



Enbridge Inc. (ENB)

Updated February 13th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	13.1%	Market Cap:	\$71B
Fair Value Price:	\$41	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	02/28/24 ¹
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date:	03/10/24 ²
Dividend Yield:	7.9%	5 Year Price Target	\$48	Years Of Dividend Growth:	28
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 fourth quarter earnings results on February 9. The company generated lower revenues during the quarter, but since commodity prices are mostly a pass-through cost for the company, lower revenues do not necessarily translate into lower profits. During the quarter, Enbridge managed to grow its adjusted EBITDA by 5% year over year, to CAD\$4.11 billion, up from CAD\$3.91 billion during the previous year's quarter. This was possible thanks to expenses dropping faster than revenues during the quarter.

Enbridge was able to generate distributable cash flows of CAD\$2.73 billion, which equates to US\$2.01 billion, or US\$0.94 on a per-share basis. Enbridge is forecasting distributable cash flows in a range of CAD\$5.40 - CAD\$5.80 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 be a new record for the company. Investors can thus expect another dividend increase over the coming year, as the company's cash flows keep climbing.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCFPS	\$2.93	\$3.54	\$3.56	\$3.03	\$3.16	\$3.43	\$3.68	\$3.91	\$3.96	\$3.91	\$4.12	\$4.78
DPS	\$1.17	\$1.55	\$1.77	\$2.01	\$2.10	\$2.20	\$2.55	\$2.63	\$2.68	\$2.62	\$2.70	\$3.28
Shares³	829	847	943	1695	1810	2010	2020	2020	2030	2130	2140	2100

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 lower than 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 to 2022, Enbridge was able to grow its distributable cash flows further, despite 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/CF	14.7	13.2	12.3	14.5	9.8	11.7	8.7	10.0	9.8	9.2	8.3	10.0
Avg. Yld.	2.7%	3.3%	4.0%	4.6%	7.2%	5.5%	8.0%	6.7%	6.9%	7.3%	7.9%	6.9%

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 just above 8 times this year's forecasted distributable cash flows, according to management's guidance, which is below our fair value estimate. We thus see upside potential for Enbridge's shares.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	39.9%	43.8%	49.7%	66.3%	66.5%	64.1%	69.3%	67.3%	67.7%	67.0%	65.5%	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.

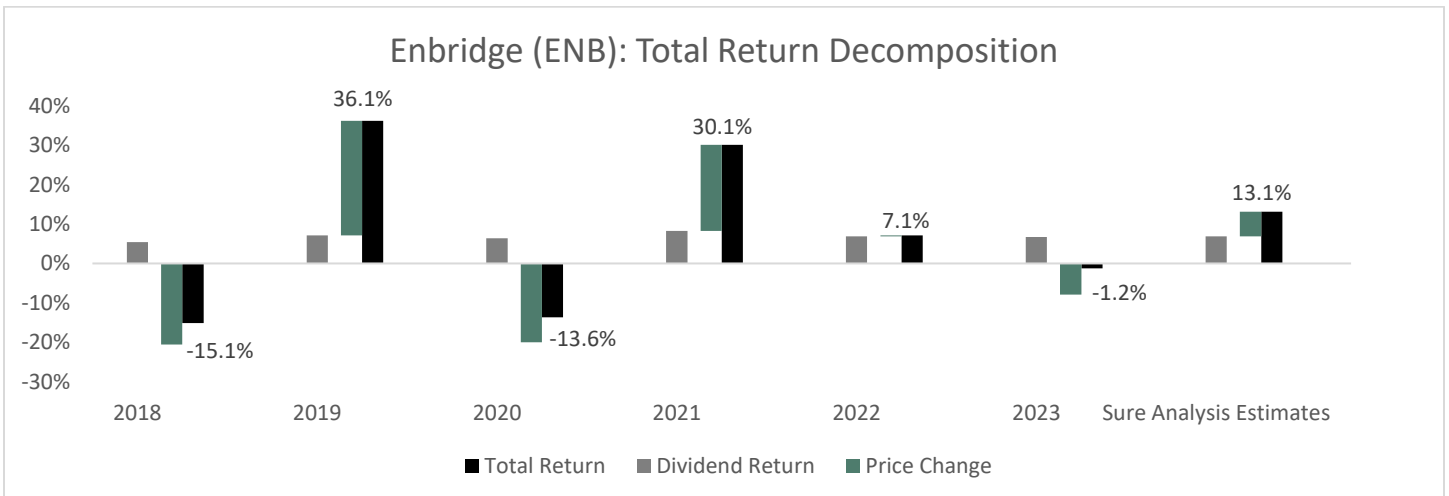
Enbridge's cash generation is not very cyclical, thus the dividend seems safe, even during a recession.

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.

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 2022, but 2023 was a slightly weaker year. 2024 will, according to management's current guidance, be a new record year for the company. The total return outlook is compelling, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	34,095	26,478	26,097	34,242	35,788	37,725	29,173	37,545	40,975	32,326
Gross Profit	5,961	5,115	6,279	9,705	10,596	11,810	10,976	11,579	12,608	13,086
Gross Margin	17.5%	19.3%	24.1%	28.3%	29.6%	31.3%	37.6%	30.8%	30.8%	40.5%
SG&A Exp.	1,428	1,586	1,691	2,441	2,505	2,555	2,770	3,072	3,318	3,416
D&A Exp.	2,992	1,879	2,988	4,735	5,355	6,542	5,939	6,225	6,290	6,717
Operating Profit	8.8%	7.1%	11.4%	13.8%	15.0%	17.3%	20.4%	16.6%	15.4%	20.8%
Op. Margin	1,273	197	1,562	2,206	2,224	4,298	2,510	4,936	2,308	4,585
Net Profit	3.7%	0.7%	6.0%	6.4%	6.2%	11.4%	8.6%	13.1%	5.6%	14.2%
Net Margin	(7,414)	(2,196)	(38)	(1,866)	2,435	2,792	3,106	928	4,926	6,906
Free Cash Flow	553	133	107	(2,081)	183	1,287	578	1,129	1,233	1,349
Income Tax	34,095	26,478	26,097	34,242	35,788	37,725	29,173	37,545	40,975	32,326

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	63	61	63	129	123	125	126	132	132	136
Cash & Equivalents	1,086	731	1,108	382	380	496	354	224	634	4,448
Acc. Receivable	1,214	811	2,873	4,312	3,564	4,044	3,183	4,040	4,222	3,388
Inventories	989	801	915	1,215	983	994	1,205	1,310	1,662	1,115
Goodwill & Int.	1,420	1,029	1,225	29,999	27,041	27,003	27,266	28,849	26,863	26,673
Total Liabilities (\$B)	47	46	47	77	69	72	75	83	86	87
Accounts Payable	426	439	2,848	4,208	3,410	3,489	2,760	3,576	4,625	3,267
Long-Term Debt	31	31	30	52	47	50	52	59	60	61
Total Equity	8,848	8,923	10,481	40,070	45,317	44,628	42,050	41,630	39,102	41,185
LTD/E Ratio	2.14	2.24	1.91	1.12	0.93	0.98	1.09	1.24	1.35	1.32

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.2%	0.3%	2.5%	2.3%	1.8%	3.5%	2.0%	3.8%	1.7%	3.4%
Return on Equity	7.8%	1.3%	10.1%	6.4%	4.2%	8.0%	4.8%	9.9%	4.8%	9.6%
ROIC	2.9%	0.4%	3.4%	2.9%	2.2%	4.2%	2.4%	4.7%	2.1%	4.2%
Shares Out.	829	847	943	1695	1810	2010	2020	2020	2030	2130
Revenue/Share	40.59	31.26	28.43	22.35	20.72	18.68	14.43	18.54	20.19	15.71
FCF/Share	(8.83)	(2.59)	(0.04)	(1.22)	1.41	1.38	1.54	0.46	2.43	3.36

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

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