Where Will Enbridge Be in 5 Years?

Description

Enbridge (TSX:ENB) is one of Canada's most well-known stocks. With a market cap of $109 billion, it is the third-largest stock on the Toronto Stock Exchange (TSX). Enbridge is one of North America's largest energy infrastructure businesses. It has a liquids/gas pipeline network that spans across Canada, the United States, and even Mexico.

Why does the world need Enbridge?

These networks are economically essential. Over 30% of crude oil produced in North America is transported through Enbridge's network. Likewise, 20% of natural gas consumed in the U.S. is transported and distributed by Enbridge. Natural gas is widely considered a crucial transition fuel and has been a key point of focus and growth for Enbridge.

While it would seem to be a business heavily dependent on fossil fuels, it has been rapidly diversifying for the future "energy transition." Today, Enbridge has over 2.2 gigawatts of renewable power assets in operation. It just acquired a major renewable developer, which signals its intention to grow in that area.

Plenty of growth ahead

Right now, it has a $13 billion capital-investment plan. Over 15% is earmarked for renewable power developments. Nearly 60% is scheduled for natural gas infrastructure investments. Natural gas demand is expected to increase 21% by 2040. That means that these investments should have long utility and lasting profitability.

Pipelines and energy infrastructure are becoming increasingly challenging to build. Enbridge's assets should continue to grow in value and demand. That helps provide Enbridge an attractive defensive moat and good inflation-indexed pricing power.

Decent performance and an outsized dividend

Over the past five years, Enbridge has grown revenues, earnings before interest, taxes, depreciation, and amortization (EBITDA), and earnings per share by a compound annual growth rate of 4%, 8.3%, and 8.5%, respectively. At times, these earnings have been lumpy. However, the general trajectory has been positive.

Steady free cash flow growth has helped support annual consecutive dividend-per-share growth for the past 27 years. While dividend growth has slowed as of late to around 3% annually, it does pay a very high upfront 6.4% dividend yield today. As it continues to complete its capital plan and grow organically, investors are likely to enjoy low- to mid-single-digit annual dividend growth in the coming years.

Where will Enbridge be in five years?

So, where will Enbridge be in five years ahead? Chances are very high that it will continue to be a dominant infrastructure leader in North America. Energy is a crucial commodity, and Enbridge provides the network for it to get from production to consumption.

Enbridge continues to diversify its sources of cash flow. Today, it has over 40 sources of income, but that could likely increase to significantly more in the years ahead. Its capital pipeline will continue to provide modest accretive growth, and it will likely be able to grow its contracted income stream by the rate of normalized inflation (2-3% annually).

A quality stock for dividends and modest growth

If capital investments slow, Enbridge will start to yield significant amounts of excess cash. It can use this to reduce debt, buy back stock, or even further grow its dividend.

Given its large market cap and relatively stable, steady-as-it-goes business, Enbridge is not likely to multiply anytime soon. However, for a nice combination of inflation-adjusted income and capital returns, this stock should be a solid performer for those investing with a five-year time horizon.

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