



# Enbridge Inc. (ENB)

Updated May 30<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$37	<b>5 Year CAGR Estimate:</b>	11.5%	<b>Volatility Percentile:</b>	36.6%
<b>Fair Value Price:</b>	\$37	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	75.9%
<b>% Fair Value:</b>	100%	<b>5 Year Valuation Multiple Estimate:</b>	-0.2%	<b>Growth Percentile:</b>	52.6%
<b>Dividend Yield:</b>	5.7%	<b>5 Year Price Target</b>	\$49	<b>Valuation Percentile:</b>	58.1%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	74.3%

## 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 \$75 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 first quarter earnings results on May 10. The company generated revenues of CAD\$12.9 billion during the first quarter, which was 1.0% more than the revenues that Enbridge generated during the previous year's quarter. Enbridge's top line, equal to US\$9.5 billion, was up significantly versus Q4 of 2018, but analysts forecasted a slightly higher increase, thus Enbridge missed the consensus estimate.

The company managed to grow its profits, as well as its cash flows substantially versus the previous year's quarter. Enbridge's newly built assets produce higher profits and cash flows per dollar of revenues than the older, non-core assets that Enbridge sold in order to finance its growth projects. Enbridge therefore was able to grow its net earnings to US\$1.21 billion, or US\$0.60 on a per-share basis. The more important metric of distributable cash flows grew 19% year over year, to US\$2.04 billion, which was a new quarterly record for Enbridge.

Enbridge maintained its guidance of distributable cash flows of ~CAD\$4.50 during 2019, and CAD\$5.00 during 2020, which equates to US\$3.33 and \$3.70 during the current and the next year, using current exchange rates. On top of that Enbridge forecasts that its growth investments will allow for distributable cash flow growth of 5% to 7% beyond 2020.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>CFPS</b>	\$1.78	\$2.08	\$2.28	\$2.56	\$2.73	\$2.93	\$3.54	\$3.56	\$3.03	\$3.16	<b>\$3.33</b>	<b>\$4.46</b>
<b>DPS</b>	\$0.62	\$0.71	\$0.82	\$0.94	\$1.05	\$1.17	\$1.55	\$1.77	\$2.01	\$2.10	<b>\$2.12</b>	<b>\$3.30</b>
<b>Shares</b>	756	740	751	772	806	829	847	943	1695	1810	<b>1810</b>	<b>1820</b>

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 and 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 resumed during 2018 and will persist moving forward. Enbridge's strong results during the first quarter of 2019, in EBITDA, net earnings, and distributable cash flows, bode well for the remainder of the year.

Enbridge plans to invest a total of \$18 billion into new projects in 2018-2020, and Enbridge will not have to issue any new shares for this going forward. Due to a high number 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
<b>P/CF</b>	9.5	10.2	11.5	12.8	13.8	14.7	13.2	12.3	14.5	9.8	<b>11.1</b>	<b>11.0</b>
<b>Avg. Yld.</b>	3.6%	3.3%	3.1%	2.9%	2.8%	2.7%	3.3%	4.0%	4.6%	7.2%	<b>5.7%</b>	<b>6.7%</b>

Enbridge has been valued at a low double digits price to cash flow multiple throughout the majority of the last decade. Shares currently trade marginally above 11 times this year's forecasted distributable cash flows, according to management's guidance. This is almost on par with our fair value estimate.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>Payout</b>	34.8%	34.1%	36.0%	36.7%	38.5%	39.9%	43.8%	49.7%	66.3%	66.5%	<b>63.7%</b>	<b>74.0%</b>

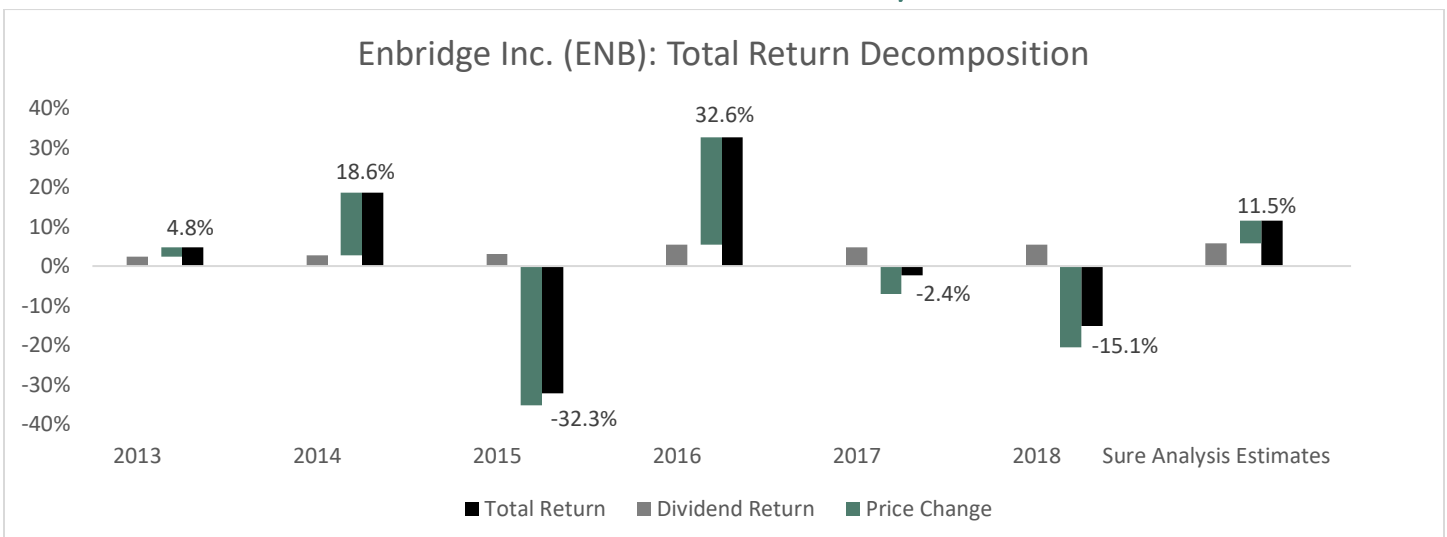
Enbridge paid out less than 50% of its cash flows through 2016, but starting in 2017 its payout rose to roughly two thirds of the cash flows that it generates. The company has guided for meaningful dividend growth throughout the next couple of years, at a rate that will likely be a bit higher than the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

Enbridge is one of the largest pipeline operators in North America. Its vast asset footprint serves as a tremendous competitive advantage, as it would take many billions of dollars of investments from new market entrants if they wanted to be able to compete with Enbridge. Competitive risks, therefore, are low. 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.

## Final Thoughts & Recommendation

Enbridge is one of the largest pipeline companies in North America. Management touts the solid growth outlook. Enbridge has delivered record distributable cash flow generation in the first quarter of 2019, and thanks to a large growth backlog, the remainder of 2019 and beyond should be positive as well. The total return outlook is compelling, but due to shares trading marginally above fair value right here, we rate Enbridge a hold right now.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets (\$B)</b>	26.73	30.12	40.64	47.04	54.07	62.76	60.90	63.20	128.90	122.54
<b>Cash &amp; Equivalents</b>	310	242	708	1785	710	1086	731	1108	382	380
<b>Acc. Receivable</b>	2357	2706	786	681	1084	1006	806	2829	4235	3459
<b>Inventories</b>	744	813	806	783	1047	989	801	915	1215	983
<b>Goodwill &amp; Int.</b>	816	863	1127	1242	1361	1420	1029	1225	29999	27041
<b>Total Liabilities</b>	19153	21893	30247	33469	37621	46565	46348	46910	76629	68626
<b>Accounts Payable</b>	2337	2688	172	124	282	357	404	2758	4084	3380
<b>Long-Term Debt</b>	13473	15170	19840	22031	24306	30990	30512	30369	51833	47437
<b>Total Equity</b>	6772	7439	6287	6573	7847	8848	8923	10481	40070	45317
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	5.9%	3.2%	2.3%	1.6%	1.2%	2.2%	0.3%	2.5%	2.3%	1.8%
<b>Return on Equity</b>	22.8%	13.0%	12.0%	11.0%	8.5%	15.2%	2.2%	16.1%	8.7%	5.2%
<b>ROIC</b>	7.3%	4.1%	3.1%	2.1%	1.6%	2.9%	0.4%	3.4%	2.9%	2.2%
<b>Shares Out.</b>	756	740	751	772	806	829	847	943	1695	1810
<b>Revenue/Share</b>	14.99	27.89	35.60	31.42	39.13	40.59	31.26	28.43	22.35	20.72
<b>FCF/Share</b>	-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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