

Enbridge Inc.(ENB)

\$39.87 (As of 02/25/20)

Price Target (6-12 Months): **\$43.00**

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

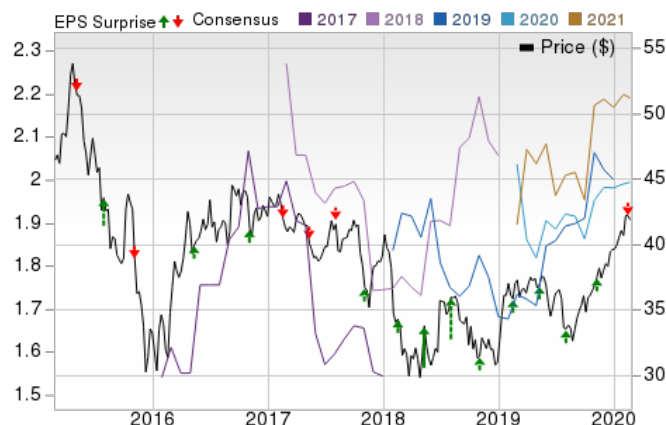
Growth: B

Momentum: B

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 that will be going onlinesince 2020 through 2023. Thus, the firm has secured 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 recently reported weak fourth-quarter earnings due to lower contributions from Mainline System. The firm's significant exposure to debt is also a concern. Moreover, reduced contributions from Canadian Gas Transmission businesses have been affecting the firm.

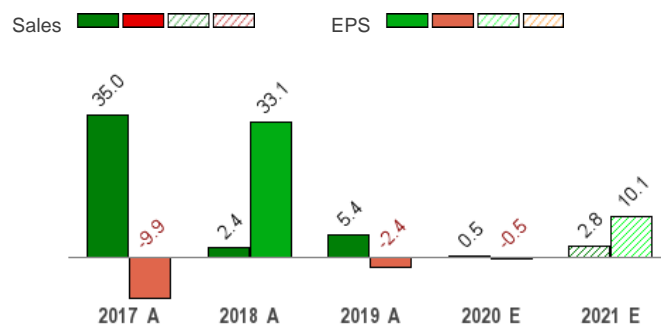
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$43.15 - \$32.23
20 Day Average Volume (sh)	4,290,202
Market Cap	\$80.7 B
YTD Price Change	0.3%
Beta	0.61
Dividend / Div Yld	\$2.44 / 6.1%
Industry	<u>Oil and Gas - Production and Pipelines</u>
Zacks Industry Rank	Top 44% (112 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.0%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	05/08/2020
Earnings ESP	2.5%
P/E TTM	20.0
P/E F1	20.0
PEG F1	2.3
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					39,016 E
2020					37,938 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	\$0.55 E	\$0.47 E	\$0.47 E	\$0.55 E	\$2.19 E
2020	\$0.56 E	\$0.47 E	\$0.46 E	\$0.52 E	\$1.99 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 02/25/2020. The reports text is as of 02/26/2020.

Overview

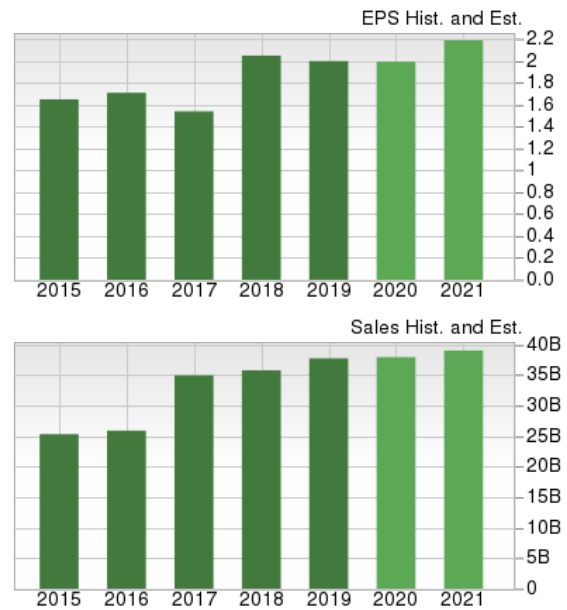
Headquartered in Calgary, Alberta, Enbridge Inc. is a leading energy infrastructure company. One of its businesses is the transportation of energy through the most extensive and advanced crude and liquids pipeline system that spreads across 17,018 miles globally. Through the Mainline and Express pipelines,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

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 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 13.7% over the trailing 12-month period. Over the past year, the Zacks sub-industry and Zacks Oils-Energy sector are down 3.1% and 21.7%, respectively.

The S&P 500 index is up 13.6% in the past year.

The stock is currently trading at 19.7X forward 12-month earnings, which compares to 15.87X for the Zacks sub-industry, 12.18X for the Zacks sector and 17.88X 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 20.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 21.3X 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	19.7	15.87	12.18	17.88
	5-Year High	28	34.66	32.4	19.34
	5-Year Low	14.99	15.87	11.27	15.18
	5-Year Median	20.94	22.22	18.56	17.47
EV/EBITDA TTM	Current	9.72	13.42	4.67	12
	5-Year High	34.25	25.85	10.26	12.87
	5-Year Low	9.2	10.24	4.59	8.48
	5-Year Median	16.14	13.33	6.52	10.77
P/S F12M	Current	2.12	1.86	0.74	3.29
	5-Year High	2.38	3.55	1.45	3.43
	5-Year Low	1.1	1.47	0.67	2.54
	5-Year Median	1.62	1.94	0.99	3

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Top 44% (112 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
Targa Resources, Inc. (TRGP)	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 Outperform
VGM Score	C	-	-	D	D	C
Market Cap	80.73 B	4.97 B	23.50 B	47.68 B	21.10 B	52.40 B
# of Analysts	7	4	13	8	4	4
Dividend Yield	6.13%	5.98%	1.83%	4.75%	4.94%	4.14%
Value Score	C	-	-	D	D	C
Cash/Price	0.00	0.02	0.04	0.02	0.02	0.02
EV/EBITDA	7.88	10.20	13.56	10.52	15.29	11.52
PEG Ratio	2.33	4.21	2.02	4.38	4.11	3.34
Price/Book (P/B)	1.64	1.39	3.20	1.40	2.10	2.45
Price/Cash Flow (P/CF)	11.75	9.17	13.05	10.24	16.11	10.93
P/E (F1)	20.04	13.91	18.56	21.90	20.57	17.90
Price/Sales (P/S)	2.14	2.74	2.60	3.61	3.89	5.25
Earnings Yield	4.99%	7.19%	5.38%	4.56%	4.85%	5.59%
Debt/Equity	NA	0.94	0.70	0.94	0.67	1.51
Cash Flow (\$/share)	3.39	2.45	7.03	2.06	2.39	5.11
Growth Score	B	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	6.19%	6.19%	10.85%	1.21%	28.18%	11.82%
Proj. EPS Growth (F1/F0)	-0.29%	6.66%	6.90%	1.18%	-17.69%	0.00%
Curr. Cash Flow Growth	13.94%	24.02%	6.78%	3.20%	34.06%	3.72%
Hist. Cash Flow Growth (3-5 yrs)	18.69%	17.42%	8.38%	6.59%	13.00%	11.18%
Current Ratio	0.59	0.90	1.22	0.63	0.90	0.59
Debt/Capital	45.58%	47.96%	42.37%	48.98%	36.09%	56.97%
Net Margin	11.38%	12.25%	11.57%	NA	23.79%	NA
Return on Equity	11.49%	9.39%	16.80%	6.29%	14.01%	13.97%
Sales/Assets	0.40	0.32	0.55	0.17	0.26	0.13
Proj. Sales Growth (F1/F0)	0.55%	4.45%	4.03%	NA	8.20%	NA
Momentum Score	B	-	-	D	C	D
Daily Price Chg	-2.38%	-2.59%	-2.98%	-3.31%	-2.28%	-1.24%
1 Week Price Chg	-0.78%	-0.84%	-0.94%	0.64%	0.88%	1.90%
4 Week Price Chg	-2.97%	-6.26%	-0.94%	-1.91%	0.34%	0.61%
12 Week Price Chg	5.00%	-6.70%	1.75%	9.92%	12.40%	11.35%
52 Week Price Chg	7.06%	-33.39%	10.97%	9.52%	5.39%	24.14%
20 Day Average Volume	4,290,202	857,891	2,001,782	0	876,159	0
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.72%
(F1) EPS Est 4 week change	0.22%	0.00%	-0.05%	-2.90%	0.00%	-0.48%
(F1) EPS Est 12 week change	0.62%	0.20%	-0.21%	-3.07%	-1.55%	0.73%
(Q1) EPS Est Mthly Chg	2.96%	0.00%	-0.49%	-0.61%	0.00%	-0.60%

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	B
Momentum Score	A
VGM Score	B

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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