TFSA Passive Income: Should You Invest in Enbridge Stock Right Now?

Description

Enbridge (TSX:ENB) chalked up a solid performance in 2022 compared to the chaos in the broader TSX Index. A pullback from the highs of the year, however, has investors who missed the rebound off the 2020 lows wondering if ENB stock is now undervalued and good to buy for a Tax-Free Savings Account (TFSA) focused on passive income.

About Enbridge

Enbridge is a major player in the North American energy infrastructure industry. The company has a current market capitalization of roughly $108 billion, putting Enbridge among the largest companies in Canada.

Enbridge serves a strategically important role in the efficient operation of the Canadian and American economies. Its oil pipelines move 30% of the crude oil produced in the two countries. Enbridge makes sure refineries get feedstock to produce gasoline, jet fuel, and diesel fuel. The firm also moves the refined products to storage locations where they are to wholesale or retail locations.

The rise in opposition to major new oil pipeline projects has forced Enbridge to shift its growth strategy. Management is now focused on growing the export business in both oil and natural gas. Enbridge purchased an oil export terminal in Texas in a timely move in 2021. In Canada, the company recently secured a 30% stake in a new liquified natural gas (LNG) facility being built in British Columbia. In addition, Enbridge is expanding natural gas pipeline infrastructure to meet rising domestic and international demand for the fuel.

On the renewables side, Enbridge continues to grow its wind, solar, and geothermal assets. The company purchased a renewable energy project developer in the United States in 2022 and saw a major offshore wind project in France reach completion.

Future revenue growth could come from hydrogen and carbon-capture opportunities. Enbridge is already working on initiatives in these emerging segments.

Earnings

Adjusted third-quarter (Q3) 2022 earnings came in at $1.4 billion, or $0.67 per share, compared to $1.2 billion, or $0.59 per share, in the same period last year. Distributable cash flow (DCF) was $2.5 billion compared to $2.3 billion in Q3 2021.

Enbridge is on track to hit its 2022 financial guidance targeting earnings before interest, taxes, depreciation, and amortization (EBITDA) of $15 billion to $15.6 billion and DCF of $5.20-$5.50 per share.

Outlook

Enbridge added $8 billion in new capital projects in 2022 and now has $17 billion in developments on the go that will help drive revenue and cash flow growth. The company has a strong balance sheet, and investors could see more small strategic acquisitions emerge, as Enbridge builds is export and renewable energy portfolios.

Global demand for North American oil and natural gas should continue to grow in the next few years. Europe is turning to Canada and the United States for reliable supplies to replace Russian energy. Hydrogen could be the longer-term energy export story, and Enbridge is positioned well to play a key role.

Dividends

Enbridge recently announced a 3.2% dividend increase. This marks the 28th consecutive annual hike to the distribution. At the time of writing, the stock provides a 6.7% dividend yield.

Is Enbridge stock good to buy for passive income?

Enbridge trades near $53.50 at the time of writing compared to $59.50 in June. The pullback appears overdone considering the solid 2022 results and the expected ongoing growth in the energy sector.

If you have some gas to put to work, Enbridge appears cheap right now and deserves to be on your radar for a portfolio focused on passive income.

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