3 Reasons to Buy Enbridge Stock Now

Description

Enbridge (TSX:ENB)(NYSE:ENB) still appears undervalued after the recent surge. Here's why investors might want to buy Enbridge stock today.

Growth opportunities

Enbridge has $17 billion in secured capital projects through the end of 2023. The company already spent $7 billion of the funds and roughly $10 billion in assets will go into service this year. Enbridge is known for its oil pipelines, but the bulk of its capital program is focused on natural gas transmission, natural gas storage, natural gas distribution, and renewable power projects.

In addition, Enbridge's market capitalization of $100 billion gives it the financial clout to make strategic acquisitions. The energy infrastructure sector continues to consolidate and being one of the largest players gives Enbridge an edge.

Beyond 2023, Enbridge has identified diversified additional organic growth opportunities, including $7 billion in liquids pipeline opportunities, $10 billion in gas transmission assets, $6 billion in gas distribution and storage, and $4 billion in renewable power.

Enbridge just received approval from Minnesota's Court of Appeals on its permit to proceed on the construction of its 542 kilometres Line 3 Replacement Project (L3RP) that crosses the state. The battle might not be completely over as opponents can appeal to the Minnesota Supreme Court, but the decision is a major win for Enbridge in an era where getting any large oil pipeline project completed is a challenge. Minnesota's independent Public Utility Commission originally granted the permit.

The pipeline being replaced dates back to the 1960s and is only running at 50% of its capacity. Enbridge has already completed the Canadian part of L3RP and 60% of the Minnesota leg is done. Enbridge hopes to put the pipeline in service by the end of the year.

Dividends

Enbridge raised its dividend in each of the past 25 years and has a compound annual dividend growth rate (CAGR) of 10% over that timeframe. The development projects will generate distributable cash flow (DCF) growth of 5-7% through 2023. Investors should see the distribution increase in line with the higher DCF.

The stock currently provides a dividend yield of 6.75%. This makes it a great pick for retirees and other income investors who want to get above-average yield from a reliable source. Even if the share price doesn't increase, the return is much better than any GIC.

Upside potential

At the time of writing Enbridge stock trades near $49.50 per share. That's up considerably from the 2020 lows, but more gains should be on the way. Enbridge traded for $56 before the pandemic and was as high as $65 at one point in 2015.

The rebound in the energy sector should drive strong demand for Enbridge's pipeline assets in the next couple of years. Investments in natural gas and renewable power will ensure the company is a key player in all segments as Canada, the United States, and the rest of the world transition to clean energy.

The bottom line on Enbridge stock

Enbridge pays a great dividend that should continue to grow. The market might be too negative on the energy infrastructure segment, giving investors a chance to buy Enbridge at an attractive price today for a Tax-Free Savings Account (TFSA) or RRSP portfolio.

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