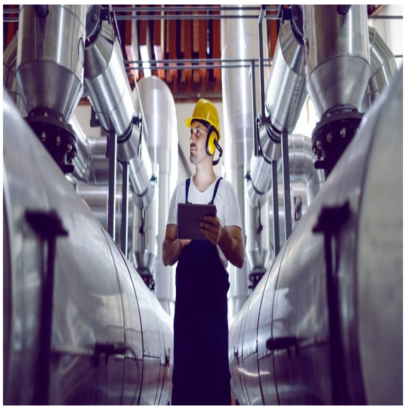

Enbridge’s (TSX:ENB) Q2 Earnings Preview: A Play of Increased Energy Demand

Description

The post-COVID earnings season has begun. This time, the key highlight in almost all earnings will be the economic recovery. North America’s largest pipeline operator **Enbridge** (TSX:ENB)(NYSE:ENB) is scheduled to release its second-quarter earnings on July 30.

This month, pipeline companies came under fire for the environmental issues in the United States, sending the stock down as much a 7%. I hope the upcoming earnings will revive investor confidence in Enbridge.

Enbridge’s strengths

Enbridge generates nearly 83% of its EBITDA from transporting oil and natural gas around North America. It earns the remaining 17% EBITDA from natural gas utility and renewable power. As most of its revenue comes from long-term contracts, Enbridge’s cash flows remain more or less stable.

However, last year was a different scenario. Oil mand dipped so low that many companies had to stop oil production, which adversely impacted Enbridge’s cash flow. Its 2020 earnings fell 8.4%.

However, Enbridge made a strong start this year. Each of its four businesses, oil and gas pipeline, gas distribution and storage, and renewable power, saw a recovery in the first quarter. This underscores their resilient demand and the ongoing recovery of global economic activity.

What’s in store for Enbridge’s upcoming earnings?

The recovery is likely to continue for Enbridge in the second quarter. In the upcoming earnings, revenue drivers will likely be gasoline consumption, which has increased as economies opened up.

Diesel demand is increasing, while jet fuel demand is still subdued. The oil demand will continue to climb as people start flying. Higher liquid volumes would translate into higher transportation fees for Enbridge.

Stronger growth in the second half could help Enbridge meet its expectations of a 6% surge in EBITDA and a 4% surge in distributable cash flow per share in 2021. This means the company might continue to increase its dividend per share but at a slower rate than its average dividend growth rate of 10%.

Enbridge's management expects DCF per share to grow 5-7% annually over the next three years. The coming few years could see a slowdown in Enbridge's dividend growth rate to around 3-5%.

Environmental concerns around Line 3

Recently, oil pipelines have come under fire in the United States. That has made it difficult to build new pipelines. Moreover, many oil companies are diversifying as they forecast oil demand to decelerate from here onwards.

Enbridge has been transitioning from oil to natural gas pipelines and is replacing old pipelines. It has spent a significant amount on the Line 3 Replacement Project to reduce the oil spill incidents. The company expects to complete the replacement work and put the Line in service in the fourth quarter of 2021. It will contribute approximately $200 million of incremental EBITDA in 2021.

If Enbridge is unable to build new pipelines, the value of its existing pipelines will increase. And it can convert its existing pipeline to transmit renewable energy instead of oil. Such is the resilient nature of Enbridge's business.

Investor takeaway

Enbridge's robust business model makes it a good investment bet if you vie for stable returns. It has to its credit over 25 years of yearly dividend hikes. This stock will reward you with a dividend yield of 6.77%.

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