



Enbridge Inc. (ENB)

Updated February 12th, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	14.0%	Market Cap:	\$71B
Fair Value Price:	\$42	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	02/11/21 ¹
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.7%	Dividend Payment Date:	03/01/21 ²
Dividend Yield:	7.5%	5 Year Price Target	\$52	Years Of Dividend Growth:	26
Dividend Risk Score:	C	Retirement Suitability Score:	A	Last Dividend Increase:	3.1%

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 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 fourth quarter earnings results on February 11. The company generated revenues of CAD\$10 billion during the quarter, which was 19% less than the revenues that Enbridge generated during the previous year's quarter. Enbridge's revenues, which are equal to \$7.9 billion when translated to USD, came in marginally below the consensus 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, which means that costs declined as well.

Enbridge was able to generate adjusted EBITDA of CAD\$3.2 billion during the fourth quarter, which was up 1% year over year, as the company's revenue declines could be fully offset by lower costs. Enbridge's distributable cash flows totaled CAD\$2.2 billion, which equates to US\$1.7 billion, or US\$0.86 on a per-share basis, which easily covers Enbridge's dividend payments. Enbridge is forecasting distributable cash flows in a range of CAD\$4.70-5.00. Using current exchange rates, this equates to USD\$3.82 at the midpoint, which would be up 4% versus 2020's record level.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCFPS	\$2.28	\$2.56	\$2.73	\$2.93	\$3.54	\$3.56	\$3.03	\$3.16	\$3.43	\$3.68	\$3.82	\$4.76
DPS	\$0.82	\$0.94	\$1.05	\$1.17	\$1.55	\$1.77	\$2.01	\$2.10	\$2.20	\$2.55	\$2.63	\$3.28
Shares³	751	772	806	829	847	943	1695	1810	2010	2020	2030	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 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 meaningful increase in its profitability and cash generation power. During 2020, Enbridge was able to grow its distributable cash flows further, despite the oil price slump and the economic slowdown, which proves its resilience.

¹ Estimated date

² Estimated date

³ In Millions

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/CF	11.5	12.8	13.8	14.7	13.2	12.3	14.5	9.8	11.7	8.7	9.2	11.0
Avg. Yld.	3.1%	2.9%	2.8%	2.7%	3.3%	4.0%	4.6%	7.2%	5.5%	8.0%	7.5%	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 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 more than 7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	36.0%	36.7%	38.5%	39.9%	43.8%	49.7%	66.3%	66.5%	64.1%	69.3%	68.8%	68.8%

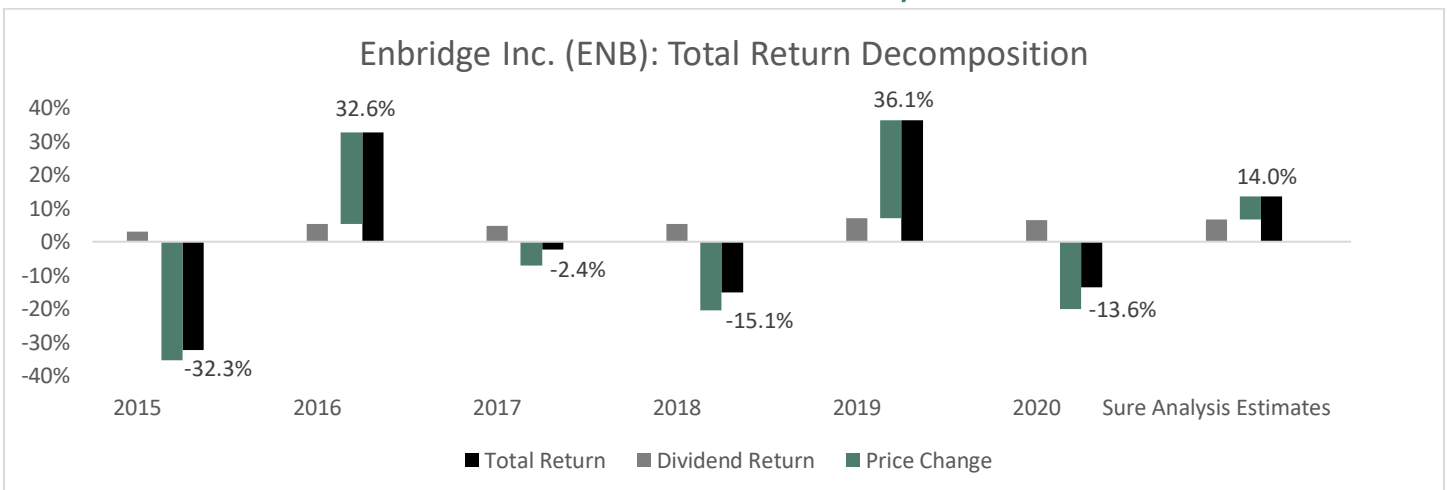
Enbridge paid out less than 50% of its cash flows through 2016, but starting in 2017, its payout ratio rose to roughly two thirds of the cash flows that it generates. The company has guided for meaningful dividend growth throughout the next couple of years, but dividend growth will likely be lower compared to what we have seen over the last decade. Enbridge's cash generation is not very cyclical, thus the dividend seems 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 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 mostly 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 2020, and it looks like cash flows will be even higher during the current year, as more growth projects will enter service. 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
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)	30115	40645	47043	54066	62761	60903	63200	128901	122542	124989
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.	751	772	806	829	847	943	1695	1810	2010	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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