

Enbridge Inc.(ENB)

\$29.51 (As of 04/14/20)

Price Target (6-12 Months): **\$33.00**

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:C

Value: C

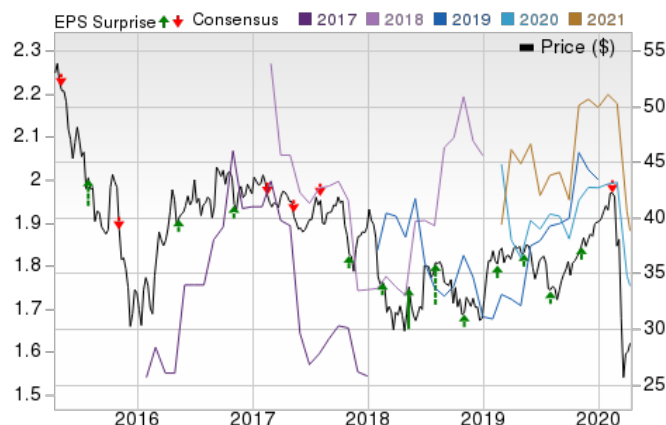
Growth: C

Momentum: D

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.

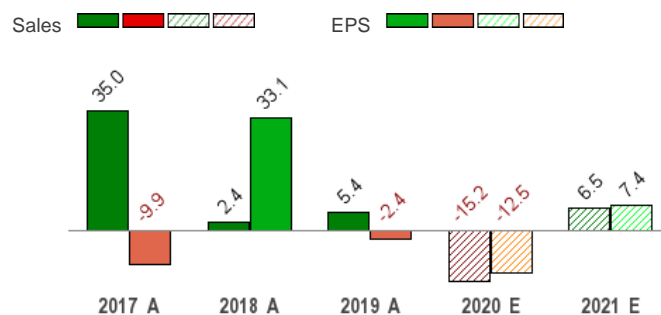
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$43.15 - \$22.57
20 Day Average Volume (sh)	7,759,884
Market Cap	\$59.8 B
YTD Price Change	-25.8%
Beta	0.88
Dividend / Div Yld	\$2.44 / 8.3%
Industry	Oil and Gas - Production and Pipelines
Zacks Industry Rank	Bottom 38% (157 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	-11.5%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	14.8
P/E F1	16.9
PEG F1	2.0
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					34,082 E
2020					32,009 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	\$0.46 E	\$0.41 E	\$0.45 E	\$0.52 E	\$1.88 E
2020	\$0.50 E	\$0.41 E	\$0.41 E	\$0.45 E	\$1.75 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 04/14/2020. The reports text is as of 04/15/2020.

Overview

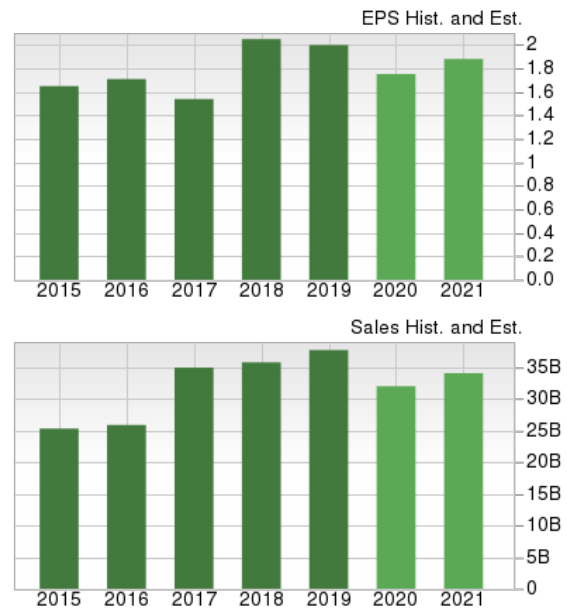
Headquartered in Calgary, Alberta, Enbridge Inc. is a leading energy infrastructure company. One of its businesses is the transportation of energy through the most extensive and advanced crude and liquids pipeline system that spreads across 17,018 miles globally. Through the Mainline and Express pipelines, 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:

- ▼ Enbridge's total debt-to-capitalization ratio stands at 49.6%, higher than the energy sector's 34.2%, reflecting significant exposure to debt. At the end of fourth-quarter 2019, the company had total debt of C\$64,963 million, and cash and cash equivalents of only C\$648 million.
- ▼ 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.
- ▼ 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.

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 25.8% in the year-to-date period and 20.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 36.2% and 40.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 38.9% and 46.5%, respectively.

The S&P 500 index is down 14.4% in the year-to-date period and 5.6% in the past year.

The stock is currently trading at 14.42X forward 12-month earnings, which compares to 12.07X for the Zacks sub-industry, 27.59X for the Zacks sector and 18.03X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.00X and as low as 11.77X, with a 5-year median of 20.84X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$33 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	14.42	12.07	27.59	18.03
	5-Year High	28	34.66	32.31	19.34
	5-Year Low	11.77	11.08	11.27	15.19
	5-Year Median	20.84	21.61	18.55	17.45
EV/EBITDA TTM	Current	13.07	9.68	3.77	10.07
	5-Year High	34.26	25.5	10.37	12.87
	5-Year Low	11.74	8.41	3.05	8.27
	5-Year Median	15.75	13.81	6.5	10.78
P/S F12M	Current	1.56	1.41	0.65	3.04
	5-Year High	2.38	3.55	1.45	3.44
	5-Year Low	1.1	1.31	0.58	2.54
	5-Year Median	1.62	1.89	0.99	3.01

As of 04/14/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (157 out of 253)



Top Peers

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

Industry Comparison Industry: Oil And Gas - Production And Pipelines				Industry Peers		
	ENB Neutral	X Industry	S&P 500	KMI Neutral	PBA Neutral	TRP Neutral
VGM Score	C	-	-	D	D	C
Market Cap	59.75 B	3.12 B	19.79 B	34.25 B	11.08 B	45.05 B
# of Analysts	7	4	14	8	5	4
Dividend Yield	8.28%	8.45%	2.16%	6.61%	9.35%	4.76%
Value Score	C	-	-	C	C	C
Cash/Price	0.01	0.02	0.06	0.03	0.01	0.02
EV/EBITDA	10.75	7.75	11.74	8.72	12.12	10.55
PEG Ratio	1.96	3.58	2.15	3.85	2.59	4.21
Price/Book (P/B)	1.29	1.00	2.65	1.00	1.06	2.10
Price/Cash Flow (P/CF)	8.70	4.36	10.40	7.36	7.32	9.38
P/E (F1)	16.86	9.98	17.72	15.41	12.95	16.97
Price/Sales (P/S)	1.58	1.70	2.06	2.59	2.03	4.51
Earnings Yield	5.93%	7.95%	5.46%	6.48%	7.74%	5.90%
Debt/Equity	0.97	0.95	0.70	0.94	0.78	1.51
Cash Flow (\$/share)	3.39	2.75	7.01	2.06	2.75	5.11
Growth Score	C	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	6.19%	6.19%	10.92%	1.21%	31.17%	11.82%
Proj. EPS Growth (F1/F0)	-12.36%	-6.76%	-2.65%	3.29%	-22.20%	-9.38%
Curr. Cash Flow Growth	13.94%	11.65%	5.93%	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	1.24	0.63	0.68	0.59
Debt/Capital	46.22%	49.71%	42.36%	48.98%	39.14%	56.97%
Net Margin	11.38%	10.96%	11.64%	16.58%	20.59%	30.61%
Return on Equity	8.74%	10.28%	16.74%	6.29%	11.81%	13.97%
Sales/Assets	0.30	0.28	0.54	0.17	0.25	0.13
Proj. Sales Growth (F1/F0)	-15.16%	0.02%	0.00%	0.04%	-12.93%	-4.79%
Momentum Score	D	-	-	C	D	D
Daily Price Chg	2.82%	1.29%	2.56%	1.14%	1.05%	0.17%
1 Week Price Chg	2.68%	5.59%	16.01%	14.54%	17.52%	10.59%
4 Week Price Chg	10.07%	23.94%	11.39%	19.62%	26.65%	25.80%
12 Week Price Chg	-27.57%	-39.75%	-19.33%	-27.76%	-47.80%	-12.04%
52 Week Price Chg	-20.48%	-55.13%	-11.64%	-23.68%	-46.08%	3.16%
20 Day Average Volume	7,759,884	1,769,990	3,452,738	22,808,796	2,684,660	3,178,801
(F1) EPS Est 1 week change	-1.52%	-0.32%	0.00%	-0.63%	-3.23%	-0.62%
(F1) EPS Est 4 week change	-11.47%	-1.95%	-6.42%	-2.00%	-13.56%	-8.86%
(F1) EPS Est 12 week change	-12.25%	-15.30%	-8.69%	-0.51%	-16.90%	-9.38%
(Q1) EPS Est Mthly Chg	-11.83%	-6.02%	-11.08%	-4.97%	-12.50%	-4.00%

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	D
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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