



Enbridge Inc. (ENB)

Updated February 19th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	9.2%	Market Cap:	\$85B
Fair Value Price:	\$39	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	05/14/20 ¹
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Dividend Payment Date:	06/01/20 ²
Dividend Yield:	5.8%	5 Year Price Target	\$50	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	8.9%

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 \$85 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 earnings results on February 14. The company generated revenues of CAD\$12.4 billion during the quarter, which was 6.8% more than the revenues that Enbridge generated during the previous year's quarter. Enbridge's revenues, which are equal to \$9.3 billion when translated to USD, came in below the consensus analyst estimate, missing it by CAD\$360 million. The company managed to grow its revenues mainly thanks to higher transportation volumes and the start-up of newly completed projects, such as the Gray Oak pipeline in Texas. During the fourth quarter alone, Enbridge placed CAD\$7 billion worth of projects into service.

Enbridge was able to grow its adjusted EBITDA to a record level of CAD\$13.3 billion during fiscal 2019, up from CAD\$12.8 billion during the previous year. Enbridge's distributable cash flows grew to CAD\$9.2 billion during the year, up from CAD\$7.6 billion during 2018. This equates to US\$1.33 on a per-share basis, which easily covers Enbridge's dividend payments. Enbridge maintained its guidance for distributable cash flow-per-share of ~CAD\$4.65 for 2020, while also forecasting that distributable cash flows should grow by 5%-7% a year in the long run.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
CFPS	\$2.08	\$2.28	\$2.56	\$2.73	\$2.93	\$3.54	\$3.56	\$3.03	\$3.16	\$3.43	\$3.50	\$4.57
DPS	\$0.71	\$0.82	\$0.94	\$1.05	\$1.17	\$1.55	\$1.77	\$2.01	\$2.10	\$2.20	\$2.44	\$3.34
Shares³	740	751	772	806	829	847	943	1695	1810	2020	2020	2050

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 much 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 those.

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% 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 number of new shares being issued, as the takeover was paid entirely in stock. Enbridge put more than \$10 billion worth of projects into service during the last two years, and more growth projects are under construction. This is why Enbridge's growth resumed during 2018 and will, according to management, persist going forward. Enbridge's strong results during 2019 in EBITDA, net earnings, and distributable cash flows, bode well for the future, although 2020 will be a lower-growth year according to management. Once its Line 3 replacement comes into service and other projects which are currently being

¹ Estimated date

² Estimated date

³ In Millions

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constructed start to generate cash flows, Enbridge should be able to grow its distributable cash flows by 5%-6% a year, although we believe that management's upper end of its guidance range is a bit too optimistic.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/CF	10.2	11.5	12.8	13.8	14.7	13.2	12.3	14.5	9.8	11.7	12.0	11.0
Avg. Yld.	3.3%	3.1%	2.9%	2.8%	2.7%	3.3%	4.0%	4.6%	7.2%	5.5%	5.8%	6.6%

Enbridge has been valued at a low-double-digit price-to-cash flow multiple throughout the majority of the last decade. Shares currently trade at ~12 times this year's forecasted distributable cash flows, according to management's guidance, which is slightly more than what we deem a fair valuation. Investors still get an above-average dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	34.1%	36.0%	36.7%	38.5%	39.9%	43.8%	49.7%	66.3%	66.5%	64.1%	69.7%	73.1%

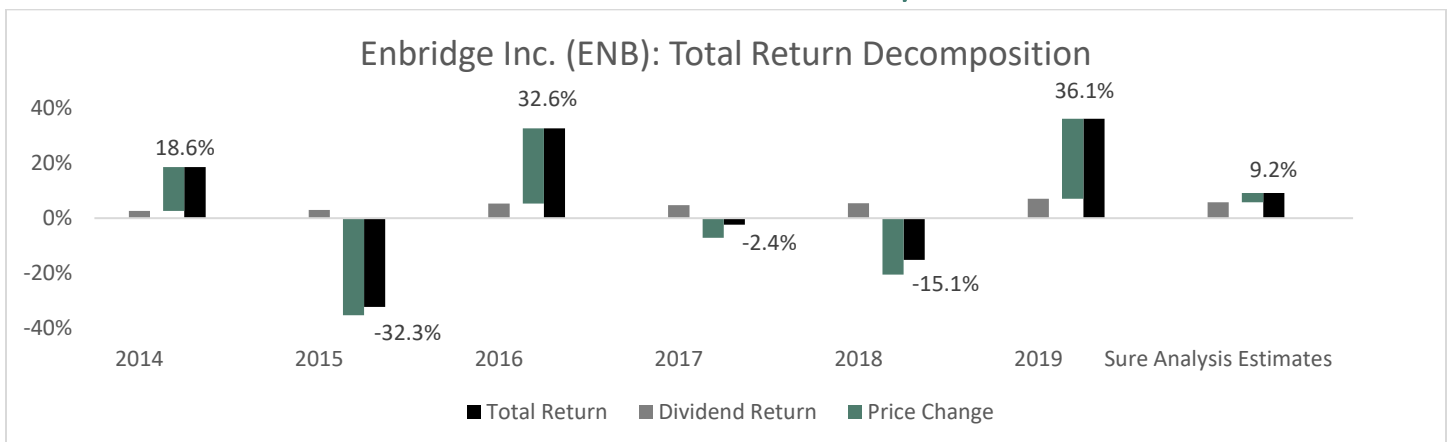
Enbridge paid out less than 50% of its cash flows through 2016, but starting in 2017, its payout ratio rose to roughly two thirds of the cash flows that it generates. The company has guided for meaningful dividend growth throughout the next couple of years, at a rate that will likely be a bit higher than its cash flow growth rate. Enbridge's cash generation is not very cyclical, thus the dividend would likely be safe 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, and management touts a solid growth outlook. Enbridge has delivered record distributable cash flow generation during 2019, and thanks to a large growth backlog, the outlook for the future is quite positive as well. The total return outlook is compelling, and shares offer an attractive dividend yield at current prices, which is why we rate Enbridge a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	20,865	27,092	24,667	31,968	34,095	26,478	26,097	34,242	35,788	37,725
Gross Profit	3,857	4,788	4,246	4,604	5,961	5,115	6,279	9,705	10,596	11,810
Gross Margin	18.5%	17.7%	17.2%	14.4%	17.5%	19.3%	24.1%	28.3%	29.6%	31.3%
SG&A Exp.	1,970	2,285	2,740	2,927	2,972	3,237	3,291	4,971	5,241	5,267
D&A Exp.	986	1,160	1,236	1,330	1,428	1,586	1,691	2,441	2,505	2,555
Operating Profit	1,380	2,623	1,684	1,327	2,901	1,879	2,988	4,735	5,355	6,542
Op. Margin	6.6%	9.7%	6.8%	4.1%	8.5%	7.1%	11.4%	13.8%	15.0%	17.3%
Net Profit	922	823	707	611	1,273	197	1,562	2,206	2,224	4,298
Net Margin	4.4%	3.0%	2.9%	1.9%	3.7%	0.7%	6.0%	6.4%	6.2%	11.4%
Free Cash Flow	(1,194)	(314)	(2,484)	(4,959)	(7,414)	(2,196)	(38)	(1,866)	2,435	2,792
Income Tax	220	529	171	119	553	133	107	(2,081)	183	1,287

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$M)	30.1	40.1	47.0	54.1	62.8	60.9	63.2	1289	122.5	125.0
Cash & Equivalents	242	708	1,785	710	1,086	731	1,108	382	380	496
Acc. Receivable	2,706	839	693	1,145	1,214	811	2,839	4,272	3,517	4,006
Inventories	813	806	783	1,047	989	801	915	1,215	983	994
Goodwill & Int.	863	1,127	1,242	1,361	1,420	1,029	1,225	29,999	27,041	27,043
Total Liabilities	21,893	30,247	33,469	37,621	46,565	46,348	46,910	76,629	68,626	71,855
Accounts Payable	2,688	219	124	325	426	439	2,848	4,208	3,410	3,489
Long-Term Debt	15,170	19,840	22,031	24,306	30,990	30,512	30,369	51,833	47,437	49,732
Total Equity	7,439	6,287	6,573	7,847	8,848	8,923	10,481	40,070	45,317	44,628
D/E Ratio	2.01	2.71	2.14	1.92	2.14	2.24	1.91	1.12	0.93	0.98

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.2%	2.3%	1.6%	1.2%	2.2%	0.3%	2.5%	2.3%	1.8%	3.5%
Return on Equity	13.0%	12.0%	11.0%	8.5%	15.2%	2.2%	16.1%	8.7%	5.2%	9.6%
ROIC	4.1%	3.1%	2.1%	1.6%	2.9%	0.4%	3.4%	2.9%	2.2%	4.2%
Shares Out.	740	751	772	806	829	847	943	1695	1810	2020
Revenue/Share	27.89	35.60	31.42	39.13	40.59	31.26	28.43	22.35	20.72	18.68
FCF/Share	(1.60)	(0.41)	(3.16)	(6.07)	(8.83)	(2.59)	(0.04)	(1.22)	1.41	1.38

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

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