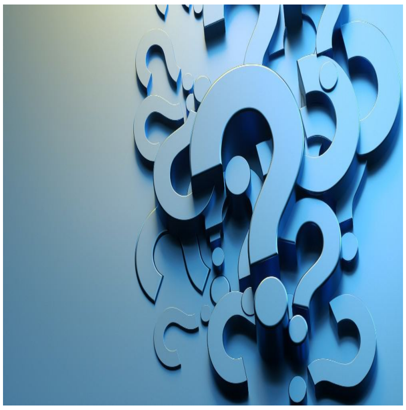

Should You Buy Enbridge (TSX:ENB) Stock After its Recent Drop?

Description

The new variant of the coronavirus has pushed the Canadian markets to six-week lows, losing more than 5% from the top. Some vulnerable sectors like energy and consumer have exhibited more weakness in this period. Top Canadian midstream company **Enbridge** (TSX:ENB)(NYSE:ENB) has fallen 12% in the last two weeks. This presents an attractive opportunity for long-term investors to grab this Dividend Aristocrat at bargain levels.

Should you buy ENB stock?

Though it belongs to the highly volatile energy sector, Enbridge is a relatively safe bet because of its stable earnings. It is a pipeline company, and its earnings do not directly impact by the ups and downs of the oil and gas prices.

The company reported a net income of $6.1 billion for the last 12 months. This marks a significant earnings recovery compared to 2020 and 2019 as well.

Enbridge has a diversified business mix that helps it tackle the market downturn. It earns 53% of its EBITDA from crude oil transportation. Almost 42% comes from gas distribution and transmission, while 5% comes from the power business.

Another advantage is a majority of its cash flows come from long-term, fixed-fee contracts, which enables certainty. Also, Enbridge's unique pipeline networks, efficient operations, and scale support its stable earnings.

Secured dividends and juicy yield

Enbridge stock currently yields 7%, more than double the **TSX** stocks average. Interestingly, it has also managed to increase dividends for the last 26 consecutive years.

In 2020, the pipeline company increased its shareholder payouts by 3%, which was lower than its historical trend. In the last decade, ENB stock has returned 120%, including dividends, while the **S&P/TSX Composite Index** has returned 70%.

Growth prospects and valuation

Enbridge plans to invest $17 billion in capital projects through 2023. These projects will likely generate $2 billion in incremental EBITDA in the next two years. So, the new projects will likely drive its dividend growth as well.

The management has guided a 5%-7% dividend increase through 2023. We will get more clarity about Enbridge's dividend growth plans in its three-year outlook, which is expected to release next week.

ENB stock is currently trading at $48, its three-month lows. After the recent drop, its price-to-earnings ratio has declined to 17 times, which looks reasonable to enter.

The downside from current levels seems limited and offers strong growth prospects. Peer **TC Energy** stock has also fallen by 12% in the last two weeks. It is currently trading at 32 times its earnings and looks way expensive than ENB.

Bottom line

Some say that volatility is long-term investors' friend. It's true in the case of Enbridge at the moment. ENB stock fell 12% in two weeks and underperformed markets. However, I think the fall was exaggerated because its earnings and cash flows remain largely resilient to such energy price bumps. ENB stock should recover relatively faster, driven by its superior yield and predictability of cash flows.

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