

## Enbridge Inc.(ENB)

**\$42.58** (As of 02/10/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: C

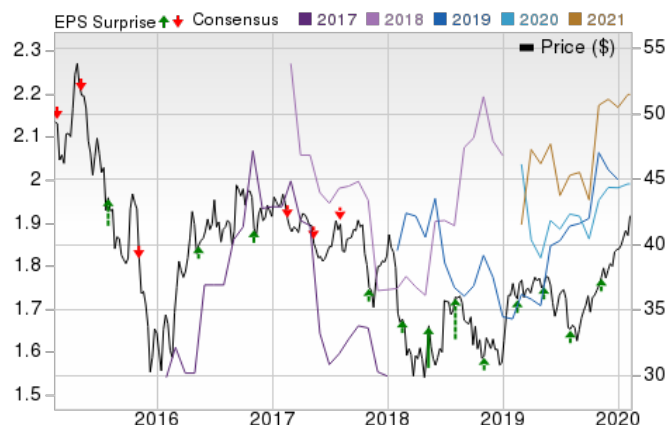
Growth: C

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. Its huge backlog of growth projects will help it achieve annual targeted dividend growth of 10% through 2020. Notably, it has a \$7-billion inventory of secured growth projects for 2020. Moreover, Enbridge has an inventory of additional growth projects worth \$4 billion for 2021. Thus, from the total of \$11 billion of low-risk inventory of midstream growth projects, the company is planning to generate additional fee-based revenues. However, lower contributions from Canada gas transmission and US midstream businesses have been hurting the bottom line. Further, a surge in integrity expenses for gas transmission and midstream assets are affecting the company's bottom line. Also, its high debt burden is concerning.

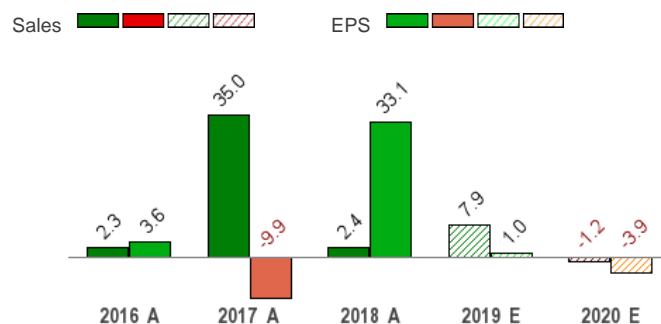
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$42.59 - \$32.23
20 Day Average Volume (sh)	3,727,561
Market Cap	\$86.2 B
YTD Price Change	7.1%
Beta	0.61
Dividend / Div Yld	\$2.45 / 5.2%
Industry	<a href="#">Oil and Gas - Production and Pipelines</a>
Zacks Industry Rank	Top 39% (99 out of 255)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/14/2020
Earnings ESP	2.3%
P/E TTM	21.1
P/E F1	21.4
PEG F1	2.5
P/S TTM	2.3

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					38,158 E
2019	9,670 A	9,916 A	8,785 A	9,528 E	38,611 E
2018	12,726 A	8,327 A	8,681 A	8,749 A	35,785 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.54 E	\$0.46 E	\$0.46 E	\$0.52 E	\$1.99 E
2019	\$0.61 A	\$0.50 A	\$0.42 A	\$0.50 E	\$2.07 E
2018	\$0.82 A	\$0.62 A	\$0.42 A	\$0.49 A	\$2.05 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 02/10/2020. The reports text is as of 02/11/2020.

## Overview

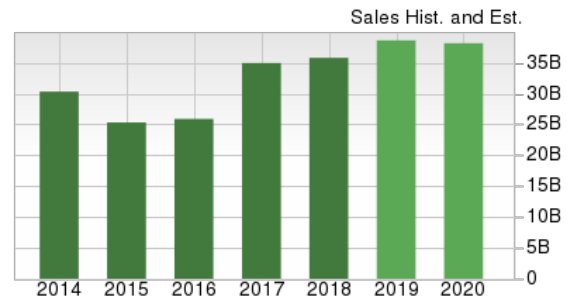
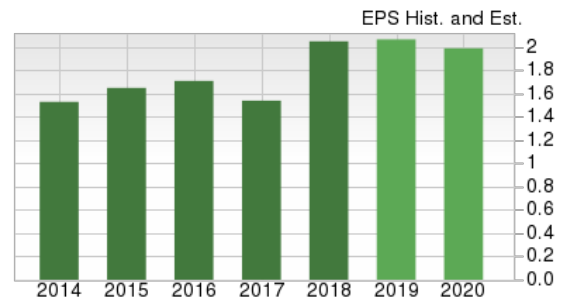
Headquartered in Calgary, Alberta, Enbridge Inc. is a leading energy infrastructure company. One of its businesses is the transportation of energy through the most extensive and advanced crude and liquids pipeline system that spreads across 17,018 miles globally. Through the Mainline and Express pipelines, 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 Distribution, Gas Transmission and Midstream, Green Power and Transmission, and Energy Services. The first four segments reported adjusted earnings of C\$6.6 billion, C\$1.7 billion, C\$4.1 billion and C\$435 million, respectively, in 2018.



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## 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, higher than the 2019 projection of C\$4.30-C\$4.60. This reflects Enbridge's efforts in strengthening overall businesses by shedding non-core assets and adding profitable growth projects.
- ▲ For 2020, the company has a \$7-billion inventory of secured growth projects. Moreover, the company has an inventory of additional growth projects worth \$4 billion for 2021. Thus, from the total of \$11 billion of low-risk inventory of midstream growth projects, the company is planning to generate additional fee-based revenues.

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

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### Reasons To Sell:

- ▼ Enbridge's total debt-to-capitalization ratio stands at 49%, higher than the energy sector's 35%, reflecting significant exposure to debt. At the end of third-quarter 2019, the company had total debt of C\$66,684 million, and cash and cash equivalents of only C\$815 million.
- ▼ A possible headwind apprehended by the company through fourth-quarter 2019 is a surge in integrity expenses for gas transmission & midstream assets. This could hurt the company's bottom line.
- ▼ Lower contributions from Canadian gas transmission and US midstream businesses have been hurting the company's bottom-line. Year to date, the company recorded significant lower profits from the year-ago comparable period from both Canadian gas transmission and US midstream activities.

The company anticipates surge in integrity expenses for gas transmission & midstream assets to hurt its bottom-line.

## Last Earnings Report

### Enbridge Q3 Earnings Meet Estimates, Revenues Rise

Enbridge reported third-quarter 2019 earnings per share of 42 cents, meeting the Zacks Consensus Estimate and flat year over year.

Total revenues in the quarter increased 1.2% year over year to \$8,785 million.

The third-quarter results were primarily supported by higher throughput in the Mainline System. This was partially offset by lower contributions from the Canada Gas Transmission business.

Quarter Ending **09/2019**

Report Date	<b>Nov 08, 2019</b>
Sales Surprise	<b>NA</b>
EPS Surprise	<b>0.00%</b>
Quarterly EPS	<b>0.42</b>
Annual EPS (TTM)	<b>2.02</b>

### Distributable Cash Flow (DCF)

In third-quarter 2019, the company raised DCF to C\$2,105 million from C\$1,585 million a year ago.

### Segment Analysis

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

**Liquids Pipelines:** The segment's adjusted earnings before interest, income taxes, and depreciation and amortization (EBITDA) amounted to C\$1,826 million, up from C\$1,633 million in the year-earlier quarter. Higher throughput in the Mainline System, and increased contributions from the Gulf Coast and Mid-Continent System primarily resulted in the upside.

**Gas Transmission and Midstream:** The segment's adjusted EBITDA totaled C\$944 million, down from C\$1,038 million in third-quarter 2018. Lower contributions from the Canada gas transmission business caused the downside.

**Gas Distribution:** The unit generated adjusted profit of C\$255 million compared with C\$259 million in the prior-year quarter. Lower distributed natural gas volume resulted in the underperformance.

**Renewable Power Generation and Transmission:** The segment recorded adjusted earnings of C\$82 million, up from C\$73 million in the prior-year quarter. Wind farms in North America, which had stronger resources, mainly caused the improvement.

**Energy Services:** The segment generated adjusted income of C\$27 million, up from C\$10 million in third-quarter 2018 on higher transportation margins.

### Balance Sheet

At the end of third-quarter 2019, the company reported total debt of C\$66,684 million, and cash and cash equivalents of C\$815 million. Its debt-to-capitalization ratio was 49%.

### Guidance

For 2019, the energy infrastructure company continues to expect DCF of \$4.30-\$4.60 per share. Notably, it expects annual DCF to surpass the mid-point of the projected band.

## Recent News

### Enbridge Hikes 2020 Dividend, Expects Y/Y Higher EBITDA, DCF – Dec 10, 2019

Enbridge 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 — will reflect a sequential hike of 9.8%. The raise will lead to a dividend yield of 6.3%.

This move is indicative of the company's commitment to create value for its shareholders and underlines Enbridge's confidence in business growth. In fact, 2020 will be the 25th successive year of dividend increase by the leading midstream energy infrastructure provider.

In addition to the news of dividend increment, Enbridge announced that it expects earnings before interest, taxes, depreciation and amortization (EBITDA) of C\$13.7 billion for 2020, marginally higher than 2019 expectation of C\$13 billion. The increase can be supported by the Line 3 Replacement project, as the Canadian segment of the pipeline commenced service on Dec 1, 2019. It awaits more clarity on the regulatory processes before the project's U.S. segment comes online.

Distributable cash flow (DCF) per share for 2020 is expected in the range of C\$4.50-C\$4.80, higher than the 2019 projection within C\$4.30-C\$4.60. This reflects Enbridge's efforts in strengthening overall businesses by shedding non-core assets and adding profitable growth projects. Moreover, the company expects DCF per share to increase 5-7% per annum after 2020.

Notably, it recently signed a letter of intent with Enterprise Products Partners, another North American midstream player, to develop the deep-water Sea Port Oil Terminal export facility in the U.S. Gulf Coast.

## Valuation

Enbridge shares are up 17.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and Zacks Oils-Energy sector are down 2.4% and 15.3%, respectively.

The S&P 500 index is up 21.8% in the past year.

The stock is currently trading at 21.15X forward 12-month earnings, which compares to 16.89X for the Zacks sub-industry, 13.21X for the Zacks sector and 19.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.00X and as low as 14.99X, with a 5-year median of 20.96X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 23.3X 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	21.15	16.89	13.21	19.12
	5-Year High	28	34.66	32.4	19.34
	5-Year Low	14.99	16.13	11.27	15.18
	5-Year Median	20.96	22.22	18.56	17.47
EV/EBITDA TTM	Current	17.48	13.39	4.71	11.36
	5-Year High	34.25	26.06	10.27	12.85
	5-Year Low	11.8	10.24	4.58	8.47
	5-Year Median	16.31	14.84	6.54	10.7
P/S F12M	Current	2.25	1.95	0.81	3.53
	5-Year High	2.38	3.55	1.45	3.53
	5-Year Low	1.1	1.47	0.67	2.54
	5-Year Median	1.61	1.95	0.99	3

As of 02/10/2020

## Industry Analysis Zacks Industry Rank: Top 39% (99 out of 255)



## Top Peers

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

Industry Comparison Industry: Oil And Gas - Production And Pipelines				Industry Peers		
	ENB Neutral	X Industry	S&P 500	KMI Neutral	PBA Neutral	TRP Outperform
<b>VGM Score</b>	<b>D</b>	-	-	<b>F</b>	<b>D</b>	<b>C</b>
Market Cap	86.21 B	5.32 B	24.00 B	48.29 B	21.66 B	51.85 B
# of Analysts	6	4	13	8	4	4
Dividend Yield	5.24%	5.24%	1.78%	4.69%	4.91%	4.18%
<b>Value Score</b>	<b>C</b>	-	-	<b>D</b>	<b>D</b>	<b>C</b>
Cash/Price	0.01	0.01	0.04	0.01	0.02	0.03
EV/EBITDA	18.73	12.60	14.07	11.76	15.59	13.22
PEG Ratio	2.49	4.24	2.04	4.41	4.22	3.30
Price/Book (P/B)	1.75	1.43	3.28	1.40	2.16	2.41
Price/Cash Flow (P/CF)	14.28	9.95	13.58	10.43	16.55	11.16
P/E (F1)	21.40	17.10	18.86	22.07	21.12	17.65
Price/Sales (P/S)	2.32	2.68	2.65	3.66	3.99	4.95
Earnings Yield	4.67%	5.85%	5.30%	4.55%	4.73%	5.67%
Debt/Equity	0.94	0.93	0.71	0.93	0.67	1.60
Cash Flow (\$/share)	2.98	2.39	6.89	2.04	2.39	4.95
<b>Growth Score</b>	<b>C</b>	-	-	<b>D</b>	<b>C</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	6.01%	7.29%	10.80%	1.21%	28.18%	10.77%
Proj. EPS Growth (F1/F0)	-3.26%	6.43%	7.23%	1.71%	-17.69%	0.89%
Curr. Cash Flow Growth	25.92%	28.84%	9.51%	18.89%	34.06%	26.37%
Hist. Cash Flow Growth (3-5 yrs)	17.97%	17.42%	8.55%	8.20%	13.00%	10.01%
Current Ratio	0.59	0.90	1.20	0.35	0.90	0.75
Debt/Capital	45.58%	47.89%	42.90%	48.84%	36.09%	58.38%
Net Margin	12.07%	12.60%	11.76%	16.58%	23.79%	29.37%
Return on Equity	8.31%	9.90%	16.98%	6.27%	14.01%	14.12%
Sales/Assets	0.29	0.28	0.54	0.17	0.26	0.14
Proj. Sales Growth (F1/F0)	-1.17%	4.38%	4.15%	3.44%	8.20%	4.46%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>F</b>	<b>F</b>	<b>C</b>
Daily Price Chg	0.95%	-1.06%	-0.64%	0.95%	0.61%	0.33%
1 Week Price Chg	3.71%	0.58%	-2.60%	1.20%	2.61%	0.46%
4 Week Price Chg	5.74%	-11.37%	0.72%	-1.07%	2.86%	4.82%
12 Week Price Chg	11.88%	-1.18%	4.69%	5.86%	9.31%	7.41%
52 Week Price Chg	17.30%	-22.33%	16.01%	16.69%	12.23%	34.53%
20 Day Average Volume	3,727,561	743,492	1,961,054	12,593,325	882,767	1,352,477
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.39%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.00%	-1.26%	-1.45%	1.05%
(F1) EPS Est 12 week change	0.20%	-0.67%	-0.16%	-2.56%	-1.55%	1.21%
(Q1) EPS Est Mthly Chg	-1.82%	0.00%	0.00%	-0.70%	0.00%	NA

## 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	C
Growth Score	C
Momentum Score	B
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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