



Enbridge Stock (TSX:ENB): Q4 Earnings Preview

Description

Enbridge Inc. ([TSX:ENB](#))([NYSE:ENB](#)) is a dividend king. But Enbridge's stock price does not reflect its strengths. It certainly doesn't reflect the strength in oil prices or natural gas prices. The company will release its Q4 earnings report on Friday. Enbridge's strengths will be obvious.

Investors are no doubt interested in a few major themes — dividend sustainability, for one thing, and dividend growth for another. And of course we'll all be interested in the state of Enbridge's business. The recovery from COVID-19 weakness and the numerous pipeline controversies.

So with this in mind, let's look into what to expect in Enbridge's earnings report.

Earnings strength on recovering volumes

Enbridge is a stable energy infrastructure giant. It has years of cash flow growth behind it and also has years of cash flow growth ahead of it. But Enbridge's stock price does not reflect these realities.

Since Enbridge's third quarter, much has happened. For example, [the price of oil has skyrocketed](#). In the fourth quarter, crude oil rallied 20%. This strength in oil prices means that Enbridge likely saw continued improvement in volumes. A pick up in gasoline consumption, heavy crude volumes, and refinery utilization likely took place. The second quarter was the low, when the mainline was 85% utilized. Expect that Q4 will show continued improvement. Natural gas prices did not recover in Q4, but that was just about to happen too.

Another big sea change happened after the fourth quarter ended. Since the end of the fourth quarter, oil prices have continued to rally – more than 20%. And it gets better. [Natural gas prices have also rallied more than 20%](#). This is all positive. It will certainly impact the tone of Enbridge's conference call. And this will have an impact on Enbridge's outlook.

Enbridge's pipeline controversy

But Enbridge has also been surrounded by a lot of controversy. This controversy surrounds its pipelines and their effect on the environment. The latest issue is with Enbridge's Line 5 pipeline. It moves 90 million litres of oil and natural gas liquids daily. It travels from Wisconsin to Sarnia, Ontario and passes through parts of Michigan's upper and lower peninsulas. And there's a lot of opposition to it.

We may hear from Enbridge management on this topic since it's been in the news a lot. Enbridge has stressed that this pipeline is of great need. It moves over 50% of Ontario's crude needs and supplies more than half of Michigan's propane needs for home heating. This highlights the importance of Enbridge's pipelines.

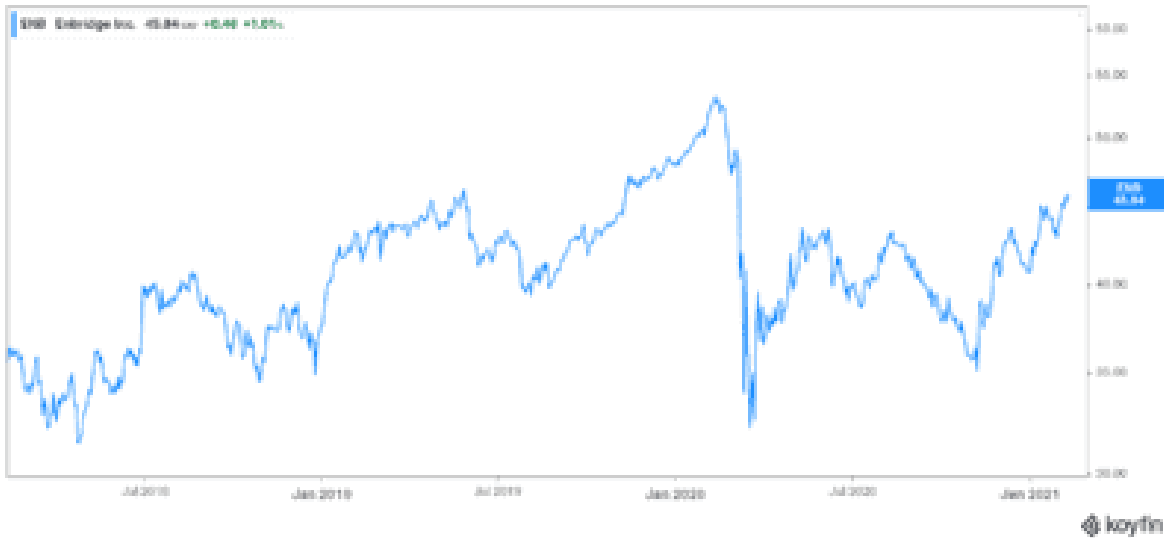
Another pipeline controversy is Enbridge's Line 3 replacement project. This project involves replacing the current Line 3 with a wider pipe that will carry greater volumes. It will improve the pipeline's integrity. Part of this pipeline is located in Minnesota. The other part is located in Canada and has been completed. Opponents of the pipeline in the US would like the permits to be revoked. We will hopefully get an update on these issues on Enbridge's Q4 conference call.

Investor expectations for Enbridge remain low

At this time, the market is not expecting much good news from energy stocks. That includes Enbridge. We have to look no further than Enbridge stock's price and valuation for proof of this. Enbridge is currently yielding over 7%. It's trading at a very depressed 17 times 2021 expected earnings. For the coming quarter, the consensus analyst expectation is for EPS of \$0.61. This is flat relative to the fourth quarter of 2019.

While low expectations like this certainly frustrate the company and shareholders, it could be a blessing in disguise. For example, Enbridge has taken advantage of this already. The company has stepped up its share buyback plan. They are set on making a solid return from buying back their own shares. Also, potential shareholders are now given the opportunity to buy this quality stock at cheap valuations.

Enbridge Stock Price Chart



The bottom line

Enbridge's fourth quarter earnings report on Friday will probably be a positive one. The fourth quarter has benefitted from increased volumes and rising oil prices. But it will also be a positive one for the tone and outlook of management. Oil and natural gas prices are rapidly recovering. This has happened since the end of the fourth quarter. It's more confirmation that Enbridge is a top stock.

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Author

karenjennifer

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