

Enbridge Inc.(ENB)

\$29.86 (As of 05/01/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

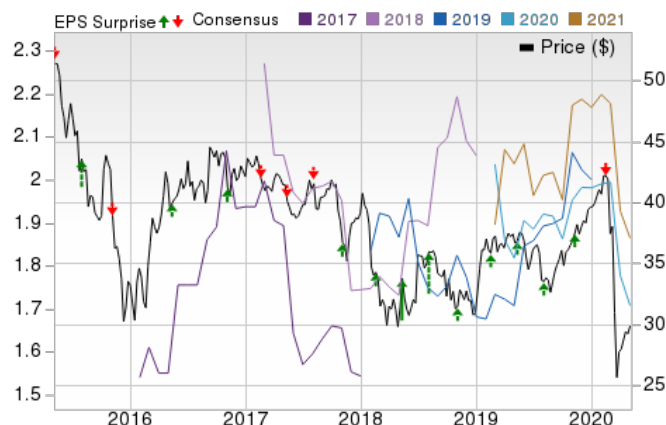
Growth: B

Momentum: C

Summary

Enbridge has the longest and most sophisticated crude oil and liquids pipeline system in the world that spreads across 17,018 miles. The company has a total of \$11 billion of low-risk inventory of midstream growth projects, including the 118-mile PennEast Pipeline Project that will secure additional stable fee-based revenues for the years to come. Moreover, Enbridge has been strongly committed to returning cash to shareholders. The company recently received authorization from the board of directors to hike the quarterly dividend payout for 2020. However, Enbridge's significant exposure to debt is concerning. This can restrict the company's financial flexibility. Moreover, reduced contributions from Canadian Gas Transmission and Mainline System businesses have been affecting its profits. As such, the stock warrants a cautious stance.

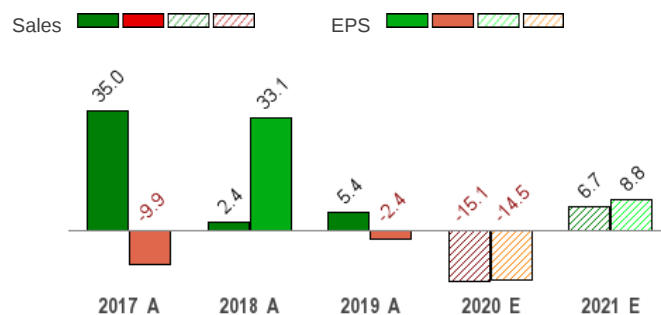
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$43.15 - \$22.57
20 Day Average Volume (sh)	5,335,046
Market Cap	\$60.5 B
YTD Price Change	-24.9%
Beta	0.82
Dividend / Div Yld	\$2.29 / 8.0%
Industry	Oil and Gas - Production and Pipelines
Zacks Industry Rank	Top 49% (123 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.0%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	-3.6%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	15.0
P/E F1	17.5
PEG F1	2.0
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					34,181 E
2020	8,517 E	8,000 E	7,623 E	8,806 E	32,037 E
2019	9,670 A	9,916 A	8,785 A	9,359 A	37,732 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.45 E	\$0.40 E	\$0.41 E	\$0.48 E	\$1.86 E
2020	\$0.51 E	\$0.37 E	\$0.37 E	\$0.42 E	\$1.71 E
2019	\$0.61 A	\$0.50 A	\$0.42 A	\$0.46 A	\$2.00 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

Overview

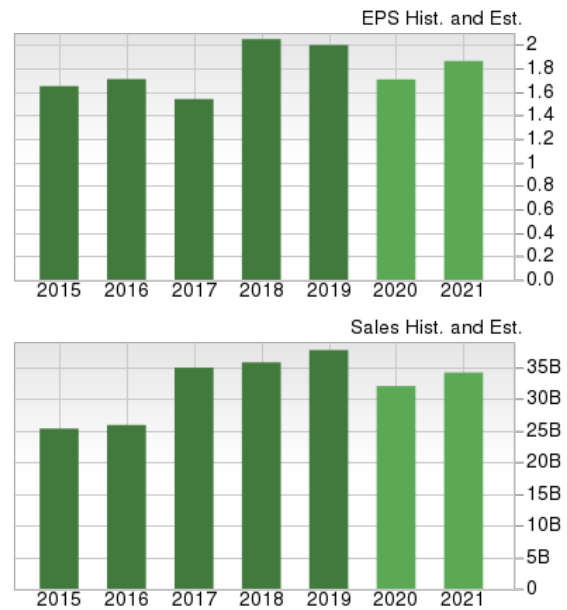
Headquartered in Calgary, Alberta, Enbridge Inc. is a leading energy infrastructure company. One of its businesses is the transportation of energy through the most extensive and advanced crude and liquids pipeline system that spreads across 17,018 miles globally. Through the Mainline and Express pipelines, the company transports 2.8 million barrels of crude every day which accounts for almost 68% of the Canadian crude oil production that are transported to the U.S.

In North America, the company holds a leading position in the gathering, transportation, processing and storage of natural gas. In fact, in Canada, the company is touted to be the largest natural gas distributor. Enbridge also generates energy from wind and solar power, having a capacity of over 2,500 megawatts (MW) of net renewable.

In other words, Enbridge is the largest diversified midstream energy player and is responsible for transporting 25% of the crude volumes in North America. The firm is also responsible for transporting roughly 20% of North American natural gas volumes. In Ontario, Enbridge distributes approximately 2 billion cubic feet of gas on a daily basis.

Investors should know that Enbridge generates stable fee-based revenues from its diversified network of midstream assets. In 2018, the company placed online roughly \$7 billion of new midstream energy projects while divesting non-core assets worth \$8 billion. The midstream infrastructure provider also authorized new developments worth approximately \$7 billion.

The company had about 17,000 employees that are mainly concentrated in Canada and the U.S. The company primarily operates through five segments: Liquids Pipelines, Gas Transmission and Midstream, Gas Distribution & Storage, Renewable Power Generation, and Energy Services. The first three segments reported adjusted earnings of C\$7.7 billion, C\$3.4 billion and C\$1.7 billion, respectively, in 2019.



Reasons To Buy:

- ▲ Enbridge has the longest and most advanced crude and liquids pipeline system in the world that spreads over 17,018 miles. In Canada, the company is touted to be the largest natural gas distributor. Hence, it is quite obvious that a significant portion of the company's earnings is generated from transportation operations, driven by a string of long-term contracts. The substantial contract base will likely provide the company with stable cash flow in the coming years.
- ▲ Enbridge has been strongly committed to returning cash to shareholders. The company recently received authorization from the board of directors to hike quarterly dividend for 2020. The new dividend of 81 Canadian cents (or C\$3.24 annually) — expected to be paid on Mar 1, 2020 to stockholders of record as of Feb 14, 2020 — reflects a sequential hike of 9.8%. Moreover, distributable cash flow (DCF) per share for 2020 is expected in the range of C\$4.50-C\$4.80, the top end of which suggests a rise from the 2019 DCF of \$4.57. The company also projects DCF per share growth of 5% to 7% in the long term. This reflects Enbridge's efforts in strengthening overall businesses by shedding non-core assets and adding profitable growth projects.
- ▲ The company has a total of \$11 billion of low-risk inventory of midstream growth projects that are coming online since 2020 through 2023. This reflects the company's plan of securing additional fee-based revenues in the coming years. Its 118-mile PennEast Pipeline Project, which is expected to meet the growing demand of natural gas in New Jersey and Pennsylvania is commendable.

Enbridge will continue to earn stable fee-based revenues from its C\$19-billion backlog of midstream energy projects.

Reasons To Sell:

- ▼ At the end of fourth-quarter 2019, the company had total debt of \$48,630 million, and cash and cash equivalents of only \$509 million. Enbridge's total debt-to-capitalization ratio stands at 0.49 higher than the energy sector's 0.34. In fact, the ratio of the company has been consistently higher than the sector over the past year, reflecting more levered balance sheet. Notably, in the December quarter, the company's cash balance declined by 22.9% to \$509 million, which is not sufficient to cover short-term debt of \$3,996 million. Also, the company's ability to pay off a portion of total long-term debt of \$44,961 million is in question since there has been prolonged weakness in global energy demand without possibilities of recovery anytime soon. Moreover, considerably lower times interest earned ratio as compared to the sector has raised questions on the midstream firm's ability to pay off debt load.
 - ▼ Over the past year, Enbridge has mostly been yielding lower dividend than the industry. Also, given the significantly higher payout of 111.4% as compared to the industry's 81.5%, the sustainability of the company's dividend payment is questionable as many energy firms are considering dividend cuts since global energy demand has been affected by the coronavirus pandemic.
 - ▼ In 2019, the company generated adjusted EBITDA of C\$3,868 million from the Gas Transmission and Midstream business, lower than the prior year's C\$4,068 million. The underperformance was owing to lower contributions from Canadian Gas Transmission and US Midstream businesses. Also, rising commodity costs have been affecting the company's bottom line. Moreover, lower contributions from the Renewable Power Generation business segment have been hurting the company.
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The firm's significant debt exposure is concerning.

Last Earnings Report

Enbridge Misses Earnings & Revenue Estimates in Q4

Enbridge reported fourth-quarter 2019 earnings per share of 46 cents, missing the Zacks Consensus Estimate of 50 cents and declining from the year-ago quarter's profit of 49 cents. The underperformances were owing to lower contributions from Mainline System. This was partly compensated by higher distributed natural gas volumes.

Total revenues in the quarter increased 7% year over year to \$9,359 million. However, the top line missed the Zacks Consensus Estimate of \$9,528 million.

Quarter Ending **12/2019**

Report Date	Feb 14, 2020
Sales Surprise	-1.77%
EPS Surprise	-8.00%
Quarterly EPS	0.46
Annual EPS (TTM)	1.99

Distributable Cash Flow (DCF) & Dividend

In fourth-quarter 2019, the company reported DCF of C\$2,051 million compared with C\$1,863 million a year ago.

The company hiked the quarterly dividend by 9.8% to 81 Canadian cents per share. The raised dividend will likely be payable on Mar 1 to shareholders of record as on Feb 14.

Segment Analysis

Enbridge conducts business through five segments — Liquids Pipelines, Gas Transmission and Midstream, Gas Distribution and Storage, Renewable Power Generation and Energy Services.

Liquids Pipelines: The segment's adjusted earnings before interest, income taxes, and depreciation and amortization (EBITDA) amounted to C\$1,720 million, down from C\$1,728 million in the year-earlier quarter. Lower contributions from the Mainline System primarily led to the underperformance.

Gas Transmission and Midstream: The segment's adjusted EBITDA totaled C\$948 million, down from C\$952 million in fourth-quarter 2018. Lower contributions from the Canadian gas transmission business caused the downside.

Gas Distribution and Storage: The unit generated adjusted profit of C\$481 million compared with C\$452 million in the prior-year quarter. A rise in distributed natural gas volume drove the outperformance.

Renewable Power Generation: The segment recorded adjusted earnings of C\$119 million, up from C\$98 million in the prior-year quarter. Hohe See Offshore Wind Project primarily contributed to the outperformance.

Energy Services: The segment generated adjusted loss of C\$22 million against a profit of C\$73 million in fourth-quarter 2018.

Balance Sheet

At the end of fourth-quarter 2019, the company reported total debt of C\$64,963 million, and cash and cash equivalents of C\$648 million. Its debt-to-capitalization ratio was 49.6%.

Guidance

For 2020, the company has reaffirmed its guidance for DCF per share at the band of C\$4.50 to C\$4.80. Enbridge also projects EBITDA for 2020 at C\$13.7 billion.

Recent News

Enbridge Agrees to Acquire NextDecade's Rio Bravo Pipeline – Feb 13, 2020

Enbridge agreed to acquire Rio Bravo Pipeline Company from NextDecade for less than \$25 million in cash. The deal is expected to help Enbridge to serve the growing liquified natural gas export market. The pipeline is designed to ship 4.5 billion cubic feet of natural gas per day from Agua Dulce to Brownsville, TX.

Valuation

Enbridge shares are down 23.6% in the year-to-date period and 13.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 39.4% and 40.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 42.1% and 41.3%, respectively.

The S&P 500 index is down 11.5% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 16.96X forward 12-month earnings, which compares to 13.52X for the Zacks sub-industry, 13.52X for the Zacks sector and 56.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.76X and as low as 11.77X, with a 5-year median of 20.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 16.13X F12M earnings.

The table below shows summary valuation data for ENB.

Valuation Multiples - ENB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.96	13.52	13.52	56.2
	5-Year High	26.76	32.17	32.17	56.2
	5-Year Low	11.77	11.08	11.08	11.25
	5-Year Median	20.72	21.52	21.52	18.43
EV/EBITDA TTM	Current	13.16	3.59	3.72	10.37
	5-Year High	34.26	9.89	10.4	12.86
	5-Year Low	11.74	2.85	3.02	8.28
	5-Year Median	15.68	6.03	6.53	10.77
P/S F12M	Current	1.85	0.59	0.67	3.19
	5-Year High	1.54	0.87	1.46	3.44
	5-Year Low	2.38	0.56	0.58	2.54
	5-Year Median	1.63	0.76	0.99	3.01

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Top 49% (123 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
EQT Midstream Partners, LP (EQM)	Neutral	3
Equitrans Midstream Corporation (ETRN)	Neutral	3
Kinder Morgan, Inc. (KMI)	Neutral	3
ONEOK, Inc. (OKE)	Neutral	4
Pembina Pipeline Corp. (PBA)	Neutral	3
Targa Resources, Inc. (TRGP)	Neutral	3
TC Energy Corporation (TRP)	Neutral	3
Williams Companies, Inc. (The) (WMB)	Neutral	3

Industry Comparison Industry: Oil And Gas - Production And Pipelines				Industry Peers		
	ENB	X Industry	S&P 500	KMI	PBA	TRP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	C	-	-	D	D	B
Market Cap	60.46 B	3.57 B	20.61 B	32.93 B	12.08 B	42.46 B
# of Analysts	7	4	14	8	5	5
Dividend Yield	8.18%	7.47%	2.11%	6.87%	8.15%	5.05%
Value Score	D	-	-	C	C	C
Cash/Price	0.01	0.01	0.06	0.01	0.01	0.02
EV/EBITDA	10.98	8.14	11.87	8.78	12.99	10.35
PEG Ratio	2.02	3.66	2.47	4.66	2.81	3.91
Price/Book (P/B)	1.30	1.19	2.67	0.98	1.16	1.98
Price/Cash Flow (P/CF)	9.04	5.33	10.66	7.41	8.33	9.07
P/E (F1)	17.35	13.28	19.01	18.64	14.07	15.80
Price/Sales (P/S)	1.60	2.07	2.10	2.56	2.22	4.28
Earnings Yield	5.73%	7.00%	5.05%	5.36%	7.10%	6.33%
Debt/Equity	0.97	0.95	0.72	0.94	0.78	1.51
Cash Flow (\$/share)	3.39	2.75	7.01	2.06	2.75	5.11
Growth Score	B	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	6.19%	6.19%	10.88%	4.23%	31.17%	11.82%
Proj. EPS Growth (F1/F0)	-14.65%	-14.42%	-7.32%	-17.76%	-21.90%	-8.33%
Curr. Cash Flow Growth	13.94%	11.65%	5.92%	3.20%	24.29%	3.72%
Hist. Cash Flow Growth (3-5 yrs)	18.69%	15.44%	8.55%	6.59%	24.12%	11.18%
Current Ratio	0.55	0.93	1.23	0.55	0.68	0.59
Debt/Capital	46.22%	49.74%	43.84%	49.04%	39.14%	56.97%
Net Margin	11.38%	10.42%	11.08%	10.31%	20.59%	30.61%
Return on Equity	8.74%	10.28%	16.44%	6.24%	11.81%	13.97%
Sales/Assets	0.30	0.28	0.54	0.17	0.25	0.13
Proj. Sales Growth (F1/F0)	-15.09%	-2.97%	-1.42%	-6.13%	-12.93%	-4.69%
Momentum Score	C	-	-	D	C	B
Daily Price Chg	-4.04%	-4.04%	-2.39%	-3.06%	-4.58%	-4.61%
1 Week Price Chg	-0.65%	0.00%	-1.74%	-2.34%	-0.83%	1.57%
4 Week Price Chg	11.60%	15.95%	17.07%	13.23%	27.66%	9.83%
12 Week Price Chg	-27.14%	-31.61%	-18.53%	-28.60%	-41.44%	-15.77%
52 Week Price Chg	-15.48%	-43.87%	-9.82%	-21.33%	-34.42%	-1.32%
20 Day Average Volume	5,335,046	1,490,427	2,641,413	17,011,488	1,992,186	2,095,005
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.57%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.63%	-3.97%	-6.62%	-20.89%	-2.86%	-1.04%
(F1) EPS Est 12 week change	-14.21%	-15.51%	-13.28%	-19.46%	-16.58%	-8.63%
(Q1) EPS Est Mthly Chg	-13.15%	-6.70%	-11.97%	-22.04%	-0.44%	-5.33%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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