



Why Enbridge Stock Is Poised for a Parabolic Move!

Description

A stock that has rallied nicely in the past few months, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) stock has a ton of upward momentum right now. Here's why I think there are a number of fundamental drivers that could take this stock much higher this year. More importantly, I think this stock has a ton of room to run long term for investors seeking double-digit annual returns.

Capital allocation restructuring a big positive for investors

One thing I haven't discussed too much of late is the fact that Enbridge is a company that is actually going through a bit of a capital/dividend restructuring right now. In the past, the company had focused on raising debt to pay increasing dividends at a pretty healthy annual rate. However, given the company's [current yield of 7.6%](#), double-digit or high single-digit annual increases are not needed.

Accordingly, Enbridge's management team has decided to take very prudent action in improving this company's balance sheet. The plan is to still continue with dividend increases, but at a slightly lower pace over time. Doing so will allow the company to allocate more of its cash flows to pay down debt and invest in upcoming expansion projects.

Isn't less dividend growth a bad thing?

These slightly lower dividend increases over time don't bother me. Yes, I like higher rates of dividend growth over the long-term. That said, the starting point in terms of current yield for Enbridge is much higher than the average stock right now.

Indeed, this is a company that doesn't need to raise its dividend at an accelerated pace to see capital appreciation growth right now. Rather, I think the market will appreciate these moves by Enbridge's management team to improve a highly leveraged balance sheet.

Pipeline assets deserve a higher premium over time

I would argue that pipelines are really similar assets to railroads, in many respects. There is a growing consensus that no new pipelines may be allowed to be built going forward. This equates pipelines to railroad expansions which are difficult, costly, and almost impossible to be approved. Therefore, the pipe (or track) that's laid is likely to be what's there decades from now.

Enbridge might need to retrofit or upgrade its infrastructure over time, but in essence, these long-life assets will remain in place as is for a very long time. These factors make pipeline assets incredibly valuable. Enbridge is one of only a few North American pipeline players at its size and scale.

I think the premium that Enbridge deserves is at least equivalent to the 18% upside priced in by the average target price Wall Street has put on this stock.

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