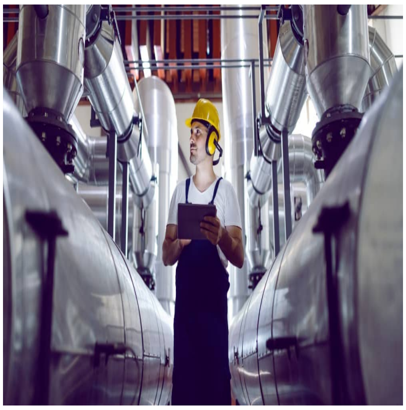

Enbridge Stock: Should You Buy Now or Wait?

Description

Enbridge (TSX:ENB)(NYSE:ENB) continues to trade well below the 12-month highs. Investors with a contrarian investing style are wondering if this is the right time to add Enbridge stock to their portfolios.

Enbridge earnings

Despite ongoing challenges in the energy sector, Enbridge reported solid Q3 2020 results.

Adjusted earnings came in at $961 million, or $0.48 per share, compared to $1.12 million, or $56 per share, in the same period last year. Distributable cash flow (DCF) was $2.09 billion, just under the $2.1 billion recorded in Q3 2019.

Enbridge reaffirmed its 2020 DCF financial guidance of $4.50-$4.80 per share. That's good news for investors who rely on the dividends for income.

Enbridge acted quickly in the early part of the pandemic to shore up liquidity. The company tapped attractive debt markets in the spring to raise cash needed for 2020 and 2021. At the end of Q3, Enbridge had $14 billion in available liquidity.

Enbridge went through a reorganization in the past few years. The company streamlined its operations and sold roughly $8 billion in non-core assets. Those measures positioned the business well to navigate the pandemic.

Oil impact on Enbridge stock

The oil pipelines saw throughput drop in recent months due to a plunge in fuel demand. Enbridge moves crude oil from producers to refineries that use it to make jet fuel, gasoline, and diesel fuel. Fuel demand is improving, but the recovery will be gradual through 2021. Once vaccines are widespread, governments should start to lift travel restrictions. That will help airlines. In addition, people will begin to spend at least part of the week in the office. This should boost gasoline demand.

Enbridge's other business units are performing well. The renewables group, which includes wind and solar facilities, continues to grow. The gas transmission, storage, and distribution businesses are providing reliable cash flow, while the liquids pipelines wait for the recovery in oil demand.

With the secured capital program and the embedded growth in the various businesses Enbridge expects DCF per share to increase by 5-7% per year through 2022.

The company is on track to hit $300 million in cost savings in 2020.

Dividend safety

The board declared a quarterly dividend of $0.81 per share when the Q3 results came out. Given the strong cash position and the anticipated DCF growth in the coming years the distribution should be safe. In fact, investors could see a dividend hike in 2021.

Should you buy Enbridge stock now?

Enbridge moves 25% of the oil produced in Canada and the U.S. and 20% of the natural gas used in the United States. It is a giant in the energy infrastructure industry and plays an essential role in the smooth operations of the economy.

The stock trades near $39 per share at the time of writing and offers an 8.3% yield. Enbridge stock started 2020 above $50, so there is decent upside opportunity once the energy sector normalizes.

The coming six months might be a bit rocky for the oil market, but the situation should start to improve in the back half of 2021. In the meantime, investors who buy now get paid well to wait for the recovery.

If you have some cash on the sidelines, Enbridge stock appears oversold today and deserves to be on your radar.

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