



Enbridge Inc. (ENB)

Updated August 23rd, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	9.9%	Market Cap:	\$89B
Fair Value Price:	\$45	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	11/12/22 ¹
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	12/01/22 ²
Dividend Yield:	6.1%	5 Year Price Target	\$55	Years Of Dividend Growth:	27
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

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 higher revenues during the quarter, but since commodity prices are mostly a pass-through cost for the company, higher revenues do not necessarily translate into higher profits. During the quarter, Enbridge still managed to grow its adjusted EBITDA by 12% year over year, to CAD\$3.7 billion, up from CAD\$3.3 billion during the previous year's quarter. This was possible thanks to stronger contributions from the liquids pipelines segment primarily.

Enbridge was able to generate distributable cash flows of CAD\$2.7 billion, which equates to US\$2.1 billion, or US\$1.04 on a per-share basis, which was up by a compelling 10% year over year in CAD. Enbridge is forecasting distributable cash flows in a range of CAD\$5.20-5.50 per share for the current year. Using current exchange rates, this equates to USD\$4.12 at the midpoint of the guidance range, which would easily be a new record for the company. Enbridge raised its dividend by 3% (in CAD, a little less in USD), which was the 27th yearly dividend increase in a row.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCFPS	\$2.56	\$2.73	\$2.93	\$3.54	\$3.56	\$3.03	\$3.16	\$3.43	\$3.68	\$3.91	\$4.12	\$5.01
DPS	\$0.94	\$1.05	\$1.17	\$1.55	\$1.77	\$2.01	\$2.10	\$2.20	\$2.55	\$2.63	\$2.68	\$3.34
Shares³	772	806	829	847	943	1695	1810	2010	2020	2020	2000	1950

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 and 2021, Enbridge was able to grow its distributable cash flows further, despite the oil price slump and the impact of the pandemic.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/CF	12.8	13.8	14.7	13.2	12.3	14.5	9.8	11.7	8.7	10.0	10.7	11.0
Avg. Yld.	2.9%	2.8%	2.7%	3.3%	4.0%	4.6%	7.2%	5.5%	8.0%	6.7%	6.1%	6.1%

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 10.7 times this year's forecasted distributable cash flows, according to management's guidance, which is slightly below our current fair value estimate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	36.7%	38.5%	39.9%	43.8%	49.7%	66.3%	66.5%	64.1%	69.3%	67.3%	65.0%	66.6%

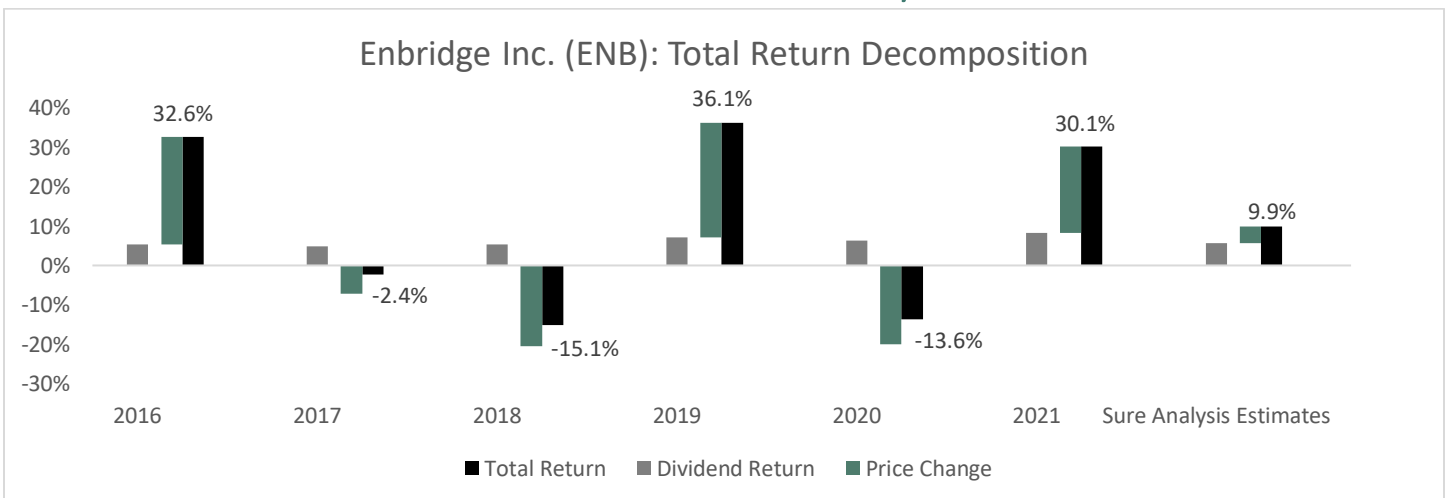
Enbridge paid out less than 50% of its cash flows through 2016, but starting in 2017, its payout ratio rose to roughly two thirds of the cash flows that it generates. The company has guided for meaningful dividend growth throughout the next couple of years, but dividend growth will likely be lower compared 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.

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 2021, and it looks like cash flows will be even higher during the current year, as additional growth projects enter service. The total return outlook is very solid, and shares offer an attractive dividend yield at current prices. We rate Enbridge a buy today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	24,667	31,968	34,095	26,478	26,097	34,242	35,788	37,725	29,173	37,545
Gross Profit	4,246	4,604	5,961	5,115	6,279	9,705	10,596	11,810	10,976	11,579
Gross Margin	17.2%	14.4%	17.5%	19.3%	24.1%	28.3%	29.6%	31.3%	37.6%	30.8%
SG&A Exp.	2,740	2,927	2,972	3,237	3,291	4,971	5,241	5,267	5,037	5,354
D&A Exp.	1,236	1,330	1,428	1,586	1,691	2,441	2,505	2,555	2,770	3,072
Operating Profit	1,684	1,327	2,901	1,879	2,988	4,735	5,355	6,542	5,939	6,225
Op. Margin	6.8%	4.1%	8.5%	7.1%	11.4%	13.8%	15.0%	17.3%	20.4%	16.6%
Net Profit	707	611	1,273	197	1,562	2,206	2,224	4,298	2,510	4,936
Net Margin	2.9%	1.9%	3.7%	0.7%	6.0%	6.4%	6.2%	11.4%	8.6%	13.1%
Free Cash Flow	(2,484)	(4,959)	(7,414)	(2,196)	(38)	(1,866)	2,435	2,792	3,106	928
Income Tax	171	119	553	133	107	(2,081)	183	1,287	578	1,129

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	47	54	63	61	63	129	123	125	126	132
Cash & Equivalents	1,785	710	1,086	731	1,108	382	380	496	354	224
Acc. Receivable	681	1,084	1,006	806	2,829	4,235	3,459	3,953	3,076	3,888
Inventories	783	1,047	989	801	915	1,215	983	994	1,205	1,310
Goodwill & Int.	1,242	1,361	1,420	1,029	1,225	29,999	27,041	27,003	27,266	28,849
Total Liabilities (\$B)	33	38	47	46	47	77	69	72	75	83
Accounts Payable	124	282	357	404	2,758	4,084	3,380	3,472	2,742	3,506
Long-Term Debt	22.03	24.31	30.99	30.51	30.37	51.83	47.44	49.73	52.46	59.32
Total Equity	6,573	7,847	8,848	8,923	10,481	40,070	45,317	44,628	42,050	41,630
LTD/E Ratio	2.14	1.92	2.14	2.24	1.91	1.12	0.93	0.98	1.09	1.24

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.6%	1.2%	2.2%	0.3%	2.5%	2.3%	1.8%	3.5%	2.0%	3.8%
Return on Equity	11.0%	8.5%	15.2%	2.2%	16.1%	8.7%	5.2%	9.6%	5.8%	11.8%
ROIC	2.1%	1.6%	2.9%	0.4%	3.4%	2.9%	2.2%	4.2%	2.4%	4.7%
Shares Out.	772	806	829	847	943	1695	1810	2010	2020	2020
Revenue/Share	31.42	39.13	40.59	31.26	28.43	22.35	20.72	18.68	14.43	18.54
FCF/Share	(3.16)	(6.07)	(8.83)	(2.59)	(0.04)	(1.22)	1.41	1.38	1.54	0.46

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

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