



# Enbridge Inc. (ENB)

Updated August 7<sup>th</sup>, 2020 by Jonathan Weber

## Key Metrics

|                             |      |  |       |                                  |                       |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$33 | <b>5 Year CAGR Estimate:</b>               | 13.6% | <b>Market Cap:</b>               | \$67B                 |
| <b>Fair Value Price:</b>    | \$38 | <b>5 Year Growth Estimate:</b>             | 5.0%  | <b>Ex-Dividend Date:</b>         | 08/14/20 <sup>1</sup> |
| <b>% Fair Value:</b>        | 86%  | <b>5 Year Valuation Multiple Estimate:</b> | 3.0%  | <b>Dividend Payment Date:</b>    | 09/01/20 <sup>2</sup> |
| <b>Dividend Yield:</b>      | 7.0% | <b>5 Year Price Target</b>                 | \$49  | <b>Years Of Dividend Growth:</b> | 11                    |
| <b>Dividend Risk Score:</b> | C    | <b>Retirement Suitability Score:</b>       | A     | <b>Last Dividend Increase:</b>   | 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 bought Spectra Energy for \$28 billion in 2016 and has become one of the largest midstream companies in North America. 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 second quarter earnings results on July 29. The company generated revenues of CAD\$8.0 billion during the quarter, which was 40% less than the revenues that Enbridge generated during the previous year's quarter. Enbridge's revenues, which are equal to \$6.0 billion when translated to USD, came in below the consensus analyst estimate. Revenues were down despite the fact that new projects were placed into service, but this was mostly due to the fact that commodity prices are a pass-through item. Both revenues and costs were thus down significantly.

Enbridge was able to generate adjusted EBITDA of CAD\$3.3 billion during the second quarter, up 3% from the previous year's quarter, as revenue declines could be fully offset by lower costs. Enbridge's distributable cash flows totaled CAD\$2.4 billion, which equates to US\$1.8 billion, or US\$0.89 on a per-share basis, which easily covers Enbridge's dividend payments. Despite the coronavirus crisis, Enbridge maintained its guidance for distributable cash flow-per-share of ~CAD\$4.65 for 2020, which equates to US\$3.47, using current exchange rates.

## Growth on a Per-Share Basis

| Year                      | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020          | 2025          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>DCFPS</b>              | \$2.08 | \$2.28 | \$2.56 | \$2.73 | \$2.93 | \$3.54 | \$3.56 | \$3.03 | \$3.16 | \$3.43 | <b>\$3.47</b> | <b>\$4.43</b> |
| <b>DPS</b>                | \$0.71 | \$0.82 | \$0.94 | \$1.05 | \$1.17 | \$1.55 | \$1.77 | \$2.01 | \$2.10 | \$2.20 | <b>\$2.30</b> | <b>\$3.08</b> |
| <b>Shares<sup>3</sup></b> | 740    | 751    | 772    | 806    | 829    | 847    | 943    | 1695   | 1810   | 2020   | <b>2020</b>   | <b>2030</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 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 distributable-cash-flow-per-share growth from 2009 to 2016, reporting positive growth every year, at a compelling growth rate of 10% annually. DCF-per-share 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. Enbridge put more than \$10 billion worth of projects into service during the last two years, and more growth projects are under construction. According to management, growth will persist going forward, as Enbridge targets long-term cash flow per share growth of 5%-7%. Our estimate is at the lower end of that range. Once Enbridge's Line 3 replacement comes into service, Enbridge should see a sizeable boost in its profitability and cash generation power. During 2020, Enbridge should be able to grow its cash flows further, according to management, despite the oil price slump and the economic slowdown, which proves its resilience.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> In Millions

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## 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 | 9.5  | 11.0 |
| Avg. Yld. | 3.3% | 3.1% | 2.9% | 2.8% | 2.7% | 3.3% | 4.0% | 4.6% | 7.2% | 5.5% | 7.0% | 6.3% |

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 ~9.5 times this year's forecasted distributable cash flows, according to management's guidance, which is less than what we deem a fair valuation. Investors also get an above-average dividend yield of 7%.

## 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% | 66.3% | 69.5% |

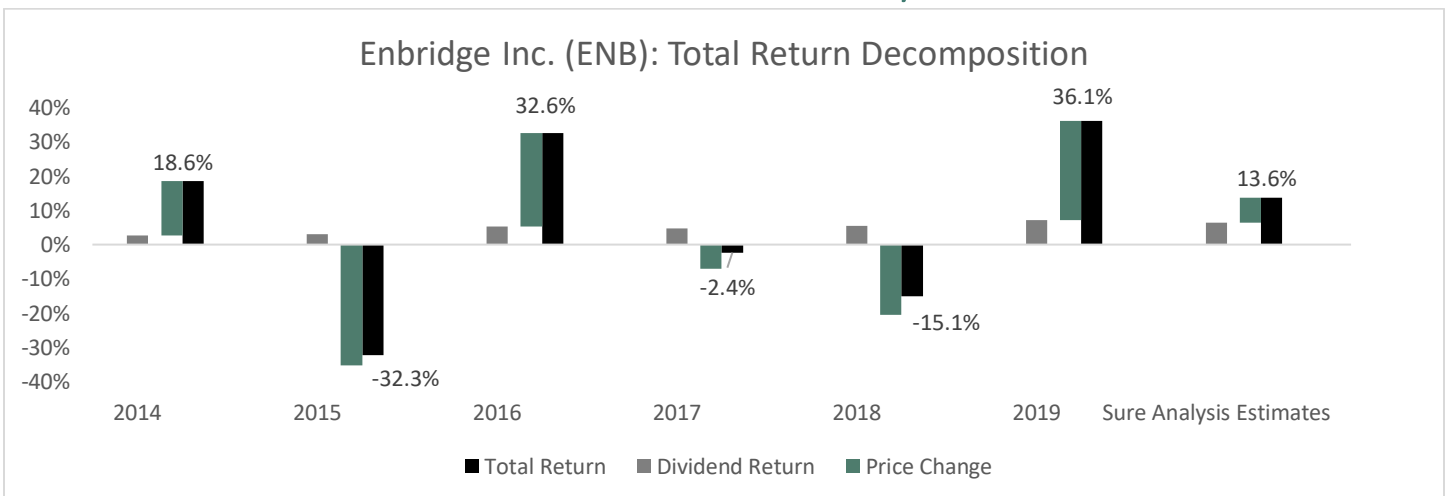
Enbridge paid out less than 50% of its cash flows through 2016, but starting in 2017, its payout ratio rose to roughly two thirds of the cash flows that it generates. The company has guided for meaningful dividend growth throughout the next couple of years, at a rate that will likely be a bit higher 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 tens of billions of dollars of investments from new market entrants if they wanted to be able to replace Enbridge's assets. Competitive risks, therefore, are low. Due to its fee-based nature Enbridge's business is not really cyclical, and commodity prices are mostly a pass-through item that impacts both revenues and costs, they are thus neutral to profits and cash flows. During the last financial crisis the company was able to grow its cash flows and earnings further. Since the infrastructure that Enbridge provides is needed whether the economy is doing well or not, the company should also do well during the current crisis.

## Final Thoughts & Recommendation

Enbridge is a leading midstream player in North America, and management touts a solid growth outlook over the coming years. Enbridge delivered record distributable cash flow generation during 2019, and it looks like cash flows will be even higher during the current year, despite the coronavirus pandemic. The total return outlook is very 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   |
|-------------------------|---------|--------|---------|---------|---------|---------|--------|---------|--------|--------|
| <b>Revenue</b>          | 20,865  | 27,092 | 24,667  | 31,968  | 34,095  | 26,478  | 26,097 | 34,242  | 35,788 | 37,725 |
| <b>Gross Profit</b>     | 3,857   | 4,788  | 4,246   | 4,604   | 5,961   | 5,115   | 6,279  | 9,705   | 10,596 | 11,810 |
| <b>Gross Margin</b>     | 18.5%   | 17.7%  | 17.2%   | 14.4%   | 17.5%   | 19.3%   | 24.1%  | 28.3%   | 29.6%  | 31.3%  |
| <b>SG&amp;A Exp.</b>    | 1,970   | 2,285  | 2,740   | 2,927   | 2,972   | 3,237   | 3,291  | 4,971   | 5,241  | 5,267  |
| <b>D&amp;A Exp.</b>     | 986     | 1,160  | 1,236   | 1,330   | 1,428   | 1,586   | 1,691  | 2,441   | 2,505  | 2,555  |
| <b>Operating Profit</b> | 1,380   | 2,623  | 1,684   | 1,327   | 2,901   | 1,879   | 2,988  | 4,735   | 5,355  | 6,542  |
| <b>Op. Margin</b>       | 6.6%    | 9.7%   | 6.8%    | 4.1%    | 8.5%    | 7.1%    | 11.4%  | 13.8%   | 15.0%  | 17.3%  |
| <b>Net Profit</b>       | 922     | 823    | 707     | 611     | 1,273   | 197     | 1,562  | 2,206   | 2,224  | 4,298  |
| <b>Net Margin</b>       | 4.4%    | 3.0%   | 2.9%    | 1.9%    | 3.7%    | 0.7%    | 6.0%   | 6.4%    | 6.2%   | 11.4%  |
| <b>Free Cash Flow</b>   | (1,194) | (314)  | (2,484) | (4,959) | (7,414) | (2,196) | (38)   | (1,866) | 2,435  | 2,792  |
| <b>Income Tax</b>       | 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   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets (\$M)</b>     | 30.1   | 40.1   | 47.0   | 54.1   | 62.8   | 60.9   | 63.2   | 1289   | 122.5  | 125.0  |
| <b>Cash &amp; Equivalents</b> | 242    | 708    | 1,785  | 710    | 1,086  | 731    | 1,108  | 382    | 380    | 496    |
| <b>Acc. Receivable</b>        | 2,706  | 839    | 693    | 1,145  | 1,214  | 811    | 2,839  | 4,272  | 3,517  | 4,006  |
| <b>Inventories</b>            | 813    | 806    | 783    | 1,047  | 989    | 801    | 915    | 1,215  | 983    | 994    |
| <b>Goodwill &amp; Int.</b>    | 863    | 1,127  | 1,242  | 1,361  | 1,420  | 1,029  | 1,225  | 29,999 | 27,041 | 27,043 |
| <b>Total Liabilities</b>      | 21,893 | 30,247 | 33,469 | 37,621 | 46,565 | 46,348 | 46,910 | 76,629 | 68,626 | 71,855 |
| <b>Accounts Payable</b>       | 2,688  | 219    | 124    | 325    | 426    | 439    | 2,848  | 4,208  | 3,410  | 3,489  |
| <b>Long-Term Debt</b>         | 15,170 | 19,840 | 22,031 | 24,306 | 30,990 | 30,512 | 30,369 | 51,833 | 47,437 | 49,732 |
| <b>Total Equity</b>           | 7,439  | 6,287  | 6,573  | 7,847  | 8,848  | 8,923  | 10,481 | 40,070 | 45,317 | 44,628 |
| <b>D/E Ratio</b>              | 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  |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|
| <b>Return on Assets</b> | 3.2%   | 2.3%   | 1.6%   | 1.2%   | 2.2%   | 0.3%   | 2.5%   | 2.3%   | 1.8%  | 3.5%  |
| <b>Return on Equity</b> | 13.0%  | 12.0%  | 11.0%  | 8.5%   | 15.2%  | 2.2%   | 16.1%  | 8.7%   | 5.2%  | 9.6%  |
| <b>ROIC</b>             | 4.1%   | 3.1%   | 2.1%   | 1.6%   | 2.9%   | 0.4%   | 3.4%   | 2.9%   | 2.2%  | 4.2%  |
| <b>Shares Out.</b>      | 740    | 751    | 772    | 806    | 829    | 847    | 943    | 1695   | 1810  | 2020  |
| <b>Revenue/Share</b>    | 27.89  | 35.60  | 31.42  | 39.13  | 40.59  | 31.26  | 28.43  | 22.35  | 20.72 | 18.68 |
| <b>FCF/Share</b>        | (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.

### Disclaimer

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