Enbridge Stock Is Too Cheap for its Own Good

Description

Enbridge (TSX:ENB)(NYSE:ENB) is a pipeline kingpin and former dividend darling that's continued to reward investors with generous payout hikes through thick and thin.

Over the years, critics have slammed the company for not earning the right to hike its dividend, as industry headwinds weighed on its business. I've slammed such critics. Enbridge had a dividend "promise" with its long-term shareholders, and it's one of few firms that kept its promises despite unfavourable macro pressures in the energy scene.

The tables are turning in favour of the energy giants

Although energy prices are much higher today, with WTI blasting off above US$73 for the first time in years, Enbridge continues to grapple with its own slew of company-specific challenges. Most notably, the regulatory backlash from various states, including Michigan and Minnesota, both of which are no fans of pipelines.

Regulatory delays, setbacks, and all the sort are to be expected with a pipeline firm like Enbridge, though. Nothing new here, really. If you can handle the constant stream of pessimistic news, then Enbridge may be a compelling option to stash in your passive-income fund.

Enbridge's dividend yields an incredible 6.8%, making it a very rare breed, indeed.

It's not only safe and sound from the backing of some pretty robust operating cash flows, but it's also in a good spot to grow for many years to come. For the income-savvy, Enbridge is undoubtedly one of the "sexier" plays on the TSX these days. As Enbridge stock continues its steady ascent out of its ominous 2020 lows, I think investors will stand to do very well for themselves over the long term by locking in the yield while it's swollen.

Enbridge stock will get more ESG-friendly with time

The pipelines, like Enbridge, tend to be far less sensitive to inflation or commodity price fluctuations, but regulatory roadblocks are a major source of volatility.

With the continued rise of ESG investing, Enbridge could find itself trading at a perennial discount. It is worth noting, however, that Enbridge has put in the effort to curb its net emissions. The company has ambitious targets and renewable power projects that could further fuel the firm's already impressive operating cash flow stream.

So, over the coming years, Enbridge could climb the ESG rankings, even if it is, at heart, a transporter of filthy fossil fuels.

Enbridge stock looks ridiculously undervalued

Finally, Enbridge stock still looks dirt cheap, given the improving industry backdrop and the prospect of much higher oil prices. While Enbridge won't profit as much from soaring energy prices as its producers upstream, the company will get a pretty nice boost in business, as producers look to ramp up in response to the more favourable environment.

At the time of writing, Enbridge shares trade at 18.4 times forward earnings, 1.8 times book value, and 2.5 times sales, all of which are a modest price to pay for the calibre of wide-moat business you'll be getting.

Bottom line

The regulatory backlash will weigh on Enbridge stock every once in a while. But if you've got the discipline to ignore such news, most of which is noise, then you should feel compelled to scoop up shares on the way up, as there's no guarantee Enbridge will yield close to 7% forever, especially as investors grow the appreciate the projects in its pipeline.

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