Why Is Enbridge (TSX:ENB) an Excellent Buy in This Volatile Environment?

Description

With the Russia-Ukraine war entering the seventh day, the concerns over oil supply have raised oil prices to over $105/barrel. Also, the United States and many European countries have imposed sanctions on Russia, which has made the global equity markets volatile. Given the uncertain environment, the Canadian benchmark index, the S&P/TSX Composite Index, is trading over 1% lower for this year.

However, **Enbridge** (TSX:ENB)(NYSE:ENB) has outperformed the broader equity market by returning 13.6% this year. Despite the recent surge, I believe the uptrend will continue, given its improving financials, solid underlying business, favourable business environment, and growth initiatives. Meanwhile, let's first look at its performance in the recently reported fourth quarter, which ended on December 31.

Enbridge's fourth-quarter performance

Supported by a rebound in the global economy and rising customer demand, Enbridge reported a solid fourth-quarter performance last month. Its adjusted EBITDA and adjusted EPS grew 15.2% and 21.4%, respectively. The company put into service $10 billion of projects, including the Line 3 Replacement Project, in 2021. Along with these projects, the acquisition of Ingleside Energy Center drove its financials.

However, weaker U.S. dollar and increased depreciation expenses offset some of the growth. The company generated a distributable cash flow of $2.5 billion, representing an increase of $278 million from the previous year's quarter. Meanwhile, the company also sold $1.2 billion on non-core assets, including Noverco, strengthening its financial position. It closed the quarter with liquidity of $6.5 billion. Next, we will look at its growth potential.

Enbridge's growth prospects

The recovery in energy demand and prices could increase oil exploration and production activities, thus driving the throughput of its liquidity segment. Meanwhile, Enbridge has also planned to invest around $5-6 billion annually for the next three years to drive organic growth. Along with these investments, its solid underlying business and long-term contracts could drive its financials in the coming years.

Meanwhile, Enbridge's management has provided optimistic guidance for 2022. The management expects its adjusted EBITDA to come in the range of $15-$15.6 billion, representing a growth of up to 11.4%. Its DCF per share could come between $5.20 and $5.50 compared to $4.96 in 2021. The increase in its mainline volumes to an average of 2.95 million barrels per day from 2.8 million barrels per day in 2021, projects put into service in 2021, the acquisition of the Ingleside Energy Center, and its capital investments this year could drive its 2022 financials. So, I believe the company's growth prospects look healthy.

Dividends and valuation

Enbridge is a Dividend Aristocrat that has raised its dividend for the previous 27 years. The company operates over 40 diversified and regulated assets, thus generating stable cash flows. These robust cash flows have allowed the company to raise its dividends consistently. Currently, it pays a quarterly dividend of $0.86 per share, with its forward yield standing at a healthy 6.22%.

Despite the recent stock price surge, Enbridge's valuation still looks attractive. Its forward price-to-sales and forward price-to-earnings multiples stand at 2.2 and 17.9, respectively.

Bottom line

Given its stable cash flows, growth initiatives, and favourable market condition, I expect Enbridge to outperform in this volatile environment. Meanwhile, analysts also look bullish on the stock. Of the 24 analysts covering the stock, 13 have issued a "buy" rating, while 11 have issued a "hold" rating. Their consensus price target represents upside potential of 2.4%.

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