Enbridge Inc.
Stock Pitch

Recommendation

We recommend to buy and hold Enbridge Inc for around 6-12 months as it is around 20% undervalued and its price and more importantly its dividend could increase within that timeframe.

Investment Thesis: The market has not factored in rise in global energy demand and the flexibility of Enbridge's position in the Canadian gas and energy industry. This has caused Enbridge to be undervalued compared to its competitors.

Valuation: Using the 2 Stage Free Cash Flow to Equity model, Enbridge's intrinsic value would be around 60$ a share but it is currently priced at 45-50$ a share.

Catalysts: Carbon capture technology development, its image as an energy infrastructure company and former bank of Canada governor appointed to the board of directors.

Risks: Line 3 and Line 5 potential pipe shutdowns, Renewable energy transition plan, debt leverage usage.

Company Background

Industry: Primarily Oil and Gas company, trying to convert over to renewables

Important Financials

39.6 Billion in revenue, 1.40% quarterly revenue growth (yoy)

101.58 B Market Cap, Next earnings date August 4th 2021 (estimated)

Beta of 0.91, estimated range of where we were expecting

16.05 P/E ratio, above the average of 13-15

Debt to EBITDA ratio of 4.5x, within company goals of 4.5x to 5x

Products:

- Liquid pipelines
- Natural Gas pipelines
- Gas distribution and storage
- Renewable energy

Dividend:

- 7% dividend yield, Enbridge has increased its dividend for 25 years straight consistently

- Enbridge's May Earnings report showed it had a strong position to the end of 2021
- Enbridge base case projections of 13.9 billion to 14.3 billion and a DCF of 4.70 and 5.00 per share
- Secured 17 billion in capital supporting significant cash flow growth in 2022

Investment Thesis

Global Energy Demand

- The global energy demand is planned to return to its levels that it was at close to 2019 in around the 2022 calendar year.
- This is attributed to the vaccination rollout which is happening globally, the 20+ trillion-dollar global stimulus boosted into the economy, historically low interest rates and GDP increasing. This will all cause energy demand to return to the levels it was at before causing Enbridge to benefit tremendously as they are transitioning to be focused on the renewable energy division.

Flexibility & Transition

- .They have an extremely strong financial position with their Debt to EBITDA being around 4.5x, they have been accredited by numerous institutions such as S&P500 Global, fitch ratings and more and even though they are looked a gas and oils company they have been given excellent ESG scores.
- They have a lot of cash that they had raised previously allowing them to care of any risks efficiently. On the transition side Enbridge has a 4-step plan in place which involves meeting crude oil demand while focusing on renewables like offshore wind turbines and carbon capture technology

Contracting with Blue chip Energy producers

- Enbridge holds contracts with other blue chip energy companies like Imperial Oil or Marathon petroleum. It holds take or pay contracts which are extremely beneficial to them and lower the counterparty risk which has been priced into the stock already

Catalysts

Bank of Canada Governor Appointed to Board of Directors

- Enbridge appointed former bank of Canada governor, Stephen Poloz to their Board of directors.
- This is extremely significant because of the political clout brought in by Poloz as he is a true government insider with a far reaching influence.

Change in Company Image

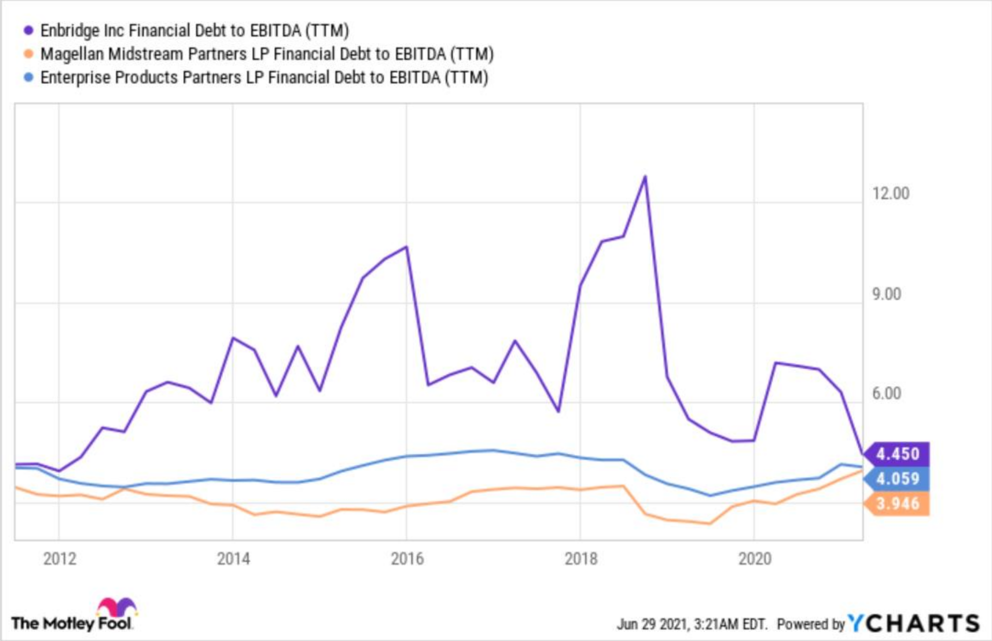
- Enbridge does not want to be viewed as a gas and oil company anymore.
- There is a lot of negative stigma associated with those terms in the times where we are in where sustainability is key. However they cannot just up and leave their oil side as it is where they are making the bulk of their revenue. This diagram right illustrates that.

Carbon Capture Technology

- Enbridge has the opportunity to capture around 22% of Canadas annual GHG emissions.
- They have industry and government support and are well positioned to transport and store all that carbon. They have also heightened their Hydrogen and RNG(Renewable Natural Gas) production in places all around Ontario

Risks

- Line 3 & Line 5 Pushback
  - The Line 3 and Line 5 Pipelines are Enbridge's biggest capital projects at the moment. The major problem is that they are facing massive pushback from environmentalist, residents and some levels of government. Its nothing Enbridge has not faced before as the entire pipeline industry has always struggled in this sense. I have a feeling that these projects will get completed its just a matter of the extra costs and time delay.
- Balance Sheet Burden
  - Enbridge tends to use more leverage than most other companies in their sector in order to advance the goals that they had set out.
  - Pipeline generates ample cash flow and Enbridge has investment-based credit, so it won't have a hard time breaking into the capital markets.
- The Transition Plan
  - The transition to renewable energy plan that Enbridge has is extremely bold and the shift toward renewables could be slower than we would like to see.
  - A statement from their CEO came out and he stated that the company has been outbid on projects lately and that, "we're going to be very disciplined not to play where we're not going to earn a sufficient return."



Summary and Recommendations

#1 We recommend buying a long position in Enbridge

- Enbridge is a very fundamentally strong company with a lot of growth potential. Factor that in with its cash flow and its 7% dividend yield it has potential to become a monster in the already huge Canadian energy industry.

#2 Analysts recommending strong buy orders over the last few months

- A lot of analysts have shifted their sentiment even with the risk that have been previously said, and upgraded their position on the stock to a strong buy. This is because of the fundamentals backing the company and the news for the future.

#3 Catalysts to drive the price up in the coming months

- The 2 keys here are how fast Enbridge can transition to becoming a sustainable business and how quickly it can move to change its image. If these 2 requirements are met I have no doubt it will be sooth sailing for them as the markets factor in the points I have been talking about.