



Enbridge Inc. (ENB)

Updated June 1st, 2018 by Jonathan Weber

Key Metrics

Current Price: \$31	5 Year CAGR Estimate: 17.3%	Quality Percentile: N/A
Fair Value Price: \$37	5 Year Growth Estimate: 7.2%	Momentum Percentile: N/A
% Fair Value: 85%	5 Year Valuation Multiple Estimate: 3.4%	Total Return Percentile: N/A
Dividend Yield: 6.7%	5 Year Price Target \$52	Valuation Percentile:

Overview & Current Events

Enbridge is an oil & gas company that operates the following segments: Liquids Pipelines, Gas Distributions, Energy Services, Gas Transmission & Midstream, Green Power & Transmission. Enbridge made a major acquisition in 2016 (Spectra Energy, \$28 billion) and is currently valued at \$54 billion. Enbridge was founded in 1949 and is headquartered in Calgary, Canada.

Enbridge's most recent quarterly results were announced on May 10, the company reported EPS of \$0.68 (a 44% increase year over year). Cash flows from operations totaled \$1.55 per share during the first quarter, distributable cash flows (operating cash flows minus maintenance capex) totaled \$1.12 per share. Enbridge has guided for 10%+ annual cash flow and dividend growth through 2020.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
CFPS	\$1.59	\$1.78	\$2.08	\$2.28	\$2.56	\$2.73	\$2.93	\$3.54	\$3.56	\$3.03	\$3.35	\$4.75
DPS	\$0.55	\$0.62	\$0.71	\$0.82	\$0.94	\$1.05	\$1.17	\$1.55	\$1.77	\$2.01	\$2.22	\$3.30

Enbridge operates an asset-heavy business, which is why the company records a high amount of depreciation expenses. Since this is a non-cash item its cash flows are vastly higher than its net earnings (roughly twice as high), and since cash flows are what Enbridge requires to make growth investments as well as dividend payments, it makes sense to focus on the cash the company generates instead of the net earnings, which is, in this case, a less relevant accounting metric.

Enbridge produced extremely consistent cash flow per share growth from 2008 to 2016, reporting positive growth every year at a relatively compelling growth rate of 10.6% annually. Cash flows declined during 2017, primarily due to the takeover of Spectra Energy, which increased Enbridge's cash flows but which was dilutive in the first year due to the high amount of new shares being issued (the takeover was paid in all-stock).

Enbridge has also put \$10 billion worth of projects into service during 2017 and it will benefit from the ongoing integration (and associated cost savings) of Spectra Energy, which is why Enbridge's growth will resume during 2018 and persist through the next couple of years. Enbridge's management has also stated that, even though tax reform will not be impactful through 2020, the company will benefit beyond 2020, which is another positive for cash flow growth.

Enbridge plans to invest another \$18 billion into new projects through 2020 and has already raised \$12 billion in capital during the last year. With strong growth (due to a high amount of new projects) during the next three years and growth leveling off to a mid-single digits per share growth rate beyond 2020 Enbridge should be able to deliver solid cash flow per share growth over the next five years, although at a lower level than during the last decade.

Enbridge has increased its dividend by 15% a year since 2008, but even though dividend growth will slow down and be more in line with cash flow growth going forward Enbridge's dividend will continue to grow at a solid pace.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
P/CF	10.9	9.5	10.2	11.5	12.8	13.8	14.7	13.2	12.3	14.5	9.3	11.0
Avg. Yld.	3.2%	3.6%	3.3%	3.1%	2.9%	2.8%	2.7%	3.3%	4.0%	4.6%	6.7%	6.0%

Enbridge has been trading at a low double digit price to cash flow multiple throughout most of the last decade, its average P/CF ratio was 12.1. Right now shares are trading at a sizeable discount to the historic average, although they will likely not reach that level again, as income investors are less dependent on investing their money into income stocks, which will somewhat limit their valuation going forward. Share prices should still expand, and investors get a high dividend yield – 6.9%, the highest the yield has been over the last decade – on top of that.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	13.5%	12.3%	13.2%	11.4%	9.1%	8.2%	9.0%	7.7%	9.8%	7.8%	8.0%	9.0%
Debt/A	55.3%	48.8%	46.5%	49.3%	49.4%	50.6%	52.2%	54.3%	51.9%	59.4%	59.0%	56.0%
Int. Cov.	4.4	4.1	2.2	3.2	2.4	1.7	2.9	1.0	2.5	1.3	1.5	1.8
Payout	34.6%	34.8%	34.1%	36.0%	36.7%	38.5%	39.9%	43.8%	49.7%	66.3%	66.2%	69.5%
Std. Dev.	20.4%	16.3%	10.3%	10.7%	11.9%	14.7%	15.6%	25.5%	15.6%	15.3%	17.0%	16.0%

Enbridge has increased its leverage over the last couple of years due to growing its capital base substantially in order to finance capital expenditures. Management has stated the goal of lowering its debt levels (relative to its asset base and cash flows) over the coming years. Debt to EBITDA stood at 6.5 in 2015 and is forecasted to decline to 4.5 in 2020, which isn't a high leverage ratio at all for a company with very stable cash flows.

Enbridge is one of the major pipeline operators in North America. Its vast asset footprint serves as a big competitive advantage. It would take many billions of investments for new market entrants if they wanted to be able to compete with Enbridge.

Enbridge's business is not cyclical, during the last financial crisis the company was able to grow its cash flows as well as its earnings. Since the infrastructure that Enbridge provides is needed whether the company is doing well or not, it is likely that future recessions will not have a large impact on Enbridge, either.

Final Thoughts & Recommendation

Enbridge saw its cash flows decline during 2017, but that can be explained by the impact of the Spectra Energy takeover for which Enbridge issued a lot of new shares. Going forward growth should resume and the company's dividend will continue to grow as well. Due to a low valuation and a relatively high dividend yield the total return outlook for Enbridge is quite positive over the coming years.

Total Return Breakdown by Year

