



Enbridge Inc. (ENB)

Updated May 11th, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$40	5 Year CAGR Estimate:	11.8%	Market Cap:	\$80B
Fair Value Price:	\$44	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	05/13/21 ¹
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	06/01/21 ²
Dividend Yield:	6.9%	5 Year Price Target	\$54	Years Of Dividend Growth:	26
Dividend Risk Score:	B	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 first quarter earnings results on May 7. The company generated revenues of CAD\$10 billion during the quarter, which was 17% more than the revenues that Enbridge generated during the previous year's quarter.

Enbridge's revenues, which are equal to \$8.3 billion when translated to USD, came in easily ahead of the consensus estimate. Revenues were up due to higher commodity prices primarily, but due to the fact that commodity prices are a pass-through item, Enbridge's expenses rose as well, which is why profits did not rise in line with revenues.

Enbridge was able to generate adjusted EBITDA of CAD\$3.7 billion during the first quarter, which was down 2% year over year, as the company's revenue increase was offset by higher costs. Enbridge's distributable cash flows totaled CAD\$2.8 billion, which equates to US\$2.3 billion, or US\$1.14 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\$4.03 at the midpoint, which would be up by 10% 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	\$4.03	\$4.90
DPS	\$0.82	\$0.94	\$1.05	\$1.17	\$1.55	\$1.77	\$2.01	\$2.10	\$2.20	\$2.55	\$2.76	\$3.44
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	9.9	11.0
Avg. Yld.	3.1%	2.9%	2.8%	2.7%	3.3%	4.0%	4.6%	7.2%	5.5%	8.0%	6.9%	6.4%

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 ~10 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 almost 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%	68.5%	70.1%

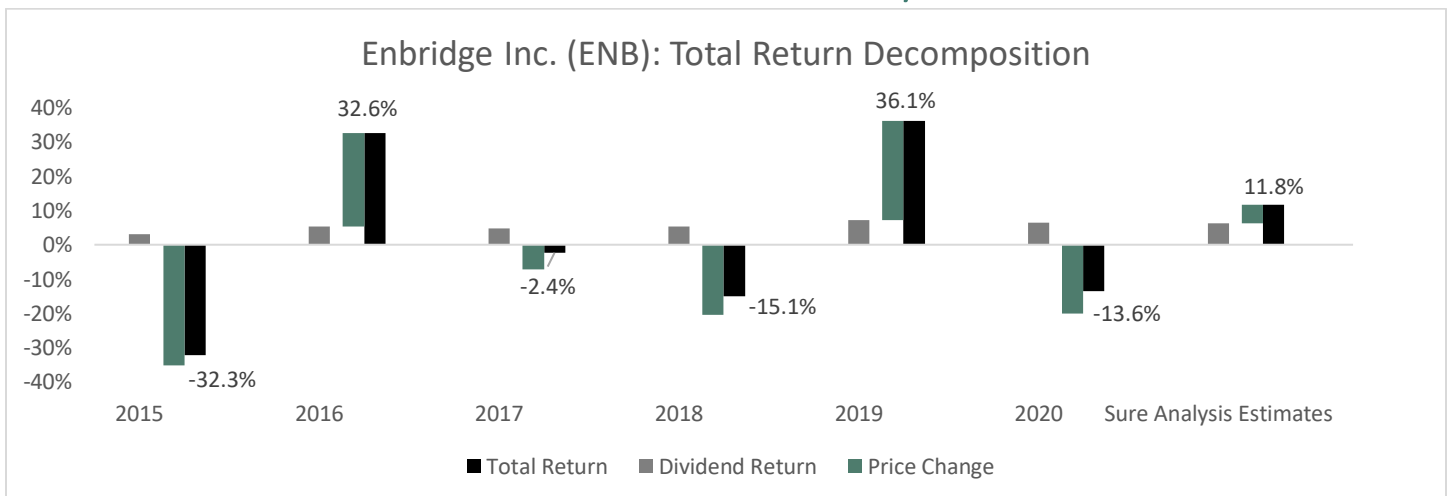
Enbridge paid out less than 50% of its cash flows through 2016, but starting in 2017, its payout ratio rose to roughly two thirds of the cash flows that it generates. The company has guided for meaningful dividend growth throughout the next couple of years, but dividend growth will likely be lower compared 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 is also doing 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	27092	24667	31968	34095	26478	26097	34242	35788	37725	29173
Gross Profit	4788	4246	4604	5961	5115	6279	9705	10596	11810	10976
Gross Margin	17.7%	17.2%	14.4%	17.5%	19.3%	24.1%	28.3%	29.6%	31.3%	37.6%
SG&A Exp.	2285	2740	2927	2972	3237	3291	4971	5241	5267	5037
D&A Exp.	1160	1236	1330	1428	1586	1691	2441	2505	2555	2770
Operating Profit	2623	1684	1327	2901	1879	2988	4735	5355	6542	5939
Op. Margin	9.7%	6.8%	4.1%	8.5%	7.1%	11.4%	13.8%	15.0%	17.3%	20.4%
Net Profit	823	707	611	1273	197	1562	2206	2224	4298	2510
Net Margin	3.0%	2.9%	1.9%	3.7%	0.7%	6.0%	6.4%	6.2%	11.4%	8.6%
Free Cash Flow	(314)	(2484)	(4959)	(7414)	(2196)	(38)	(1866)	2435	2792	3106
Income Tax	529	171	119	553	133	107	(2081)	183	1287	578

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$M)	40645	47043	54066	62761	60903	63200	128901	122542	124903	125691
Cash & Equivalents	708	1785	710	1086	731	1108	382	380	496	354
Acc. Receivable	839	693	1145	1214	811	2839	4272	3517	4006	3128
Inventories	806	783	1047	989	801	915	1215	983	994	1205
Goodwill & Int.	1127	1242	1361	1420	1029	1225	29999	27041	27003	27275
Total Liabilities	30247	33469	37621	46565	46348	46910	76629	68626	71769	75216
Accounts Payable	219	124	325	426	439	2848	4208	3410	3489	2760
Long-Term Debt	19840	22031	24306	30990	30512	30369	51833	47437	49732	52462
Total Equity	6287	6573	7847	8848	8923	10481	40070	45317	44628	42050
D/E Ratio	2.71	2.14	1.92	2.14	2.24	1.91	1.12	0.93	0.98	1.09

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.3%	1.6%	1.2%	2.2%	0.3%	2.5%	2.3%	1.8%	3.5%	2.0%
Return on Equity	12.0%	11.0%	8.5%	15.2%	2.2%	16.1%	8.7%	5.2%	9.6%	5.8%
ROIC	3.1%	2.1%	1.6%	2.9%	0.4%	3.4%	2.9%	2.2%	4.2%	2.4%
Shares Out.	751	772	806	829	847	943	1695	1810	2010	2020
Revenue/Share	35.60	31.42	39.13	40.59	31.26	28.43	22.35	20.72	18.68	14.43
FCF/Share	(0.41)	(3.16)	(6.07)	(8.83)	(2.59)	(0.04)	(1.22)	1.41	1.38	1.54

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

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