Is the Market Undervaluing Enbridge Stock?

Description

Energy stocks have been some of the top performers over the last year, and although producers have seen some of the most significant growth in their stock prices, energy infrastructure companies such as **Enbridge** (TSX:ENB)(NYSE:ENB) stock have also rallied.

If you've owned Enbridge stock since the start of 2021, you would have made a total return of more than 50% as of last Friday's close. That's significantly more than the **TSX**, which has earned a total return of 21% over that same period.

Despite this impressive performance, though, the stock is still trading below its average analyst target price, and half the analysts covering it have it rated a buy.

You may be wondering if the market is undervaluing Enbridge stock, especially in this environment, where high-quality and reliable businesses are in high demand.

Is Enbridge stock undervalued?

With Enbridge stock trading at $56.18, the company has a market cap of $114 billion and an enterprise value (EV) of just over $200 billion. However, to see if the stock is undervalued, we'll have to compare those prices to its expected earnings in the coming year. In addition, we'll also want to compare Enbridge stock to its peers.

First, though, right now, the stock trades with a forward price-to-earnings (P/E) ratio of 18.2 times. That's right in line with its historical average. And when you compare it to its closest peers, it's also in line with many of their valuations.

Looking at the P/E ratio is certainly helpful. However, that alone is not enough to tell us whether Enbridge stock is undervalued. So, it's crucial to look at other metrics in order to get a full picture of how the stock is valued.

Enbridge's forward EV-to-EBITDA ratio is currently trading around 13 times. In comparison to its peers, that's slightly higher than most. However, when you look at Enbridge's historical valuation, it's actually lower.

Over the last decade, Enbridge has had an average forward EV-to-EBITDA ratio of 13.7 times. So, it's clear that Enbridge is trading slightly cheaper than its average valuation over the last decade. However, is the discount in Enbridge stock enough to make it a buy today?

Should you buy Enbridge today?

While Enbridge is roughly the same valuation as many of its competitors and, in some cases, slightly more expensive, it's also one of the largest and most dominant stocks in the industry. Enbridge's massive operations span North America; plus, it's extremely well diversified.

These attributes surely earn Enbridge stock a premium. So, when it's trading in line with its peers, you could argue it's actually a bit undervalued.

Nevertheless, the stock is not as cheap as it could be, and if you already have exposure to Enbridge and high-quality energy stocks, you may want to wait for the stock to get a little cheaper before pulling the trigger.

However, if you don't have any exposure or are underweight energy, you could certainly buy the stock now. Because it's such an excellent long-term company, an impressive dividend-growth stock that has a current yield of 6.1%, and isn't that expensive, you could certainly buy the stock with confidence today.

Bottom line

Enbridge is one of the best Canadian stocks that you can buy and hold for years. It's incredibly important to the economy, the industry has massive barriers to entry, and the stock itself is a cash cow.

While you could choose to hold off on Enbridge and wait for the stock to present more value, you could also buy with confidence today, knowing it will start to return attractive passive income immediately and will continue growing its operations rapidly over the long haul.

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