Enbridge Stock Is a Buy Because it Won't Stay This Cheap Forever

Description

Enbridge (TSX:ENB)(NYSE:ENB) stock has been in the doghouse for many years now. The pipeline kingpin has stumbled upon its fair share of regulatory hurdles. With the decreased appetite for fossil fuel plays (midstream players included), shares of the former market darling continue to be a wild roller-coaster ride of a stock. While shares are stomach-churningly volatile, the dividend remains intact, and it could be in a position to grow at a double-digit rate again once we exit this horrific pandemic.

Enbridge stock: A great dividend and an even more generous dividend policy

Borrowing money or selling non-core assets to finance a dividend can be a risky proposition that could lead to longer-term business erosion. With a shareholder-friendly management team that's reluctant to go back on its dividend hike promise, though, the dividend is likely to be left standing, even if it means pulling back modestly on growth initiatives amid continued headwinds.

While Enbridge's financial footing is more stable today such that its payout remains secure, investors will need to grapple with continued turbulence from continued resistance facing its Line 3 Replacement project.

Enbridge's Line 3 project continues facing resistance

Enbridge's Line 3 Replacement project is seen as a major source of medium-term financial relief. While the dividend, which currently yields just north of 8%, is still on steady footing (for now), the company is going to need something to go right for a change, or it'll be forced to swim to great lengths again to keep its dividend commitment to investors.

More recently, opponents of the Line 3 project (Minnesota Objibwe bands and environmental groups) filed a lawsuit with the hopes of shutting down the project in its tracks. For shareholders of Enbridge, such resistance should come as no surprise. The business of pipelines can be full of regulatory hurdles, and the odd stumble is to be expected.

While the energy environment is improving steadily, I suspect regulatory issues could continue to act as a weight on Enbridge stock's shoulders. Nobody knows what will happen with the latest lawsuit and continued resistance to halt work on the Line 3 project. Regardless, Enbridge's rich dividend provides a huge incentive for shareholders to hold their shares through the seemingly never-ending slate of bad news.

Deep value for those with long-term investment horizons

There's cheap, there's ridiculously cheap, and then there's Enbridge cheap. The stock trades at a mere 1.5 times book value and just two times sales. While the dividend payout is stretched, it's unlikely to be stretched to its breaking point, even if Enbridge's projects stand to be delayed.

Fellow Fool Chris MacDonald recently wrote a stellar piece touting Enbridge stock as one of his top picks for January 2021:

"This company is perhaps the best way to get exposure to the energy sector without direct exposure to commodity prices. The dividend Enbridge pays is well covered and looks cheap relative to long-term earnings growth. This earnings growth is expected to come from new projects as well as price improvements over time."

MacDonald is right. The stock is too cheap, given the quality of its dividend and the recovery trajectory that could be just around the corner. If you seek a big yield and are willing to hold for years, Enbridge may be the horse to bet on in the new year.

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