Enbridge Inc. (ENB)

Updated August 3rd, 2018 by Jonathan Weber

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	14.1%	**Volatility Percentile:**	68.0%
Fair Value Price:	$37	**5 Year Growth Estimate:**	7.2%	**Momentum Percentile:**	14.6%
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Valuation Percentile:**	67.5%
Dividend Yield:	5.8%	**5 Year Price Target**	$52	**Total Return Percentile:**	88.1%

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 $60 billion. Enbridge was founded in 1949 and is headquartered in Calgary, Canada.

Enbridge announced its second quarter earnings results on August 3. The company reported earnings per share of C$0.65 ($0.50), an increase of 58% year over year. Enbridge was also able to grow its distributable cash flows by 70%. The company expects its distributable cash flows per share to come in at the upper end of the guidance range of C$4.15 to C$4.45 (so probably around $3.37). Enbridge sees $5.4 billion of new projects coming online during H2.

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	***$3.37***	***$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, 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 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. Due to a high amount of new projects coming online during the next three years growth will remain high through 2020, after that cash flow growth will most likely level off to a mid-single digits rate.

Enbridge has increased its dividend by 15% a year since 2008. 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	***10.4***	***11.0***
Avg. Yld.	3.2%	3.6%	3.3%	3.1%	2.9%	2.8%	2.7%	3.3%	4.0%	4.6%	***5.8%***	***6.0%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

On average Enbridge has traded at a low double digits price to cash flow multiple through the last decade. We believe that the fair valuation for Enbridge is slightly higher than the valuation shares trade at right now. This includes a small discount versus the historic median, as income stocks will likely be valued at slightly lower valuations going forward due to the fact that bonds' yields are rising. Enbridge's dividend yield is at the upper end of the historic range right now.

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 its capital expenditures. Management has stated the goal of lowering its debt levels over the coming years. Debt to EBITDA is forecasted to decline to 4.5 in 2020. This would mean a healthy balance sheet for a pipeline company.

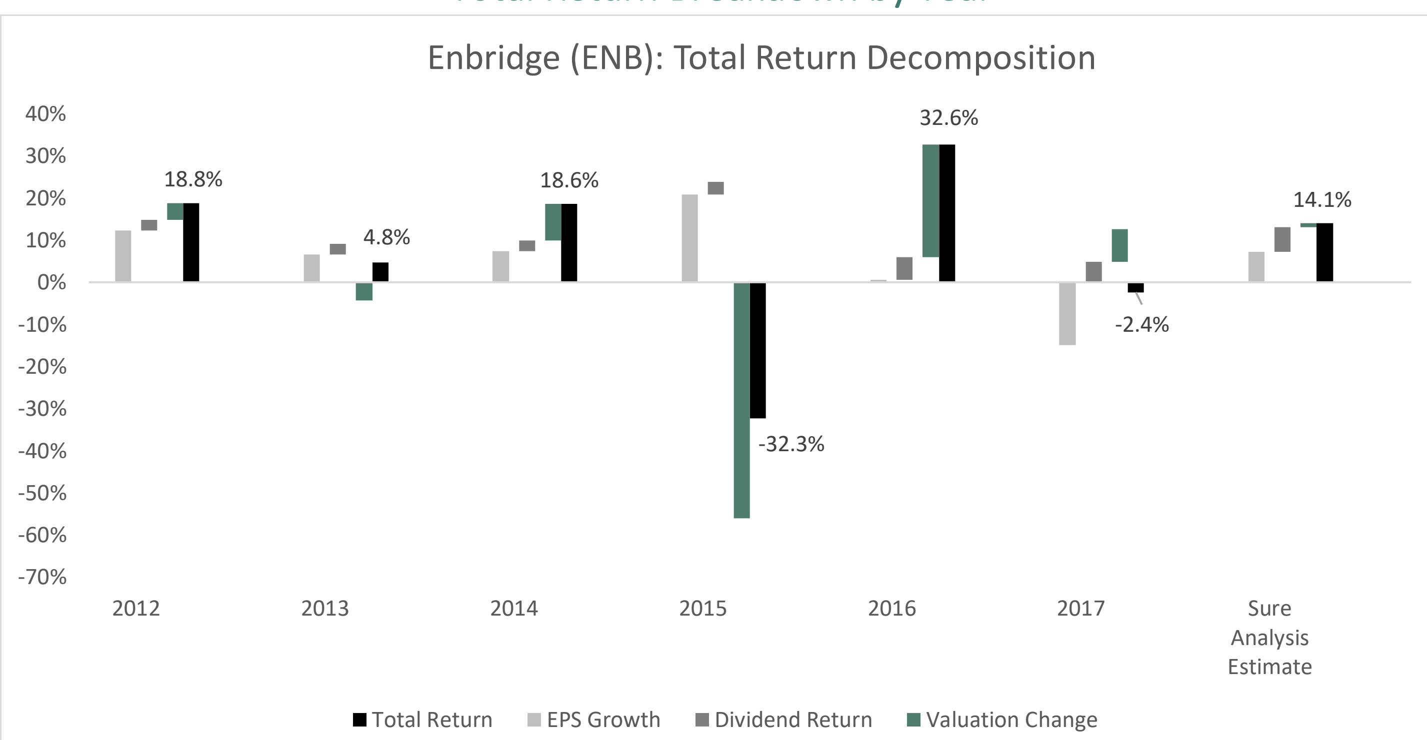
Enbridge is one of the major pipeline operators in North America. Its vast asset footprint serves as a tremendous competitive advantage. It would take many billions of investments for new market entrants if they wanted to be able to compete with Enbridge.

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 is not as cheap as it was a couple of months ago, but shares still trade below fair value. Investors get a high dividend yield, and that dividend is poised to grow at a compelling pace going forward. Due to attractive total returns over the coming years and a small discount to fair value, we continue to rate Enbridge a buy at current prices.

Total Return Breakdown by Year



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