



Enbridge Inc. (ENB)

Updated February 15th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	12.8%	Volatility Percentile:	47.5%
Fair Value Price:	\$37	5 Year Growth Estimate:	6.0%	Momentum Percentile:	68.7%
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Growth Percentile:	52.2%
Dividend Yield:	6.2%	5 Year Price Target	\$50	Valuation Percentile:	54.9%
Dividend Risk Score:	C	Retirement Suitability Score:	A	Total Return Percentile:	77.3%

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 currently trades with a market capitalization of \$72 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 fourth quarter and full year earnings results on February 14. The company generated revenues of CAD\$11.6 billion during the fourth quarter, which was 10.3% less than the revenues that Enbridge has generated during the previous year's quarter. Enbridge's top line, equal to US\$8.7 billion, was expected to decline year over year, due to asset sales that Enbridge made during the last year.

The company managed to grow its profits as well as its cash flows substantially versus the previous year's quarter, despite the revenue decline. Enbridge's newly built assets produce higher profits and cash flows per dollar of revenues than the older, non-core assets that Enbridge has sold in order to finance its growth projects. Enbridge therefore was able to grow its net earnings to US\$880 million, or US\$0.49 on a per-share basis. The more important metric of distributable cash flows grew 7% year over year, to US\$1.40 billion, or \$0.77 on a per-share basis.

Enbridge has stated that it sees distributable cash flows of ~CAD\$4.50 during 2019, and CAD\$5.00 during fiscal 2020, which equates to US\$3.38 and \$3.76 during the current and the next year, using current exchange rates. On top of that management forecasts that its growth investments will allow for distributable cash flow growth of 5%-7% beyond 2020.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
CFPS	\$1.78	\$2.08	\$2.28	\$2.56	\$2.73	\$2.93	\$3.54	\$3.56	\$3.03	\$3.16	\$3.37	\$4.51
DPS	\$0.62	\$0.71	\$0.82	\$0.94	\$1.05	\$1.17	\$1.55	\$1.77	\$2.01	\$2.10	\$2.30	\$3.30
Shares	756	740	751	772	806	829	847	943	1695	1810	1810	1820

Enbridge operates an asset-heavy business, causing the company to record 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 2009 to 2016, reporting positive growth every year at a compelling growth rate of 10.4% 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 has resumed during 2018 and should persist moving forward. 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 a total of \$18 billion into new projects in the 2018-2020, and Enbridge will not have to issue any new shares for this going forward. Due to a high amount of new projects coming online during the next couple of years, growth will remain high through 2020. After that, cash flow growth will most likely level off to a mid-single digits rate.

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.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/CF	9.5	10.2	11.5	12.8	13.8	14.7	13.2	12.3	14.5	9.8	10.7	11.0
Avg. Yld.	3.6%	3.3%	3.1%	2.9%	2.8%	2.7%	3.3%	4.0%	4.6%	7.2%	6.2%	6.7%

Enbridge has been valued at a low double digits price to cash flow multiple throughout the majority of the last decade. Shares currently trade slightly below 11 times this year's forecasted distributable cash flows, according to management's guidance. This is slightly below our fair value estimate, which results in a tailwind for total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	34.8%	34.1%	36.0%	36.7%	38.5%	39.9%	43.8%	49.7%	66.3%	66.5%	68.2%	73.2%

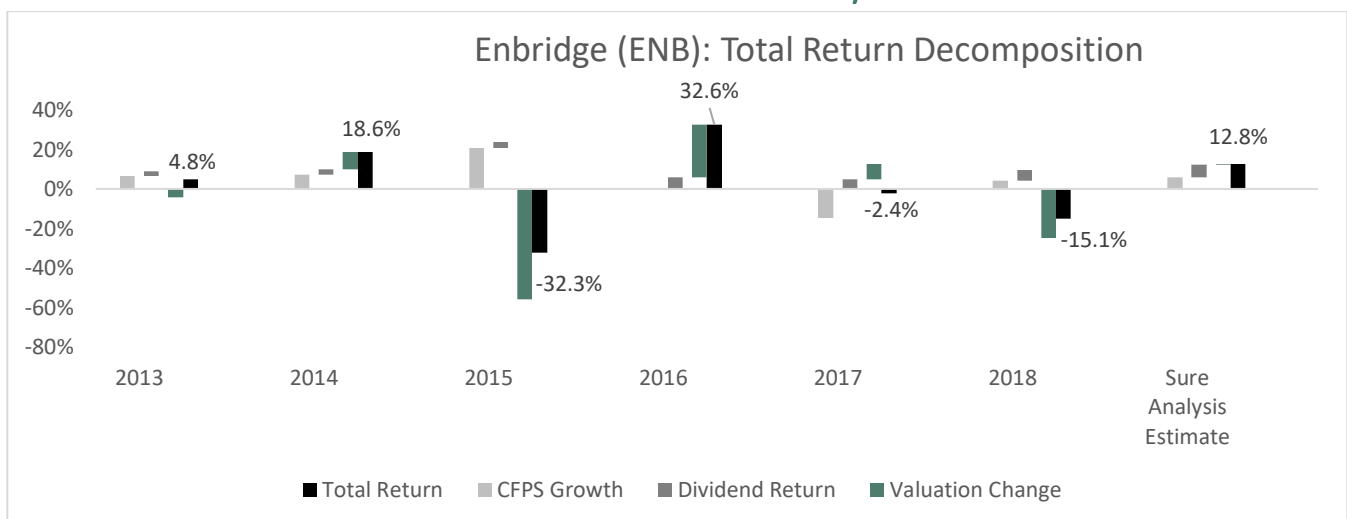
Enbridge has paid out less than 50% of its cash flows through 2016, but starting in 2017 its payout rose to roughly two thirds of the cash flows that Enbridge generates. The company has guided for meaningful dividend growth throughout the next couple of years that will likely be slightly higher than the cash flow growth that Enbridge will generate. Enbridge's cash generation is not very cyclical, thus the dividend would likely be safe even during a recession.

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 had to stomach the acquisition of Spectra Energy and the roll-up of its daughter entities, as well as large asset sales during the recent past. The company is well-positioned for cash flow and dividend growth over the coming years, though. The total return outlook is compelling, causing Enbridge to earn a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	10975	20865	27092	24667	31968	34095	26478	26097	34242	35788
Gross Profit	3042	3857	4788	4246	4604	5961	5115	6279	9705	10596
Gross Margin	27.7%	18.5%	17.7%	17.2%	14.4%	17.5%	19.3%	24.1%	28.3%	29.6%
SG&A Exp.	1259	1970	2285	2740	2927	2972	3237	3291	4971	5241
D&A Exp.	673	986	1160	1236	1330	1428	1586	1691	2441	2505
Operating Profit	1110	1380	2623	1684	1327	2901	1879	2988	4735	5355
Op. Margin	10.1%	6.6%	9.7%	6.8%	4.1%	8.5%	7.1%	11.4%	13.8%	15.0%
Net Profit	1375	922	823	707	611	1273	197	1562	2206	2224
Net Margin	12.5%	4.4%	3.0%	2.9%	1.9%	3.7%	0.7%	6.0%	6.4%	6.2%
Free Cash Flow	-1147	-1194	-314	-2484	-4959	-7414	-2196	-38	-1702	2435
Income Tax	269	220	529	171	119	553	133	107	-2081	183

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	26.73	30.12	40.64	47.04	54.07	62.76	60.90	63.20	128.90	122.54
Cash & Equivalents	310	242	708	1785	710	1086	731	1108	382	380
Acc. Receivable	2357	2706	786	681	1084	1006	806	2829	4235	3459
Inventories	744	813	806	783	1047	989	801	915	1215	983
Goodwill & Int.	816	863	1127	1242	1361	1420	1029	1225	29999	27041
Total Liabilities	19153	21893	30247	33469	37621	46565	46348	46910	76629	68626
Accounts Payable	2337	2688	172	124	282	357	404	2758	4084	3380
Long-Term Debt	13473	15170	19840	22031	24306	30990	30512	30369	51833	47437
Total Equity	6772	7439	6287	6573	7847	8848	8923	10481	40070	45317
D/E Ratio	1.96	2.01	2.71	2.14	1.92	2.14	2.24	1.91	1.12	0.93

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	5.9%	3.2%	2.3%	1.6%	1.2%	2.2%	0.3%	2.5%	2.3%	1.8%
Return on Equity	22.8%	13.0%	12.0%	11.0%	8.5%	15.2%	2.2%	16.1%	8.7%	5.2%
ROIC	7.3%	4.1%	3.1%	2.1%	1.6%	2.9%	0.4%	3.4%	2.9%	2.2%
Shares Out.	756	740	751	772	806	829	847	943	1695	1810
Revenue/Share	14.99	27.89	35.60	31.42	39.13	40.59	31.26	28.43	22.35	20.72
FCF/Share	-1.57	-1.60	-0.41	-3.16	-6.07	-8.83	-2.59	-0.04	-1.11	1.41

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

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