



# Enbridge (ENB)

Updated November 2<sup>nd</sup>, 2018 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$31	<b>5 Year CAGR Estimate:</b>	17.3%	<b>Volatility Percentile:</b>	53.5%
<b>Fair Value Price:</b>	\$37	<b>5 Year Growth Estimate:</b>	7.2%	<b>Momentum Percentile:</b>	19.5%
<b>% Fair Value:</b>	84%	<b>5 Year Valuation Multiple Estimate:</b>	3.6%	<b>Growth Percentile:</b>	69.3%
<b>Dividend Yield:</b>	6.5%	<b>5 Year Price Target</b>	\$52	<b>Valuation Percentile:</b>	76.8%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	91.1%

## Overview & Current Events

Enbridge is an oil & gas company that operates the following segments: Liquids Pipelines, Gas Distributions, Energy Services, Gas Transmission & Midstream, and 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. All figures in this report are in U.S. Dollars unless noted otherwise.

Enbridge reported its third quarter earnings results on November 2. The company reported revenues of C\$11.3 billion (equal to US\$8.7 billion), an increase of 22.9% versus the previous year's quarter. Enbridge was able to generate EBITDA of C\$2.96 billion during the third quarter, an increase of 14% compared to Q3 2017. Net earnings rose to C\$933 million, from C\$632 million during the previous year's quarter. Earnings-per-share totaled C\$0.55 (US\$0.42) during Q3. Enbridge was able to grow its distributable cash flows by 19% to US\$1.22 billion and the company announced that it continues to expect distributable cash flows at the upper end of its guidance of C\$4.15 to C\$4.45. Enbridge has also announced that it will suspend its dividend reinvestment program, which will result in less new shares being issued, preventing dilution.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>CFPS</b>	\$1.59	\$1.78	\$2.08	\$2.28	\$2.56	\$2.73	\$2.93	\$3.54	\$3.56	\$3.03	<b>\$3.37</b>	<b>\$4.75</b>
<b>DPS</b>	\$0.55	\$0.62	\$0.71	\$0.82	\$0.94	\$1.05	\$1.17	\$1.55	\$1.77	\$2.01	<b>\$2.22</b>	<b>\$3.30</b>
<b>Shares</b>	746	756	740	751	772	806	829	847	943	1695	<b>1700</b>	<b>1700</b>

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 cash flows.

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 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 the company will benefit from tax reform 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.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>P/CF</b>	10.9	9.5	10.2	11.5	12.8	13.8	14.7	13.2	12.3	14.5	<b>9.2</b>	<b>11.0</b>
<b>Avg. Yld.</b>	3.2%	3.6%	3.3%	3.1%	2.9%	2.8%	2.7%	3.3%	4.0%	4.6%	<b>6.5%</b>	<b>6.0%</b>

Disclosure: This analyst has a long position in the security discussed in this research report.



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Enbridge trades at just above nine times this year's expected distributable cash flows, which is a relatively low valuation. Most of Enbridge's revenues and cash flows are fee-based, thus there is little downside risk to its cash generation. We believe that Enbridge would be fairly valued at a low-double-digit multiple, thus its valuation should expand over the coming years. Investors get a high dividend yield right here, with planned increases of 10% during 2019 and 2020.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

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

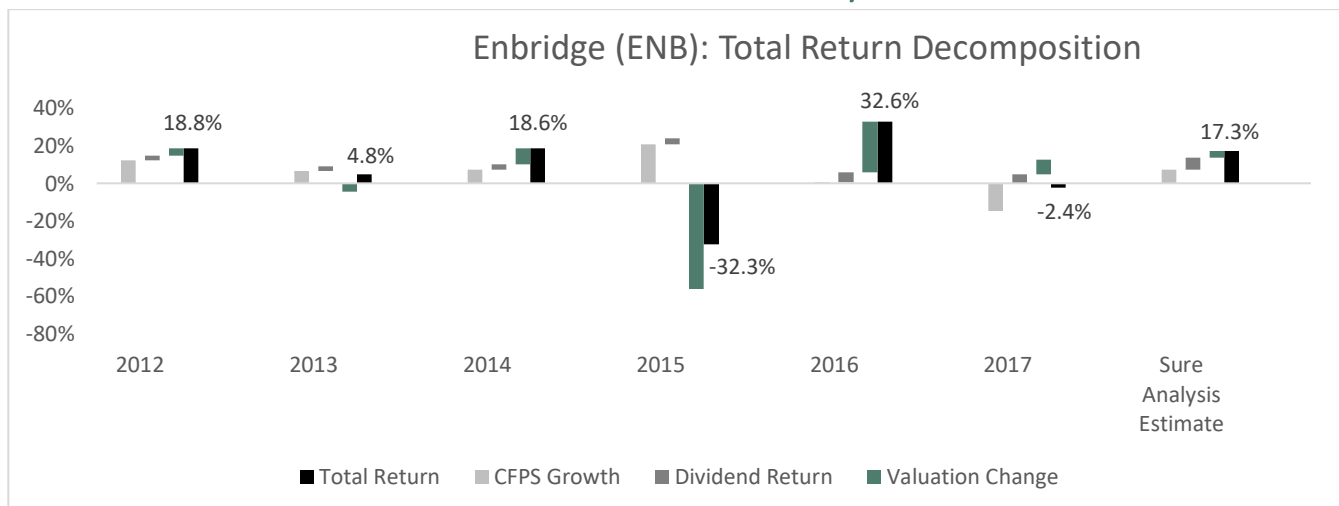
Enbridge has increased its leverage over the last couple of years due to growing its capital base substantially in order to finance its capital expenditures. Management has stated the goal of lowering its debt levels over the coming years. Debt to EBITDA is forecasted to decline to 4.5 in 2020. This would be 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, as it would take many billions of investments for new market entrants if they wanted to be able to compete with Enbridge. Competitive risks thus are low for Enbridge. Due to its fee-based nature Enbridge's business is not cyclical, and not dependent on commodity prices. 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 economy 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 a North American pipeline giant that is in the midst of a huge growth program. The takeover of Spectra Energy and billions in new growth projects will drive Enbridge's cash flows upwards over the coming years. This will likely result in considerable share price gains on top of allowing for compelling dividend growth rates throughout the next couple of years. Enbridge will, partially due to its relatively high dividend yield of 6.5%, produce compelling total returns over the coming years. We rate Enbridge a buy for those that seek exposure to the pipeline industry.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	15191	10975	20865	27092	24667	31968	34095	26478	26097	34242
<b>Gross Profit</b>	3144	3042	3857	4788	4246	4604	5961	5115	6279	9705
<b>Gross Margin</b>	20.7%	27.7%	18.5%	17.7%	17.2%	14.4%	17.5%	19.3%	24.1%	28.3%
<b>SG&amp;A Exp.</b>	1236	1259	1970	2285	2740	2927	2972	3237	3291	4971
<b>D&amp;A Exp.</b>	620	673	986	1160	1236	1330	1428	1586	1691	2441
<b>Operating Profit</b>	1289	1110	1380	2623	1684	1327	2901	1879	2988	4735
<b>Op. Margin</b>	8.5%	10.1%	6.6%	9.7%	6.8%	4.1%	8.5%	7.1%	11.4%	13.8%
<b>Net Profit</b>	1251	1375	922	823	707	611	1273	197	1562	2206
<b>Net Margin</b>	8.2%	12.5%	4.4%	3.0%	2.9%	1.9%	3.7%	0.7%	6.0%	6.4%
<b>Free Cash Flow</b>	-2132	-1147	-1194	-314	-2484	-4959	-7414	-2196	-33	-1759
<b>Income Tax</b>	479	269	220	529	171	119	553	133	107	-2081

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	20048	26734	30115	40645	47043	54066	62761	60903	63200	129B
<b>Cash &amp; Equivalents</b>	440	310	242	708	1785	710	1086	731	1108	382
<b>Acc. Receivable</b>	1885	2357	2706	786	681	1084	1006	806	2829	4235
<b>Inventories</b>	686	744	813	806	783	1047	989	801	915	1215
<b>Goodwill &amp; Int.</b>	687	816	863	1127	1242	1361	1420	1029	1225	29999
<b>Total Liabilities</b>	14029	19153	21893	30247	33469	37621	46565	46348	46910	76629
<b>Accounts Payable</b>	1957	2337	2688	172	124	282	357	404	2758	4084
<b>Long-Term Debt</b>	10731	13473	15170	19840	22031	24306	30990	30512	30369	51833
<b>Total Equity</b>	5271	6772	7439	6287	6573	7847	8848	8923	10481	40070
<b>D/E Ratio</b>	2.00	1.96	2.01	2.71	2.14	1.92	2.14	2.24	1.91	1.12

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	6.3%	5.9%	3.2%	2.3%	1.6%	1.2%	2.2%	0.3%	2.5%	2.3%
<b>Return on Equity</b>	24.0%	22.8%	13.0%	12.0%	11.0%	8.5%	15.2%	2.2%	16.1%	8.7%
<b>ROIC</b>	7.5%	7.3%	4.1%	3.1%	2.1%	1.6%	2.9%	0.4%	3.4%	2.9%
<b>Shares Out.</b>	746	756	740	751	772	806	829	847	943	1695
<b>Revenue/Share</b>	20.92	14.99	27.89	35.60	31.42	39.13	40.59	31.26	28.43	22.35
<b>FCF/Share</b>	-2.94	-1.57	-1.60	-0.41	-3.16	-6.07	-8.83	-2.59	-0.04	-1.15

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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