FUNDAMENTAL ANALYSIS

Module 4: Company Analysis

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INTRODUCTION

The ultimate aim of the TRAIN2INVEST program is to create a Portfolio with some of the following criteria:

- Companies that have an established business model;
- Companies that have a track record of consistent dividend payments;
- Companies in growing sectors;
- Companies that are leaders in their sectors; and
- Companies that are critical to Canada's economy.

This module will seek to answer the Question:
How do I select the companies that are safe to invest in? i.e. What companies should I invest in?

The principal focus in this module is ascertain which companies you should include in your portfolio of companies to invest in.

Note: TRAIN2INVEST INC. strongly DOES NOT recommend the following:

- ☐ BLACK BOX SOLUTIONS: There are many 'software' companies that will sell you a 'black box' which will 'select' companies from a 'universe' of companies listed on both the TSX and the Venture stock exchanges. E.g. https://tradingreview.net/best-charting-software-tools/

- ☐ STOCK SCREENER OPTIONS: Alternatively, you may be offered some kind of 'stock screener' options where YOU input certain criteria. E.g. https://web.tmxmoney.com/screener.php?locale=EN

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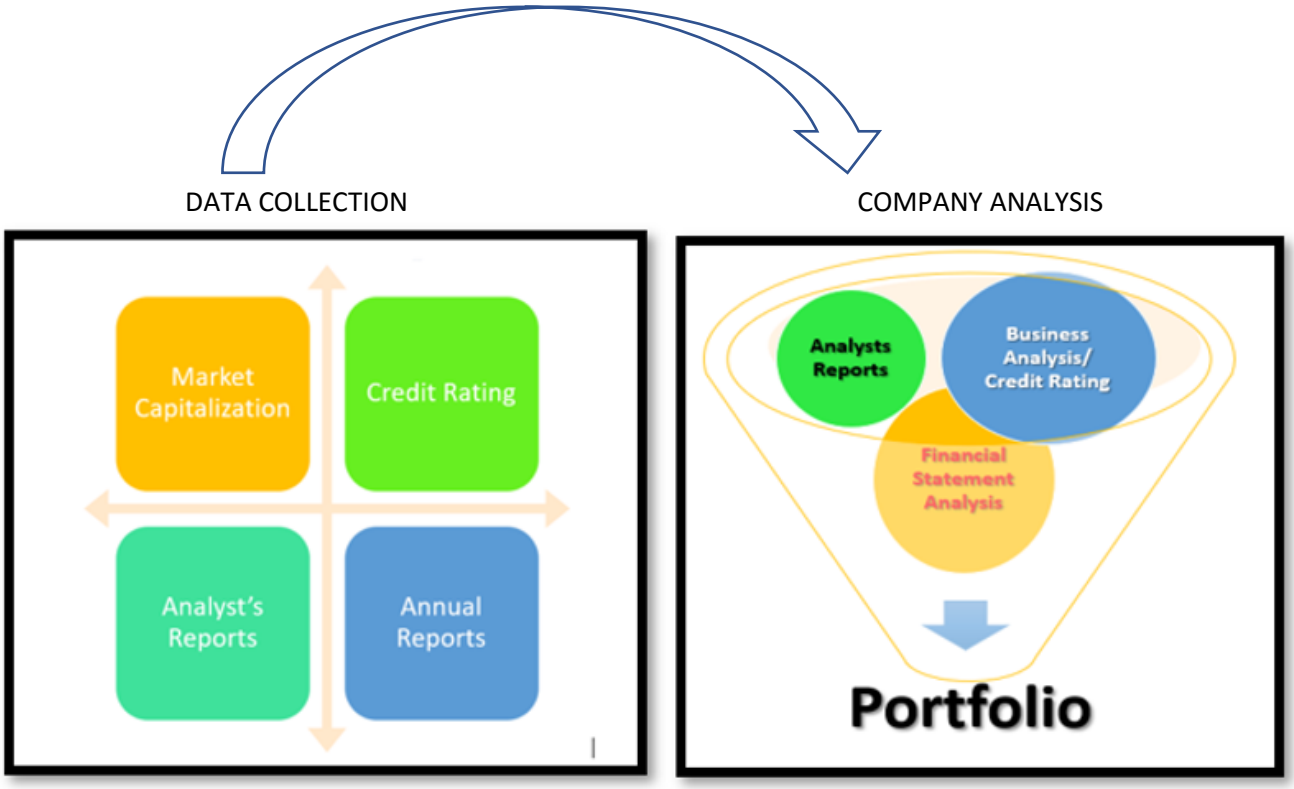
SYNOPSIS

This Module has two parts:

- ❑ Data Gathering
- ❑ Company Analysis



BUSINESS MODEL AND COMPETITIVE ANALYSIS

- Primary Business
- Revenue Streams e.g. Domestic vs. Global
- Peer Company Analysis
- Ranking within the top 100: Revenues & Profit
- Debt / Credit Rating
- Analysts Reports: Strengths & Weaknesses

FINANCIALS (3 years and latest Quarter)

- P&L Statement
- Cash Flow Statement
- Balance Sheet
- Dividend History
- Institutional Shareholders

This analysis will not make you an expert in business valuation, but it will give you the basic skills that are necessary to determine whether a company is valuable or not. When you look at a company there are basic questions that you must answer:

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1. **Do I understand how the company makes money?**
2. **Does the company have attractive long-term prospects?**
3. **Does the company:**
    a. **Generate consistent Revenues and Profitability?**
    b. **Has the company managed its Cash Flow?**
    c. **Does the company have sufficient Balance Sheet (B/S) strength?**
    d. **What is the company's Dividend track record?**

A company's value is derived largely from its ability to generate **"future"** profits. The growth of its earnings and cash flow are some of the variables that drive the company's share price over the long term. Companies that are expected to grow their earnings and cash flow materially higher over the long term are the types of companies that should be in our portfolio.

If the answers to these questions are positive and if the company is part of a growing sector, then it may be worthy of adding to your "A-List" of companies.

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DATA COLLECTION

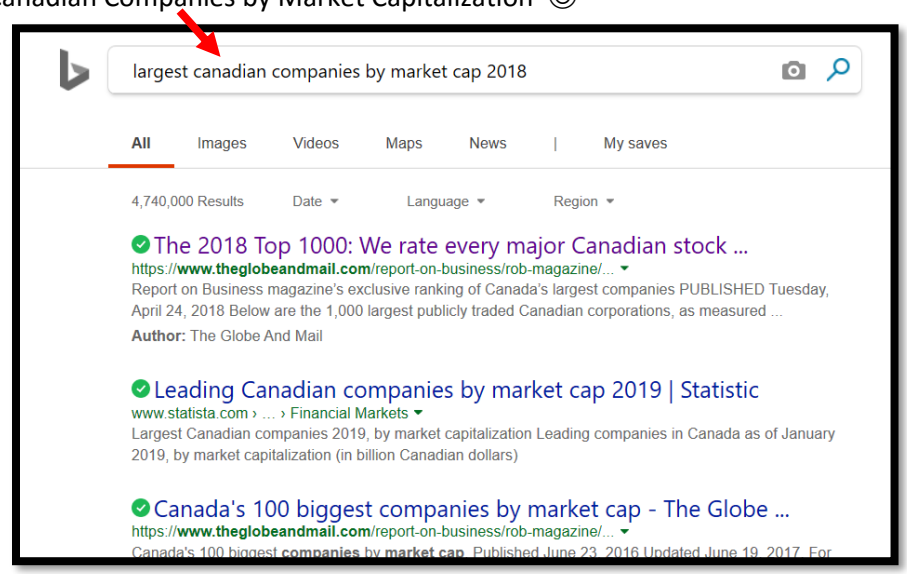
We are not going to recreate the wheel. Rather we are going to use available information to help analyze the company using the above criteria.

1-MARKET CAPITALIZATION

Market capitalization refers to the total dollar market value of a company's outstanding shares. Commonly referred to as "market cap," it is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determine a company's size, as opposed to using sales or total asset figures. Using market capitalization to show the size of a company is important because company size is a basic determinant of various characteristics in which investors are interested, including risk. It is also easy to calculate. A company with 20 million shares selling at $100 a share would have a market cap of $2 billion.

WHERE TO GET THIS INFORMATION

Google 'Largest Canadian Companies by Market Capitalization' ☺



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COMPARE: MARKET CAP ($MIL)

COMPANY	MARKET CAP $MIL	RATING
Royal Bank of Canada	146,933	★★★★★
Toronto-Dominion Bank	139,808	★½
Enbridge Inc.	108,132	★★★★½
Bank of Nova Scotia	96,738	★★★★
Canadian National Railway Co.	70,941	★★½
Suncor Energy	68,495	★★★★
Bank of Montreal	63,262	★★★★
CIBC	52,416	★★★★
BCE Inc.	51,235	★★★
TransCanada Corp.	49,428	★★
Brookfield Asset Management	49,405	★★★★½
Manulife Financial	47,945	★★★★
Cdn. Natural Resources	47,566	★½
Thomson Reuters Corp.	37,036	★★
Alimentation Couche-Tard	36,101	★★★½
Canadian Pacific Railway Ltd.	33,559	★★★½
Great-West Lifeco	33,537	★★★★
Sun Life Financial	33,309	★★★★½

NOTE: NOT ALL LARGE COMPANIES ARE WORTH INVESTING IN e.g. SEARS; NORTEL; etc.
What's the Solution? Answer: Credit Rating

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2-CREDIT RATING

Example: https://www.enbridge.com/investment-center/stock-and-dividend-information/credit-ratings

Credit Ratings

Enbridge Inc.

Security	Standard & Poors	Moody's	DBRS	Fitch
Outlook	Stable	Positive	Stable	Stable
Senior Unsecured Debt	BBB+	Baa2	BBB (High)	BBB+
Preferred Shares	P-2(low)[1]	Ba1	Pfd-3 (High)	BBB-
Commercial Paper	A -1(Low)[2]	-	R-2 (High)	F2

1. Reflects Canadian Scale. Rated BBB- on global scale.
2. Reflects Canadian Scale. Rated A-2 on global scale for US program.
3. Moody's ratings applies only to Series A, B, D, and F.

NOTE:

The Rating Agencies rate the PRODUCT, *NOT* THE COMPANY!!! Note above, the Senior Unsecured Debt is given a rating; the Preferred Shares is given a rating; the Commercial Paper is given a rating BUT NO RATING FOR THE COMPANY AS A WHOLE!

Nevertheless, we can use their ratings as ONE of our criteria in analyzing the company. Usually, the rating of their debt are given in their annual reports (under Stock Information) as seen above in Enbridge's case.

What's a 'good' rating? RY's Pref Shares & ENB's Preference shares are both rated BBB+ by S&P.

Debt Investors

Review Royal Bank of Canada Credit Ratings, view the Fixed Income Presentation and get access to information on Covered Bonds.

Credit Ratings

	Moody's	S&P	DBRS	Fitch
Counterparty/Deposits(1)	Aa2	AA-	AA	AA
Legacy Senior Debt(2)	Aa2	AA-	AA	AA
Senior Debt(3)	A2	A	AA (low)	AA
Covered Bonds	Aaa	-	AAA	AAA
NVCC Subordinated Debt	Baa1	A-	A (low)	AA-
Subordinated Debt	Baa1	A	A (high)	AA-
NVCC Preferred Shares	Baa3	BBB	Pfd-2	-
Preferred Shares	Baa3	BBB+	Pfd-2 (high)	-
Short-term Debt	P-1	A-1+	R-1 (high)	F1+
Rating Outlook	Stable	Stable	Positive	Stable

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For Comparison Purposes, Canada Debt is rated as AAA

Canada - Credit Rating

Standard & Poor's credit rating for Canada stands at AAA with stable outlook. Moody's credit rating for Canada was last set at Aaa with stable outlook. Fitch's credit rating for Canada was last reported at AAA with stable outlook. DBRS's credit rating for Canada is AAA with stable outlook. In general, a credit rating is used by sovereign wealth funds, pension funds and other investors to gauge the credit worthiness of Canada thus having a big impact on the country's borrowing costs. This page includes the government debt credit rating for Canada as reported by major credit rating agencies.

Agency	Rating	Outlook	Date
Fitch	AAA	stable	Aug 12 2004
DBRS	AAA	stable	Dec 16 2002
Fitch	AA+	stable	Sep 20 2002
S&P	AAA	stable	Jul 29 2002
Moody's	Aaa	stable	May 03 2002

However, the Credit Rating for the USA is:

United States - Credit Rating

Standard & Poor's credit rating for the United States stands at AA+ with stable outlook. Moody's credit rating for the United States was last set at Aaa with stable outlook. Fitch's credit rating for the United States was last reported at AAA with stable outlook. DBRS's credit rating for the United States is AAA with stable outlook. In general, a credit rating is used by sovereign wealth funds, pension funds and other investors to gauge the credit worthiness of the United States thus having a big impact on the country's borrowing costs. This page includes the government debt credit rating for the United States as reported by major credit rating agencies.

Agency	Rating	Outlook	Date
DBRS	AAA	stable	Apr 22 2014
Fitch	AAA	stable	Mar 21 2014
Fitch	AAA	negative watch	Oct 15 2013
DBRS	AAA	under review	Oct 09 2013
Moody's	Aaa	stable	Jul 18 2013
S&P	AA+	stable	Jun 10 2013

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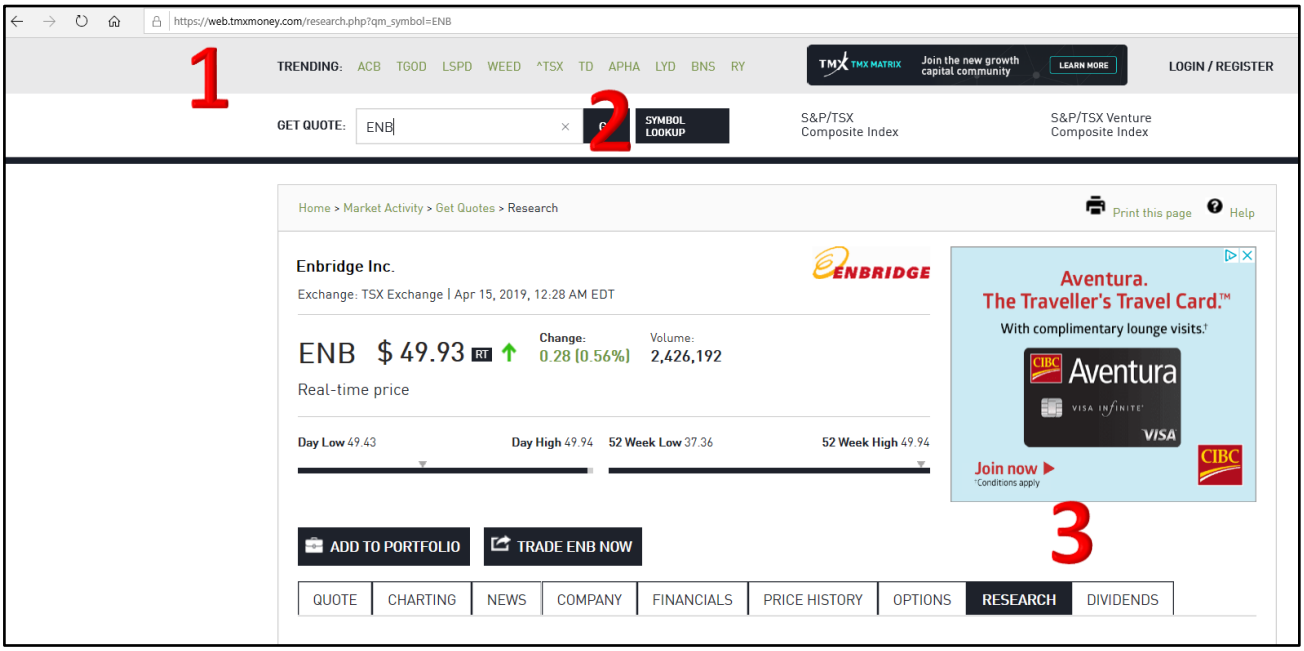
3-ANALYST'S REPORT

A research report is a document prepared by an analyst or strategist who is part of the investment research team in a stock brokerage or investment bank. A research report may focus on a specific stock or industry sector, a currency, commodity or fixed-income instrument, or on a geographic region or country.

Analysts usually issue new reports ahead of and after company earnings announcements, but may also issue reports at other times, such as following an important news event or an industry conference spotlighting the company or its management. Example: https://libguides.stthomas.edu/c.php?g=88573&p=572726

For a quick review of the analysts thinking about a company, we could look at the TMX website:



1 Web site: www.tmxmoney.com
2 Stock Symbol: ENB
3 Click on 'Research'

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QUOTE | CHARTING | NEWS | COMPANY | FINANCIALS | PRICE HISTORY | OPTIONS | RESEARCH

Research for Enbridge Inc.

Analyst | Earnings

CLICK HERE

Consensus Rating Average

Consensus Rating for ENB is MODERATE BUY

Since many brokers have different rating systems, we maintain a standard system with an assigned numeric value from 1 to 5. Ratings are a translation of brokers' recommendations to the recommendation scale, which ranges from a rating of 1 (a strong buy) to a rating of 5 (a strong sell).

Rating Scale	
Strong Buy	1.0 - 1.5
Moderate Buy	1.6 - 2.5
Hold	2.6 - 3.5
Moderate Sell	3.6 - 4.5
Strong Sell	4.6 - 5.0

Consensus Rating Details

Current Average Recommendation	1.78
Previous Average Recommendation	2.10
Change in Average Recommendation	-0.32
Number of Analysts Reporting	9

Strong Buy 1.0 — Current: **1.78** Previous: **2.10** Change: **-0.32** — Strong Sell 5.0

Consensus Rating Industry Comparison

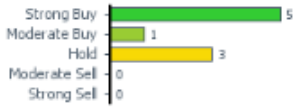
Industry: **OIL-PROD/PIPELN**

Number of companies in industry with recommendations	25
Rank Recommendation relative to companies in its industry	9

Ranked 9 in Industry
125 OIL-PROD/PIPELN

Analyst Recommendations

Analysts recommending Strong Buy	5
Analysts recommending Moderate Buy	1
Analysts recommending Hold	3
Analysts recommending Moderate Sell	0
Analysts recommending Strong Sell	0



Recommendations History

	Current	1 Month Ago	2 Months Ago	3 Months Ago
Strong Buy	5	4	5	4
Moderate Buy	1	1	1	1
Hold	3	5	4	3
Moderate Sell	0	0	0	0
Strong Sell	0	0	0	0
Mean Rec.	1.78	2.10	1.90	1.88

ZACKS

Data Provider: Zacks Investment Research

The above shows that currently 5 of the 9 analysts are recommending a STRONG BUY while a month ago only 4 analysts were recommending a strong buy etc.

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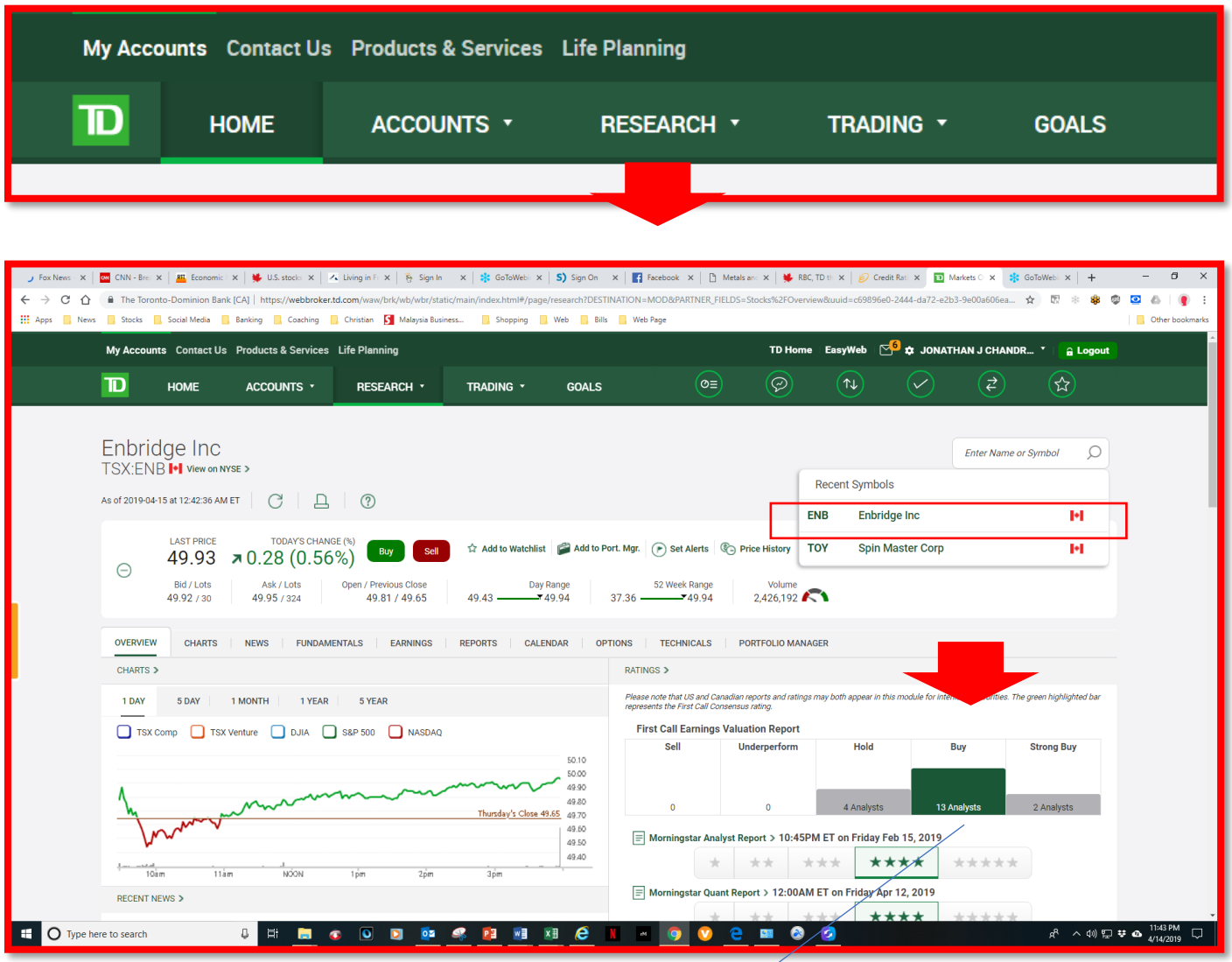
ANALYSTS COVERAGE VIA BROKER ACCOUNT (E.g. TD BANK SELF DIRECTED BROKERS ACCOUNT)

However, detailed reports can be obtained by going through your self-directed discount broker:

Example: TD Broker – Enbridge Inc Reports



- Strong Buy – recommended by 2 analysts
- Buy – recommended by 13 analysts
- Etc.

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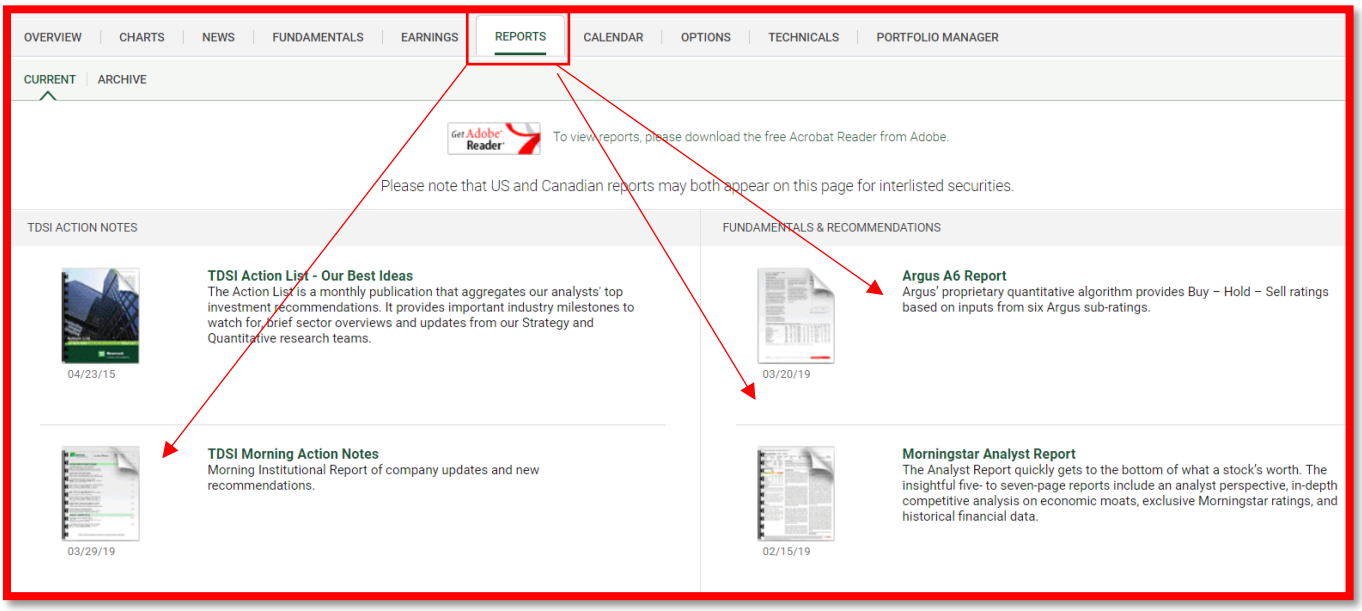

EXAMPLE (below)

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ENBRIDGE INC (ENB-N)

Fossil Fuels / Oil & Gas Equipment & Svcs. / Oil & Gas Transportation

STOCKREPORTS+
DETAILED STOCK REPORT
Report Date: 2019 April 14

Last Close	Avg Daily Vol	52-Week High	Trailing PE	Annual Div	ROE	LTG Forecast	1-Mo Return
37.47 (USD)	2.8M	37.69	34.2	2.21	5.1%	13.5%	1.9%
2019 April 12 NEW YORK Exchange	Market Cap	52-Week Low	Forward PE	Dividend Yield	Annual Rev	Inst Own	3-Mo Return
	75.8B	28.82	20.0	5.9%	46.4B	59.7%	8.5%

AVERAGE SCORE

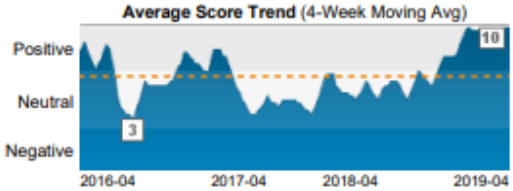
AVERAGE SCORE **10**

POSITIVE OUTLOOK: ENB is currently among an exclusive group of 183 stocks awarded our highest score of 10.

Score Averages

Oil & Gas Equipment & Svcs. Group: **5.0**
Fossil Fuels Sector: **5.6**
Mega Market Cap: **7.0**
S&P 500 Index: **6.7**

Average Score Trend (4-Week Moving Avg)



Peers	-6M	-3M	-1M	-1W	Current	1Y Trend
ENB	8	10	10	10	10	
EPD	6	7	10	10	10	
TRP	5	8	6	8	9	
KMI	8	9	10	9	8	
WMB	5	6	6	6	6	

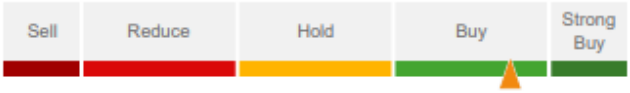
HIGHLIGHTS

- The score for Enbridge Inc last changed from 9 to 10 on 2019-01-13 and has remained the same for 14 weeks.
- In the past 3 years, the best score was 10 on 2019-04-14, and the worst score was 3 on 2016-08-28.

THOMSON REUTERS I/B/E/S MEAN

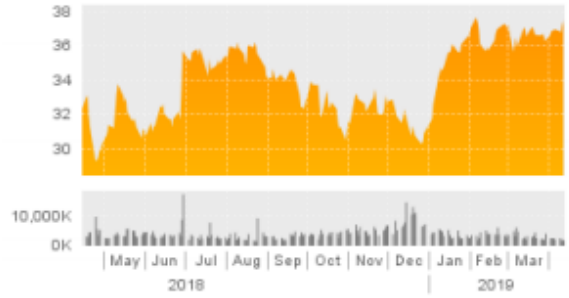
Buy
12 Analysts

Mean recommendation from all analysts covering the company on a standardized 5-point scale.



PRICE AND VOLUME CHARTS

1-Year Return: 17.3%



5-Year Return: -19.6%

BUSINESS SUMMARY

Enbridge Inc. is a Canada-based energy transportation and distribution company. The Company is engaged in delivering energy. It operates through five segments: Liquids Pipelines, Gas Distribution, Gas Pipelines and Processing, Green Power and Transmission, and Energy Services. Liquids Pipelines consists of common carrier and contract crude oil, natural gas liquids (NGL), and refined products pipelines and terminals, including Canadian Mainline, Lakehead Pipeline System, Mid-Continent and Gulf Coast and Regional Oil Sands System. Gas Distribution consists of its natural gas utility operations, the core of which is Enbridge Gas Distribution Inc. Green Power and Transmission consists of its investments in renewable energy assets and transmission facilities. Renewable energy assets consist of wind, solar, geothermal and waste heat recovery facilities in Canada. Energy Services undertake physical commodity marketing activity and logistical services, and oversee refinery supply services.

The Financial and Risk business of Thomson Reuters is now Refinitiv.

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THOMSON REUTERS

4-ANNUAL REPORTS

WHAT IS AN ANNUAL REPORT?

It was not until legislation was enacted after the stock market crash of 1929 that the Annual Report became a regular component of corporate financial reporting. The intent of the required Annual Report is to provide public disclosure of a company's corporate activities over the past year. The Annual Report is typically issued to shareholders and other stakeholders who use it to evaluate the firm's financial performance.

Typically, an Annual Report will contain the following sections:

- General corporate information
- Operating and financial highlights
- Letter to the shareholders from the CEO
- Narrative text, graphics, and photos
- Management's discussion and analysis (MD&A)
- Financial statements, including the balance sheet, income statement, and cash flow statement
- Notes to the financial statements
- Auditor's report
- Summary of financial data
- Accounting policies

In the U.S., a more detailed version of the Annual Report is referred to as Form 10-K and is submitted to the U.S. Securities and Exchange Commissions (SEC). Companies may submit their Annual Report electronically through the SEC's EDGAR database. Reporting companies must send Annual Report to their shareholders when they hold annual meetings to elect directors. Under the proxy rules, reporting companies are required to post their proxy materials, including their Annual Report, on their company websites.

The Annual Report contains information on a company's financial position that can be used to measure:

- A company's ability to pay its debts as they come due
- Whether a company made a profit or loss in its previous fiscal year
- A company's growth over a number of years
- How much earnings is retained by a company to grow its operations
- The proportion of operational expenses to revenue generated

The Annual Report also determines whether the information conforms to the **g**enerally **a**ccepted **a**ccounting **p**rinciples (GAAP). This confirmation will be highlighted as an "unqualified opinion" in the auditor's report section. Fundamental analysts attempt to understand a company's future direction by analyzing the details provided in its Annual Report.

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However, many companies usually the following information as well:

- **Investment overview –** This section will give an introduction into what exactly the company does by giving descriptions and background information on the company's products and services and the industry or industries that it competes in.
- **Financial information –** Here you can download the company's Annual Report, as well as its Quarterly Financial Reports. There will also be various charts and graphs describing the company's financial performance.
- **Stock information –** This section will provide information regarding the company dividend (if it pays any), as well as providing current and historical information on the company's share price.
- **Investor presentations –** A company's CEO is forever attending various investment conferences giving presentations to the investment community (i.e. mutual funds managers, hedge funds, pension funds, and investment analysts) about the company, and its future prospects. The company will often put these on its website, so everyone can view them. These can be a valuable source of information about the company.
- **Contact information –** All publicly traded companies have an investor relations department to handle any investor inquiries. Any questions that you may have regarding the company will be answered by calling the company's investor relations department. You can also order the company's Annual Report to have it mailed out to you or give your email address to have the company send you company information right to your email inbox.
- **Company News –** Any press releases that the company issues will be available on the company's website.

Not every company will have its website set up exactly the same way, but all of the information mentioned above will be found within the Investor Relations section of the website.

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COMPANY ANALYSIS

We are not attempting to be accountants or getting a PhD in accounting. What we want to know:

- Is a company making money (Revenues and Profits);
- How it is managing its cash (Cash Flow Statements); and
- Is it a strong company (Balance Sheet strength).

1-PROFIT AND LOSS STATEMENT

The **Profit and Loss (P&L) statement** is one of the primary financial statements used to assess a company's performance and financial position. The P&L statement is also known as the income statement, statement of earnings, statement of operations, or statement of income.

EXAMPLE:

The P&L statement summarizes the revenues and expenses generated by the company over the entire reporting period.

The basic equation on which a P&L statement is based is Revenues – Expenses = Profit.

All companies need to generate revenue to stay in business. Revenues are used to pay expenses, interest payments on debt, and taxes owed to the government. After the costs of doing business are paid, the amount left over is called net income. Net income is theoretically available to shareholders, though instead of paying out dividends, the firm's management often chooses to retain earnings for future investment in the business.

P&L statements are all organized the same way, regardless of industry.

The basic outline is shown in the following example:

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Revenues

-

Expenses

=

Net Income

Profit & Loss Statement for XYZ Compzny Ltd For the Fiscal Year Ended Dec 31 20XX		
Total Revenues		$ 100,000
Cost of Goods Sold		$ (20,000)
Gross Profit		$ 80,000
Operating Expenses		
Salaries	$ 10,000	
Rent	$ 10,000	
Utlities	$ 5,000	
Depreciation	$ 5,000	
Total Operating Expenses		$ (30,000)
Operating Profit (EBIT)		$ 50,000
Interest Expense	$ (10,000)	
Taxes	$ (10,000)	
		$ (20,000)
Net Income		$ 30,000
No of shares Outstanding		30,000
Earnings Per Share (Earnings DIVIDED BY No of Shares Out Standing)		$ 1.00

WHY THE P&L STATEMENT MATTERS

Anyone interested in active investing, picking stocks or investigating the financial health of a company must know how to read financial statements, including the P&L statement. The importance of the information contained in the P&L statement cannot be overemphasized.

A firm's ability or inability to generate earnings over the long term is the key driver of stock and bond prices. Operating profit (EBIT) is the source of debt repayment, and if a company cannot generate enough EBIT to pay its debt obligations, it will have to enter bankruptcy or sell itself.

Net income is the source of compensation to shareholders (owners of the company), and if a company cannot generate enough profit to compensate owners for the risks they've taken, the value of the owners' shares will plummet. Conversely, if a company is healthy and growing, higher stock and bond prices will reflect the increased availability of profits.

*Please note that earnings/net income/profits are **not** the same as cash or cash flow. It is possible for a firm to be profitable on the P&L statement, but not be generating cash flow, and vice versa. To see a company's cash flow, you will need to examine its statement of cash flows. One of the most important concepts to understand is that net income is not a measure of how much cash a company earned during a given period. This is because the income statement includes a lot of non-cash expenses such as depreciation and amortization.*

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2-CASH FLOW STATEMENT

The statement of cash flows shows how a company spends its money (cash outflows) and where the money comes from (cash inflows).

The cash flow statement includes all cash inflows a company receives from its ongoing operations and external investment sources, as well as all cash outflows that pay for business activities and investments during a given quarter.

WHY THE CASH FLOW STATEMENT IS IMPORTANT

There are two forms of accounting: cash and accrual.

Accrual accounting is used by most public companies and is the accounting method where revenue is reported as income when it is earned rather than when the company receives payment. Expenses are reported when incurred even though no cash payments have been made.

> *For example, if a company records a sale, the revenue is recognized on the income statement, but the company may not receive cash until a later date. From an accounting standpoint, the company would be earning a profit on the income statement and be paying income taxes on it. However, no cash would have been exchanged. Also, the transaction would likely be an outflow of cash initially, since it costs money for the company to buy inventory and manufacture the product to be sold. It is common for businesses to extend terms of thirty, sixty, or even ninety days for a customer to pay the invoice. The sale would be an 'accounts receivable' with no impact on cash until collected.*

Cash accounting is an accounting method in which payment receipts are recorded during the period they are received, and expenses are recorded in the period in which they are actually paid. *In other words, revenues and expenses are recorded when cash is received and paid, respectively.*

A company's profit is shown as net income on the income statement. Net income is the bottom line for the company. However, because of accrual accounting, net income does nott necessarily mean that all receivables were collected from their customers.

From an accounting standpoint, the company might be profitable, but if the receivables become past due or uncollected, the company could run into financial problems. Even profitable companies can fail to adequately manage their cash flow, which is why the cash flow statement is a critical tool for analysts and investors.

Cash flow statements have three distinct sections, each of which relates to a particular component – operations, investing and financing – of a company's business activities. Below is a typical statement of cash flows format:

CASH FLOW FROM OPERATIONS

This section **reports the amount of cash from the income statement that was originally reported on an accrual basis.** A few of the items included in this section are accounts receivables, accounts payables, and income taxes payable.

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If a client pays a receivable, it would be recorded as cash from operations. Changes in current assets or current liabilities (items due in one year or less) are recorded as cash flow from operations.

CASH FLOW FROM INVESTING

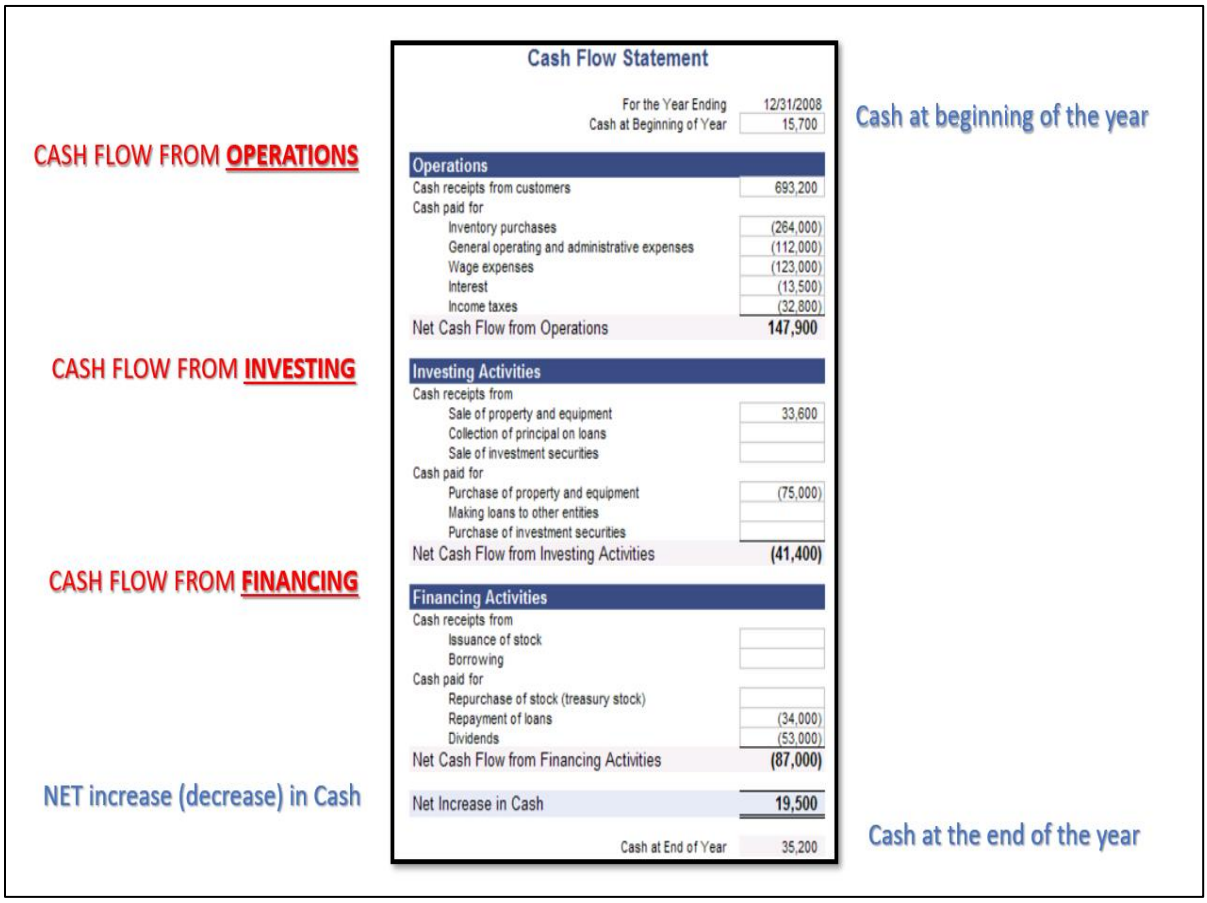
This section **records the cash flow from sales and purchases of long-term investments like fixed assets** that include property, plant, and equipment. Items included in this section are purchases of vehicles, furniture, buildings, or land.

Typically, investing transactions generate cash outflows, such as capital expenditures for plant, property and equipment, business acquisitions and the purchase of investment securities. Inflows come from the sale of assets, businesses, and securities. Investors typically monitor capital expenditures used for the maintenance of, and additions to, a company's physical assets to support the company's operation and competitiveness. In short, investors can see how a company is investing in itself.

CASH FLOW FROM FINANCING

Debt and equity transactions are reported in this section. Any cash flows that include payment of dividends, the repurchase or sale of stocks, and bonds would be considered cash flow for financing activities. Cash received from taking out a loan, or cash used to pay down long-term debt would be recorded in this section.

For investors who prefer dividend-paying companies, this section is important since it shows cash dividends paid since cash, not net income is used to pay dividends to shareholders.



Cash Flow Statement

For the Year Ending	12/31/2008
Cash at Beginning of Year	15,700
Operations	
Cash receipts from customers	693,200
Cash paid for	
Inventory purchases	(264,000)
General operating and administrative expenses	(112,000)
Wage expenses	(123,000)
Interest	(13,500)
Income taxes	(32,800)
Net Cash Flow from Operations	147,900
Investing Activities	
Cash receipts from	
Sale of property and equipment	33,600
Collection of principal on loans	
Sale of investment securities	
Cash paid for	
Purchase of property and equipment	(75,000)
Making loans to other entities	
Purchase of investment securities	
Net Cash Flow from Investing Activities	(41,400)
Financing Activities	
Cash receipts from	
Issuance of stock	
Borrowing	
Cash paid for	
Repurchase of stock (treasury stock)	
Repayment of loans	(34,000)
Dividends	(53,000)
Net Cash Flow from Financing Activities	(87,000)
Net Increase in Cash	19,500
Cash at End of Year	35,200

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3-BALANCE SHEET

The **balance sheet** is a financial report that lists a company's assets (what it owns), liabilities (what it owes to others), and equity.

HOW THE BALANCE SHEET WORKS (EXAMPLE)

The first section of the *balance sheet* gives a detailed list of a company's assets, including long-term assets (such as real estate and machinery), current assets (anything that can easily be converted to cash in less than a year), and cash.

The second section goes over the company's liabilities, or what it owes others. This is always an important section for investors to read because even the most stable of companies will face problems if it has an unusually high amount of debt on its books (especially if it has to pay it back sooner rather than later).

The third section outlines stockholders' equity, and provides information on common and preferred stock, retained earnings, and capital surplus.

WHY THE BALANCE SHEET MATTERS

A balance sheet can help both business owners and investors understand the financial health of a company. And because companies generally include the corresponding balance sheet figures from previous quarters, balance sheets can be a useful way for investors to track trends in the way a business pays off its debts, builds its assets, or improves its financial standing.

ANATOMY OF A BALANCE SHEET

Unlike the income statement which shows how a company performed over a stated period, a balance sheet shows a business' financial health at a single point in time. This will take the form of an exact date, like 9/30/2013 for example, and is usually prepared at the year end and at a quarter's end. The balance sheet lets you know exactly what things of value a company controls (assets) and who owns those assets: someone else (liabilities) or the business owner (owner's equity).

EXAMPLE:

Balance Sheet as of 9/30/2013

Assets		**Liabilities**	
Cash	$9,500	Accounts Payable to Supplier	$21,750
Equipment	5,000	Credit Card Balance	5,250
Inventory	15,000	Long-Term Debt	0
Accounts Receivable	20,000	**Total Liabilities**	**$27,000**
Total Assets	**$49,500**		
		Owner's Equity	**$22,500**

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ASSETS

An asset is anything of value your business controls, regardless of who owns it. Cash, office equipment (computers, chairs, etc.) and inventory are all considered assets. So are accounts receivable, which represents people who owe you money but haven't yet paid.

This is an important enough concept to repeat: the financial ownership doesn't matter. If something is in possession of a company, it is considered an asset.

Did your business manager go out and borrow $60,000 to 100% finance a new car for sales calls? The car may be entirely owned by the bank but it is still an asset as far as the balance sheet is concerned.

LIABILITIES

Liabilities are debts you owe to other people. This could be a credit card balance, payment owed to suppliers who offer you 30 or 60-day payment terms or long-term debt – like the loan on that new car. Any debts or future financial obligations you have to pay should be listed in the liabilities section.

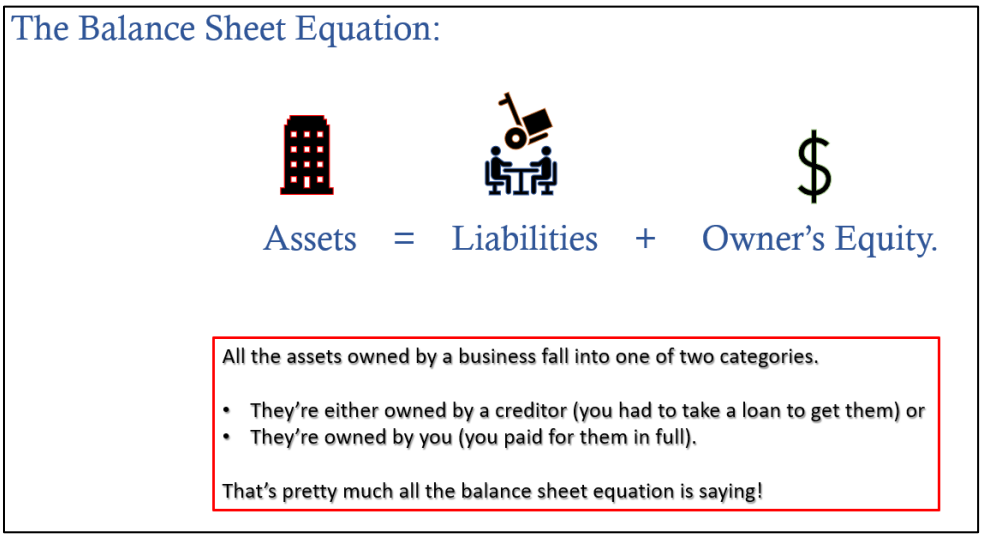
OWNER'S EQUITY

Owner's equity represents the portion of the business assets that you own free and clear. Think of it this way: if you liquidated all of your assets and then paid off all the debts you owed, the amount left over would be your "owner's equity".

It is important to understand that owner's equity is NOT necessarily how much the business is worth in a sale. Because businesses usually sell based on a multiple of their earnings, the value of a business will usually (but not always) be greater than the owner's equity value (also called "book value").

THE BALANCE SHEET EQUATION

The balance sheet is so named because the two sides of the balance sheet ALWAYS add up to the same amount. The balance sheet is separated with assets on one side and liabilities and owner's equity on the other.



This one unbreakable balance sheet formula is always, always true: **Assets = Liabilities + Owner's Equity.**

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Balance Sheet as of 9/30/2013

Assets		Liabilities	
Cash	$9,500	Accounts Payable to Supplier	$21,750
Equipment	5,000	Credit Card Balance	5,250
Inventory	15,000	Long-Term Debt	0
Accounts Receivable	20,000	**Total Liabilities**	**$27,000**
Total Assets	**$49,500**		
		Owner's Equity	**$22,500**

Assets = Liabilities + Equity

In our balance sheet from above, you can see that this holds true:

Balance Sheet as of 9/30/2013

Assets		Liabilities	
Cash	$9,500	Accounts Payable to Supplier	$21,750
Equipment	5,000	Credit Card Balance	5,250
Inventory	15,000	Long-Term Debt	0
Accounts Receivable	20,000	**Total Liabilities**	**$27,000**
Total Assets	**$49,500**		
		Owner's Equity	**$22,500**

$49,500 = $27,000 + $22,500

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DIVIDEND PAYOUT

Why Dividends Should Matter To Investors.

WHAT IS A DIVIDEND?

A dividend is the distribution of reward from a portion of company's earnings and is paid to a class of its shareholders. Dividends are decided and managed by the company's board of directors, though they must be approved by the shareholders through their voting rights. Dividends can be issued as cash payments, as shares of stock, or other property, though cash dividends are the most common. Along with companies, various mutual funds and exchange traded funds (ETF) also pay dividends.

One of the simplest ways for companies to communicate financial well-being and shareholder value is to say, "the dividend check is in the mail." Dividends, those cash distributions that many companies pay out regularly from earnings to stockholders, send a clear, powerful message about future prospects and performance. A company's willingness and ability to pay steady dividends over time – and its power to increase them – provide good clues about its fundamentals.

A Dividend is a reward paid to the shareholders for their investment in a company's equity, and it usually originates from the company's net profits. While the major portion of the profits is kept within the company as retained earnings, which represent the money to be used for the company's ongoing and future business activities, the remainder can be allocated to the shareholders as a dividend. However, at times, companies may still make dividend payments even when they don't make suitable profits. They may do so to maintain their established track record of making regular dividend payments.

The board of directors can choose to issue dividends over various time frames and with different payout rates. Dividends can be paid at a scheduled frequency, like monthly, quarterly or annually. For example, Walmart Inc. (WMT) and Unilever PLC ADR (UL) make regular quarterly dividend payments. Additionally, companies can also issue non-recurring special dividends either individually or in addition to a scheduled dividend. Backed by strong business performance and an improved financial outlook, Microsoft Corp. (MSFT) declared a special dividend of $3.00 per share in 2004, which was way above the usual quarterly dividends in the range of 8 to 16 cents per share.

- Dividends are payments made by publicly-listed companies or funds as a reward to investors for putting their money into the venture. They can be paid as cash or in the form of stock.

- Announcements of dividend payouts are generally accompanied by a proportional increase or decrease in a company's stock price.

- Investors can use models, such as the dividend discount model or Gordon growth model, to find dividend-paying instruments.

DIVIDENDS SIGNAL FUNDAMENTALS

Before corporations were required by law to disclose financial information in the 1930s, a company's ability to pay dividends was one of the few signs of its financial health. Despite the *Securities and Exchange Act* of 1934 and the increased transparency it brought to the industry, dividends still remain a worthwhile yardstick of a company's prospects.

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Typically, mature, profitable companies pay dividends. However, companies that do not pay dividends are not necessarily without profits. If a company thinks that its own growth opportunities are better than investment opportunities available to shareholders elsewhere, it often keeps the profits and reinvests them into the business. For these reasons, few "growth" companies pay dividends. But even mature companies, while much of their profits may be distributed as dividends, still need to retain enough cash to fund business activity and handle contingencies.

The progression of Microsoft (MSFT) through its life cycle demonstrates the relationship between dividends and growth. When Bill Gates' brainchild was a high-flying growing concern, it paid no dividends but reinvested all earnings to fuel further growth. Eventually, this 800-pound software "gorilla" reached a point where it could no longer grow at the unprecedented rate it had maintained for so long.

So, instead of rewarding shareholders through capital appreciation, the company began to use dividends and share buybacks as a way of keeping investors interested. The plan was announced in July 2004, nearly 18 years after the company's IPO. The cash distribution plan put nearly $75 billion worth of value into the pockets of investors through a new 8-cent quarterly dividend, a special $3 one-time dividend, and a $30 billion share buyback program spanning four years. In 2018, the company is still paying dividends with a yield of 1.8%.

THE DIVIDEND YIELD

Many investors like to watch the dividend yield, which is calculated as the annual dividend income per share divided by the current share price. The dividend yield measures the amount of income received in proportion to the share price.

If a company has a low dividend yield compared to other companies in its sector, it can mean two things:

> (1) the share price is high because the market reckons the company has impressive prospects and is not overly worried about the company's dividend payments, or
>
> (2) the company is in trouble and cannot afford to pay reasonable dividends. At the same time, however, a high dividend yield can signal a sick company with a depressed share price.

A dividend yield is of little importance for growth companies because, retained earnings will be reinvested in expansion opportunities, giving shareholders profits in the form of capital gains (think Microsoft).

Reference: https://www.investopedia.com/terms/y/yield.asp

Yield as an Investment Indicator

Since a higher yield value indicates that an investor is able to recover higher amounts of cashflows in his investments, a higher value is often perceived as an indicator of lower risk and higher income. However, care should be taken to understand the calculations involved. A high yield may have resulted from a falling market value of the security, which decreases the denominator value used in the formula and increases the calculated yield value even when the security’s valuations are on a decline.

While many investors prefer dividend payments from stocks, it is also important to keep an eye on yields. If yields become too high, it may indicate that either the stock price is going down or the company is paying significantly high dividend, or both. Since dividends are paid from company’s earnings, higher dividend payouts indicates that company is having higher earnings, which should ideally lead to higher stock prices. Higher dividend with higher stock price should lead to a consistent or a marginal rise in yield compared to those observed in the previous period. However, a significant rise in yield without rise in stock price may mean

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that company is paying dividend without too much rise in earnings, and that may indicate possible problems in near future for the company's business.

DIVIDEND COVERAGE RATIO

When you evaluate a company's dividend-paying practices, *ask yourself if the company can afford to pay the dividend.*

The ratio between a company's earnings and net dividend paid to shareholders – known as dividend coverage – remains a well-used tool for measuring whether earnings are sufficient to cover dividend obligations.

The ratio is calculated as earnings per share divided by the dividend per share.

When coverage is getting thin, odds are good that there will be a dividend cut, which can have a dire impact on valuation.

Investors can feel safe with a coverage ratio of 2 or 3.

In practice, however, the coverage ratio becomes a pressing indicator when coverage slips below about 1.5, at which point prospects start to look risky.

If the ratio is under 1, the company is using its retained earnings from last year to pay this year's dividend.

At the same time, if the payout gets very high, say above 5, investors should ask whether management is withholding excess earnings, not paying enough cash to shareholders. Managers who raise their dividends are telling investors that the course of business over the coming 12 months or more will be stable.

THE DREADED DIVIDEND CUT

If a company with a history of consistently rising dividend payments suddenly cuts its payments, investors should treat this as a signal that trouble is looming.

While a history of steady or increasing dividends is certainly reassuring, investors need to be wary of companies that rely on borrowings to finance those payments. Take the utilities industry, which once attracted investors with reliable earnings and fat dividends. As some of those companies were diverting cash into expansion opportunities while trying to maintain dividend levels, they had to take on greater debt levels.

Watch out for companies with debt-to-equity ratios greater than 60%. Higher debt levels often lead to pressure from Wall Street as well as from debt-rating agencies. That, in turn, can hamper a company's ability to pay its dividend.

GREAT DISCIPLINARIAN

Dividends bring more discipline to management's investment decision-making. Holding onto profits might lead to excessive executive compensation, sloppy management, and unproductive use of assets. Studies show that the more cash a company keeps, the more likely it is that it will overpay for acquisitions and, in turn, damage shareholder value. In fact, companies that pay dividends tend to be more efficient in their use of capital than similar companies that do not pay dividends. Furthermore, companies that pay dividends are less likely to be cooking the books. Let's face it, managers can be awfully creative when it comes to making earnings look good. But with dividend obligations to meet twice a year, manipulation becomes that much more challenging.

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Finally, dividends are public promises. Breaking them is both embarrassing to management and damaging to share prices. To tarry over raising dividends, never mind suspending them, is seen as a confession of failure.

See the examples below.

Major Dividend Paying Companies								
Symbol	Quote	Sector	Market Capitalization	Debt/Equity	Div. Yield	Div Growth	Div. Payout	Div. Paid
RY	$104.69	Financials	$152.10 B	11%	3.90%	7.18%	60.00%	1990
TD	$74.47	Financials	$137.21 B	11%	4.00%	9.76%	60.00%	1990
CNU	$252.38	Energy	$103.65 B	34%	2.70%	6.36%	3150.00%	2001
ENB	$49.93	Energy	$100.99 B	93%	5.90%	12.66%	257.00%	1990
CNR	$121.99	Industrials	$96.21 B	71%	1.80%	13.21%	44.00%	1996
BNS	$71.78	Financials	$86.35 B	9%	4.80%	6.58%	65.00%	1990
BMO	$103.23	Financials	$66.33 B	15%	3.90%	5.49%	62.00%	1990
SU	$44.22	Energy	$63.94 B	39%	3.80%	9.35%	101.00%	2009
TRI	$79.56	Services	$55.23 B	59%	1.80%	108.60%	20.00%	1990
BCE	$60.51	IT & Communications	$52.38 B	117%	5.20%	5.12%	115.00%	2006
MFC	$24.17	Financials	$47.66 B	N/A%	4.10%	10.60%	55.00%	2000
CNQ	$39.76	Energy	$44.10 B	64%	3.80%	14.60%	89.00%	2001
CM	$109.95	Financials	$43.66 B	12%	5.10%	6.29%	61.00%	1990
TRP	$62.05	Energy	$43.60 B	162%	4.80%	9.89%	98.00%	2003
GWO	$32.67	Financials	$32.66 B	N/A%	5.10%	6.07%	72.00%	1990
SLF	$53.56	Financials	$32.64 B	33%	3.70%	7.35%	63.00%	2000
IMO	$38.77	Energy	$30.15 B	21%	2.00%	11.50%	36.00%	1991
T	$50.02	IT & Communications	$29.74 B	138%	4.40%	7.56%	109.00%	1999
MG	$72.16	Consumer Products	$29.03 B	41%	2.00%	14.21%	20.00%	1992
PWF	$31.99	Financials	$22.65 B	76%	5.70%	5.13%	82.00%	1990
QSR	$88.78	Services	$22.31 B	754%	2.30%	56.66%	76.00%	2015
ABX	$17.91	Materials	$20.87 B	76%	1.60%	24.49%	10.00%	1990
NA	$62.54	Financials	$20.44 B	5%	4.20%	6.22%	56.00%	1990

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Some Dividend Growth Stocks on the TSX (As of March 2019)					
Company	Symbol	Years of Dividend Growth	10 year avg Dividend Growth Rate	Payout Ratio	Current Yield
Canadian Utilities	CU	47	9%	122.50%	4.77%
Fortis Inc.	FTS	45	5.60%	72.45%	3.60%
Toromount Industries Ltd	TIH	29	11.3%	35.18%	1.56%
Canadian Western Bank	CWB	27	9.0%	37.24%	3.40%
Atco Ltd	ACO.X	25	12.4%	90.69%	3.58%
Thomson Reuters	TRI	25	2.5%	575.79%	2.65%
Empire Company Ltd	EMP.A	24	6.6%	36.47%	1.44%
Imperial Oil	IMO	24	6.7%	26.40%	2.14%
Metro Inc	MRU	24	16%	31.90%	1.62%
Canadian National Railway	CNR	23	14.7%	36.62%	1.89%
Enbridge Inc	ENB	23	15.1%	204.77%	5.42%
Saputo Inc	SAP	19	12%	33.96%	1.52%
Canadian Natural Resources	CNQ	18	21%	43.75%	3.52%
TransCanada Corp	TRP	18	6.7%	80.31%	5.05%
CCL Industries	CCL.B	17	16.6%	25.92%	1.25%
Finning International	FTT	17	6.3%	58.14%	3.21%
Transcontinental Inc.	TCL.A	17	10.3%	33.54%	4.36%
Plaza Retail REIT	PLZ.UN	16	4.8%	240.3%	6.76%
Ritchie Bros Auctioneers	RBA	16	7.5%	52.73%	1.96%
Suncor Energy	SU	16	21.8%	83.58%	3.69%
Cogeco Communications Inc.	CCA	15	16.6%	29.81%	2.48%
Telus Corporation	T	15	8.7%	81.37%	4.63%

THE BOTTOM LINE ON WHY DIVIDENDS MATTER

The bottom line is that dividends matter significantly. Evidence of profitability in the form of a dividend check can help investors sleep easily. Profits on paper say one thing about a company's prospects; profits that produce cash dividends say another thing entirely.

To get details of dividends paid: http://ca.dividendinvestor.com/

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Example: ENB

Enbridge Inc (TSX : ENB)						
Year	Declaration Date	Ex-Dividend Date	Record Date	Payable Date	Dividend $ Amount	
2019	11-Dec-18	14-Feb-19	15-Feb-19	1-Mar-19	$	0.74
2019 Total:					**$**	**0.74**
2018	2-Nov-18	14-Nov-18	15-Nov-18	1-Dec-18	$	0.67
2018	2-Aug-18	14-Aug-18	15-Aug-18	1-Sep-18	$	0.67
2018	24-Apr-18	14-May-18	15-May-18	1-Jun-18	$	0.67
2018	29-Nov-17	14-Feb-18	15-Feb-18	1-Mar-18	$	0.67
2018 Total:					**$**	**2.68**
2017	1-Nov-17	14-Nov-17	15-Nov-17	1-Dec-17	$	0.61
2017	2-Aug-17	11-Aug-17	15-Aug-17	1-Sep-17	$	0.61
2017	4-May-17	11-May-17	15-May-17	1-Jun-17	$	0.61
2017	5-Jan-17	13-Feb-17	15-Feb-17	1-Mar-17	$	0.58
2017 Total:					**$**	**2.41**
2016	1-Nov-16	10-Nov-16	15-Nov-16	1-Dec-16	$	0.53
2016	26-Jul-16	11-Aug-16	15-Aug-16	1-Sep-16	$	0.53
2016	22-Apr-16	12-May-16	16-May-16	1-Jun-16	$	0.53
2016	3-Dec-15	11-Feb-16	16-Feb-16	1-Mar-16	$	0.53
2016 Total:					**$**	**2.12**
2015	4-Nov-15	12-Nov-15	16-Nov-15	1-Dec-15	$	0.47
2015	28-Jul-15	12-Aug-15	14-Aug-15	1-Sep-15	$	0.47
2015	5-May-15	13-May-15	15-May-15	1-Jun-15	$	0.47
2015	3-Dec-14	11-Feb-15	16-Feb-15	1-Mar-15	$	0.47
2015 Total:					**$**	**1.86**

NOTE: Financial Press:

The Financial Press allows you to keep up to date on a variety of subjects from the markets, the companies you are researching, the different sectors you are interested in and the global economic environment as a whole. Most websites will provide news, stock quotes, basic charting features and at times a summary of a firm's financial information or an industry outlook. Some of the better websites we have found include (but are not limited to):

- https://www.facebook.com/Train2Invest/
- https://twitter.com/Train2Invest
- Globeinvestor.com
- Reuters.com
- Bloomberg.com
- MSNBC.com
- Search Engines e.g.Finance.google.com; yahoo.ca etc.

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EXAMPLE OF A COMPANY ANALYSIS –- ENBRIDGE INC.

PRIMARY BUSINESS: Crude Oil & Gas Transportation via pipelines

Enbridge Inc. is headquartered in Calgary, Canada with a workforce of about 13,600 people, primarily in Canada and the United States. Enbridge (ENB) is traded on the New York and Toronto stock exchanges.

Enbridge is an energy generation, distribution, and transportation company in the U.S. and Canada. Its pipeline network consists of the Canadian Mainline system, regional oil sands pipelines, and natural gas pipelines. The company also owns and operates a regulated natural gas utility and Canada's largest natural gas distribution company. Additionally, Enbridge generates renewable and alternative energy with 2,000 megawatts of capacity.

Enbridge connects energy supply with growing markets in North America through our three core businesses:

- ☐ **Liquids Pipelines:** Enbridge operates the world's longest and most complex crude oil and liquids transportation system, connecting North America's key supply basins with the continent's largest, most globally competitive refining centers—the U.S. Midwest, the Gulf Coast and Eastern Canada. Our Mainline System moves approximately 25% of North American crude oil.

- ☐ **Natural Gas Transmission and Midstream:** Enbridge's natural gas pipelines connect key supply basins to North America's largest demand centers—New York, Chicago, Boston, Toronto, Vancouver and Seattle—and transport approximately 18% of all natural gas consumed in the U.S. Our gas transmission network extends across North America and the Gulf of Mexico.

- ☐ **Natural Gas Utilities:** Enbridge operates one of North America's largest natural gas utilities, delivering energy to approximately 3.7 million homes and businesses

Source: Annual Report 2018

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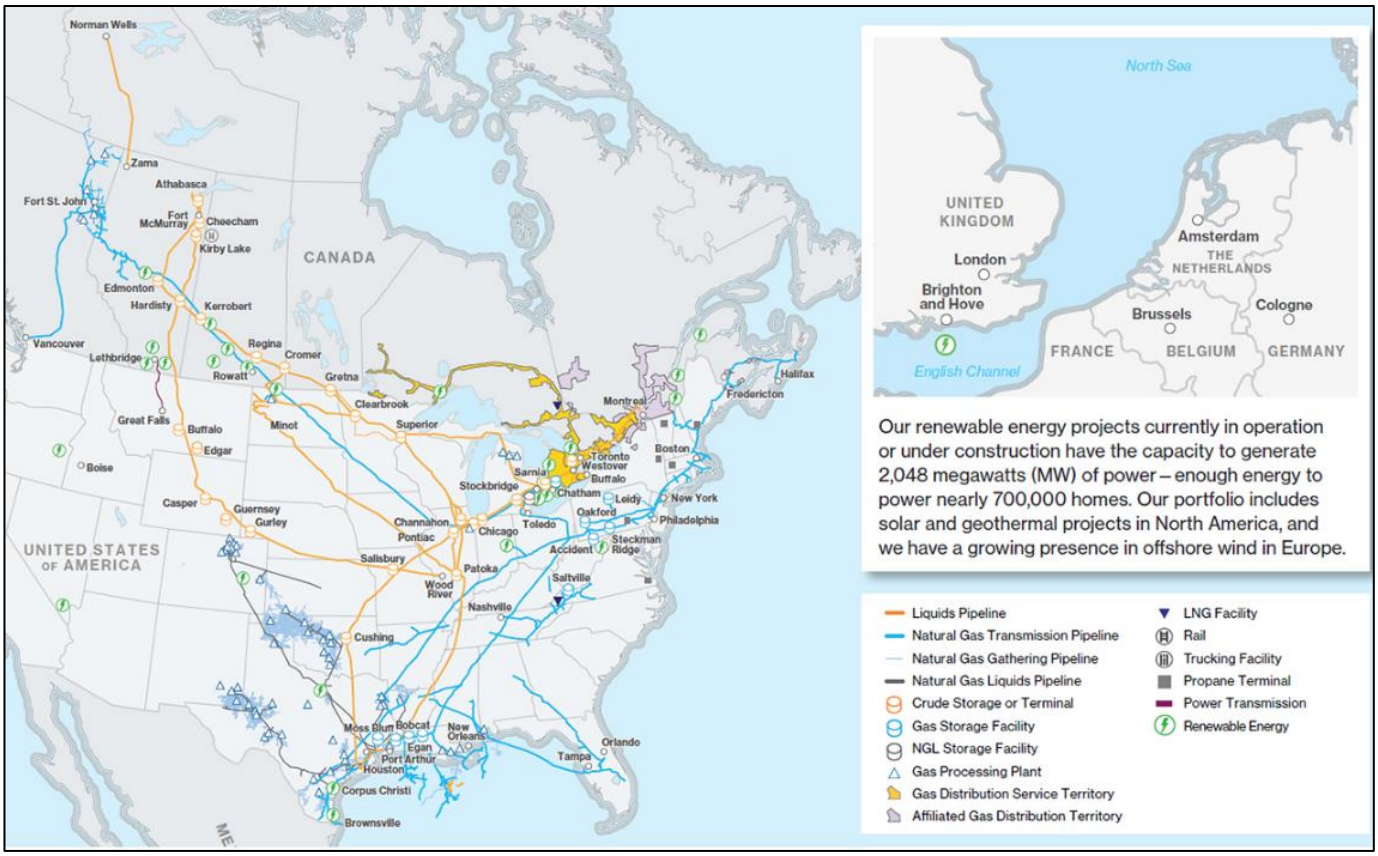

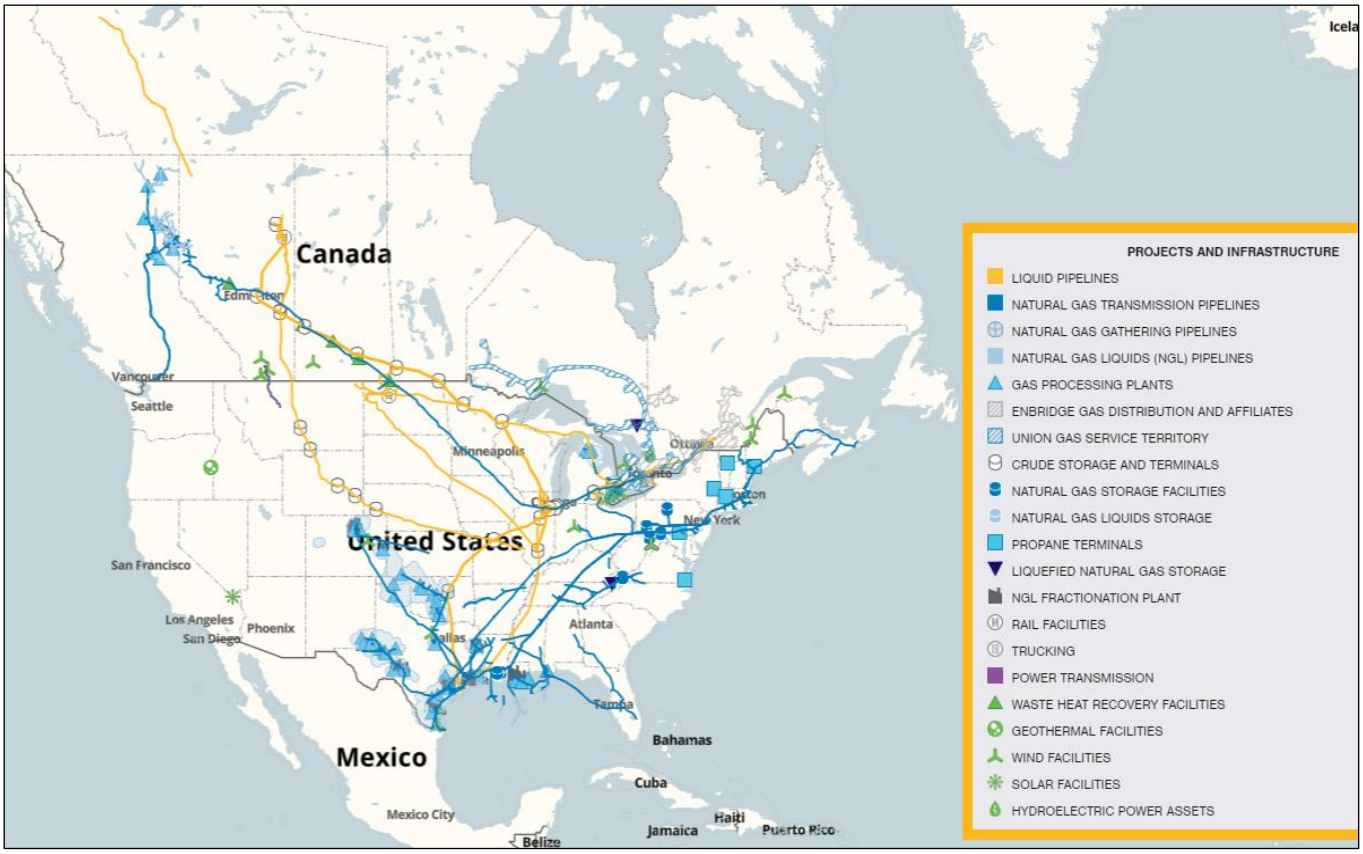

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Resource: Globeinvestor
https://www.theglobeandmail.com/investing/markets/stocks/ENB-T/financials/

RANKING: Revenues & Profit

COMPARE: REVENUE ($000)

COMPANY	REVENUE ($000)
Alimentation Couche-Tard	59,797,900
Manulife Financial	58,386,000
Royal Bank of Canada	52,371,000
Magna International	50,869,760
George Weston Ltd.	48,384,000
Brookfield Asset Management	47,100,504
Great-West Lifeco	46,806,000
Loblaw Cos. Ltd.	46,755,000
Power Corp. of Canada	46,583,000
Toronto-Dominion Bank	46,266,000
Enbridge Inc.	45,932,000
Power Financial	45,098,000
Bank of Nova Scotia	36,727,000
Onex Corp.	35,246,844
Suncor Energy	34,185,000

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COMPARE: PROFIT ($000)

COMPANY	PROFIT ($000)
Royal Bank of Canada	11,414,000
Toronto-Dominion Bank	10,227,000
Bank of Nova Scotia	8,336,000
Canadian National Railway Co.	5,484,000
Frontera Energy Corp.	5,134,618
Bank of Montreal	4,834,000
CIBC	4,620,000
Suncor Energy	4,458,000
Thomson Reuters Corp.	4,033,821
Cenovus Energy	3,402,000
Onex Corp.	3,190,082
TransCanada Corp.	3,157,000
Valeant Pharmaceuticals Int'l	3,061,482
BCE Inc.	2,995,000
Magna International	2,866,606
Enbridge Inc.	2,859,000
Teck Resources	2,509,000
Canadian Pacific Railway Ltd.	2,405,000

Source: https://www.theglobeandmail.com/report-on-business/rob-magazine/top-1000/top-1000-stocks-rated-canada/article38357893/

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PEER COMPANY ANALYSIS

PEER ANALYSIS Currency in CAD

		PRICE MOMENTUM					VALUATION		FUNDAMENTAL		ANALYSTS		
Average Score	Ticker	Price (2019-04-15)	1-Mo Return	3-Mo Return	1-Yr Return	Market Cap	Trailing PE	Forward PE	Dividend Yield	Net Margin	LTG Forecast	I/B/E/S Mean	# of Analysts
10	ENB	49.86	2.3%	5.5%	23.5%	101.0B	34.2	19.7	5.9%	6.2%	12.9%	Buy	20
8	TRP	62.10	3.2%	13.8%	16.3%	57.3B	15.8	16.1	4.8%	27.1%	0.9%	Buy	20
7	PPL	50.06	1.4%	12.8%	24.0%	25.5B	22.1	19.5	4.6%	17.4%	11.1%	Buy	19
9	IPL	22.33	1.9%	6.6%	-4.7%	9.1B	14.7	16.9	7.7%	22.9%	--	Buy	17
10	KEY	32.67	0.5%	14.7%	-6.3%	6.9B	17.1	19.1	5.5%	8.8%	5.9%	Buy	17
8	PSI	20.69	2.7%	-0.7%	13.3%	1.8B	28.3	23.8	3.5%	20.5%	--	Buy	6
10	EFX	19.56	-2.0%	12.0%	17.7%	1.8B	17.2	13.7	2.2%	5.9%	--	Buy	9
7	SCL	20.32	-3.5%	8.6%	-21.2%	1.4B	48.4	35.2	3.0%	1.8%	--	Buy	5
9	SES	8.42	1.8%	4.9%	7.0%	1.4B	64.8	59.7	3.2%	0.7%	--	Buy	12
7	MTL	12.08	-2.0%	-5.3%	-21.9%	1.3B	--	20.3	5.0%	-3.5%	--	Hold	12
9	KML	15.55	-2.0%	7.8%	0.7%	545M	1.3	23.6	4.2%	115.9%	22.9%	Hold	10
8.5	Average	28.51	0.4%	7.3%	4.4%	18.9B	26.4	24.3	4.5%	20.3%	10.8%	Buy	13.4

PEER COMPANIES

TRP	TransCanada Corp	EFX	Enerflex
PPL	Pembina Pipeline Corp	SCL	Shawcor
IPL	Inter Pipeline	SES	Secure Energy Services Inc
KEY	Keyera Corp	MTL	Mullen Group
PSI	Pason Systems Inc	KML	Kinder Morgan Canada

Source: TD Discount Broker / Thompson Reuters

CREDIT RATING:

Credit Ratings

Enbridge Inc.

Security	Standard & Poors	Moody's	DBRS	Fitch
Outlook	Stable	Positive	Stable	Stable
Senior Unsecured Debt	BBB+	Baa2	BBB (High)	BBB+
Preferred Shares	P-2(low)[1]	Ba1	Pfd-3 (High)	BBB-
Commercial Paper	A -1(Low)[2]	-	R-2 (High)	F2

1. Reflects Canadian Scale. Rated BBB- on global scale.
2. Reflects Canadian Scale. Rated A-2 on global scale for US program.
3. Moody's ratings applies only to Series A, B, D, and F.

Source: https://www.enbridge.com/investment-center/stock-and-dividend-information/credit-ratings

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ANALYSTS REPORT

Research Coverage

The following firms provide research coverage of Enbridge Inc.

Canadian Based Firms

Firm	Analyst
BMO Capital Markets	Ben Pham
Canaccord Genuity	David Galison
CIBC World Markets	Robert Catellier
GMP FirstEnergy	Ian Gillies
Macquarie Research	Tom Hems
National Bank Financial	Patrick Kenny
Peters & Co.	Tyler Reardon
RBC Capital Markets	Robert Kwan
Scotia Capital	Rob Hope
TD Securities	Linda Ezergailis

U.S./Global Based Firms

Firm	Analyst
Bank of America Merrill Lynch	Dennis Coleman
Citibank	Timm Schneider
Credit Suisse	Andrew Kuske

Morningstar Equity Analyst Report | Report as of 15 Feb 2019 10:45, UTC | Page 1 of 18

Enbridge Inc ENB (XTSE)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 14 Feb 2019 22:54, UTC	47.35 CAD 14 Feb 2019	62.00 CAD 02 Nov 2018 16:44, UTC	0.76	5.81 14 Feb 2019	6.23 14 Feb 2019	95.73 14 Feb 2019	Oil & Gas Midstream	Standard

Morningstar Pillars

	Analyst	Quantitative
Economic Moat	Wide	Wide
Valuation	★★★★	Undervalued
Uncertainty	Medium	High
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

ENB

Undervalued | Fairly Valued | Overvalued

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.88	0.94	0.84	0.75
Price/Earnings	50.9	59.2	16.0	15.2
Forward P/E	18.5	—	10.9	10.8
Price/Cash Flow	8.6	11.5	6.7	8.4
Price/Free Cash Flow	48.4	61.1	14.4	14.9
Trailing Dividend Yield%	5.81	4.27	3.75	3.71

Source: Morningstar

Bulls Say

- Regional oil sands pipeline projects position Enbridge to benefit from projected growing oil sands

Important Disclosure:

The conduct of Morningstar's analysts is governed by Code of Ethics/Code of Conduct Policy, Personal Security Trading Policy (or an equivalent of), and Investment Research Policy. For information regarding conflicts of interest, please visit http://global.morningstar.com/equitydisclosures

Solid Quarter for Best Idea Enbridge; Raising Our Dividend Outlook

Business Strategy and Outlook

Joe Gemino, CPA, Sr. Eq. Analyst, 03 January 2019

Enbridge is an energy distribution and transportation company in the United States and Canada. It operates crude and natural gas pipelines, including the Canadian Mainline system. It also owns and operates Canada's largest natural gas distribution company.

Enbridge is positioned to benefit from growing oil sands supply dynamics with its Mainline system and regional oil sands pipelines. The regulated Mainline system generates attractive tolls and represents approximately 70% of Canada's pipeline takeaway capacity. The system offers refinery access to various markets, adding to the long-term investors.

Analyst Note

Joe Gemino, CPA, Sr. Eq. Analyst, 15 February 2019

Wide-moat and Best Idea Enbridge reported a strong quarter that generally came in slightly below our optimistic expectations. The company reported fourth-quarter adjusted EBITDA of CAD 3.3 billion, or CAD 1.84 per share, compared with CAD 3 billion, or CAD 1.79 per share, in the year-ago quarter. Enbridge also reported distributable cash flow of CAD 1.9 billion compared with CAD 1.7 billion in the fourth quarter of 2017. The lower-than-expected performance was driven by a slower ramp up of natural gas growth projects.

Source: TD Discount Broker / Morningstar Equity Analyst Report

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Analyst Note 11/04/2019

President Donald Trump has issued two executive orders addressing state-driven delays over oil and gas pipeline approvals. We believe the impact of these orders will be more symbolic than material for our midstream coverage, so we're not changing our fair value estimates or moat ratings.

Executive orders are more limited than actual laws, as they are only binding for employees of federal agencies, whereas laws are ratified by Congress and apply to all U.S. citizens, private companies, and nonfederal agencies. The distinction is important, because Trump is trying to expedite pipeline approvals that are being blocked by the states via permit denials and delays, resulting in a variety of court battles. High-profile pipelines affected by permit delays include Williams' Constitution, TransCanada's Keystone XL, Enbridge's Line 3, and Dominion and Duke's Atlantic Coast pipeline.

Trump's executive orders direct federal agencies to streamline reviews of interstate pipelines. Specifically, the action focuses on section 401 of the Clean Water Act and describes federal guidance as "outdated" and "causing confusion and uncertainty." This particular section has been used by the states to block pipelines, mainly in the Northeast, so the orders are trying to shift more power to the federal agencies from the states. For example, section 401 certifications are supposed to be approved within a year of the project application, but states are asking for revisions to the project application, and then restarting the clock.

Investment Thesis 03/01/2019

Enbridge is an energy distribution and transportation company in the United States and Canada. It operates crude and natural gas pipelines, including the Canadian Mainline system. It also owns and operates Canada's largest natural gas distribution company.

Enbridge is positioned to benefit from growing oil sands supply dynamics with its Mainline system and regional oil sands pipelines. The regulated Mainline system generates attractive tolls and represents approximately 70% of Canada's pipeline takeaway capacity. The system offers refinery access to various markets, adding to the network's attractiveness. The company also operates regional pipelines that tie directly into the Mainline. Each of these pipelines originates from existing oil sands projects and is underpinned by long-term contracts. Growth projects possess the same economics, positioning the company to benefit from the growing supply.

While crude pipelines are Enbridge's bread and butter, the company operates a diverse energy portfolio. Gas distribution operations benefit from regulated returns and provide the company with reliable cash flows. Enbridge also operates natural gas pipelines and processing assets that supplement its crude pipeline network. Future natural gas pipeline projects benefit from long-term contracts that are tied into emerging projects.

The company intends to increase its annual dividend at 10% in 2020 and has maintained a three-year trailing average distributable cash coverage ratio of approximately 1.7 times the dividend over the past three years. Overall, Enbridge is in a strong position to benefit from the growing oil sands supply, which we expect to outstrip pipeline takeaway capacity in the near term. We expect the Line 3 Replacement to help; we project it to be in service by 2020 and fuel tremendous growth for the company. We believe the stock is deeply undervalued based on the company's vast growth portfolio, highlighted by the lucrative natural gas projects associated with the Spectra acquisition and the Line 3 Replacement. The recent market sell-off serves as a tremendous buying opportunity for long-term investors.

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Economic Moat 03/01/2019

Midstream companies process, transport, and store natural gas, natural gas liquids, crude oil, and refined products. There are multiple ways for midstream companies to build moats, but efficient scale is the dominant source. Hydrocarbons are produced and consumed in different places and in different forms from how they come out of the ground. Midstream firms transport and process hydrocarbons. Once a transport route is established, there's usually little need to build a competing route. Doing so would drive returns for both routes below the cost of capital. Thus, pipelines are generally moaty because they efficiently serve markets of limited size.

New pipelines are typically constructed to allow shippers or producers to take advantage of large price differentials (basis differentials) between two market hubs because supply and demand is out of balance in both markets. Pipeline operators will enter into long-term contracts with shippers to recover the project's construction and development costs, in exchange for a reasonable tariff that allows a shipper to capture a profitable differential, and capacity will be added until it is no longer profitable to do so.

Pipelines are approved by regulators only when there is an economic need, and pipeline development takes about three years, according to the U.S. Energy Information Administration. Regulatory oversight is provided by the Federal Energy Regulatory Commission, National Energy Board, and at the state, provincial, and local levels for cross-border Canadian pipelines. New pipelines under consideration must contend with onerous environmental and other permitting issues. Further, project economics are locked in through long-term contracts with producers before breaking ground on the project. If contracts cannot be secured, the pipeline will not be built.

A network of pipelines serving multiple end markets and supplied by multiple regions is typically more valuable than a scattered collection of assets. A pipeline network allows the midstream firm to optimize the flow of hydrocarbons across the system and capture geographic differentials, use storage facilities to capture price differentials over time, and direct more hydrocarbons through its system via storage and gathering and processing assets, ensuring security of flows and higher fees. Finally, it is typically cheaper for an incumbent pipeline to add capacity via compression, pumps, or a parallel line than it would be for a competitor to build a competing line.

The major consideration for assessing evidence of a moat for a midstream firm is asset quality, where we consider the firm's competitive strengths and assets within the efficient scale regional markets they serve. Asset quality is evaluated based on the location of the individual assets, the type of asset (for example, pipeline versus gathering and processing), the cost-competitiveness of the basins the assets serve, capital intensity, and the overall quality of the network. Basin cost-competitiveness is important as pipelines are likely to remain relevant longer if connected to a low-cost hydrocarbon supply. Further, some of the highest-quality midstream firms have a dense network of assets that connect to key refineries, basins, and market hubs and are a reliable transportation provider for shippers. This connectivity encourages shippers to use the pipelines but also protects the midstream entity. The asset integration prevents another third party from extracting rents by owning an asset that is part of the route to the most profitable market.

Enbridge’s assets are among the best in the North American midstream sector. The crown jewel of its portfolio is the Canadian Mainline crude pipeline system, but Enbridge also operates other top-tier assets, such as regional oil sands pipelines, U.S. and Canadian natural gas pipelines, and regulated utilities.

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The Mainline is Canada's largest pipeline. With a shipping capacity of approximately 2.85 mmbbl/d, the pipeline transports primarily heavy oil from Canada's oil sands to refineries across North America, including Canada's east coast; the U.S. Midwest; Cushing, Oklahoma; and the U.S. Gulf Coast. Refinery capacity connected to the Mainline approximates 3.5 mmbbl/d. Furthermore, the Mainline offers more access to the U.S. Midwest, where producers can maximize netbacks, compared with competing pipelines along with lower tolls to the U.S. Gulf Coast.

Canada's oil sands supply is separated from most of its refining markets by large distances and relies on pipeline transportation. Pipeline takeaway capacity from the country approximates 4 mmbl/d, with approximately 71% of the takeaway capacity residing on the Mainline system. Increasing environmental and government regulations, as well as political opposition, have made new pipeline projects increasingly difficult to sanction in recent years. Accordingly, the Canadian crude industry would crumble without the Mainline system.

Enbridge also operates the Express-Platte pipeline. While the pipeline is Canada's smallest crude pipeline, it is one of the few outlets for Canadian crude producers.

The company's regional oil sands pipeline network is also top-tier. The network connects to 11 producing oil sands projects. The company's major regional pipelines provide transportation from all three of the oil sands locations, but are primarily focused on the largest region, Athabasca. The system moves nearly 1.2 mmbbl/d of oil sands production, or over 40% of Alberta's total oil sands production.

The acquisition of Spectra Energy diversifies Enbridge's asset base with high-quality natural gas pipelines. Enbridge's U.S. natural gas network is exceptionally well positioned to serve most of the Eastern U.S., including cities such as New York, Boston, and Philadelphia. Enbridge's ability to connect and balance supply and demand with its pipelines and storage assets means customers are eager to pay for the opportunity to access the network.

Enbridge's Canadian natural gas pipelines are in position to benefit from growing production in the Western Canadian Sedimentary Basin, highlighted by the Alliance Pipeline. The Alliance pipeline is the only rich gas export pipeline from the Western Canada Select Basin, but can also export dry gas. Shipments originate from the Horn River, Montney, Duvernay, and Bakken formations and are transported to the U.S. Midwest. Canadian natural gas production is expected to increase at a 9% compound annual growth rate over the next decade, accompanied by growth in natural gas liquids.

To further diversify its midstream portfolio, Enbridge operates regulated natural gas utilities and Canada's largest gas distribution company that serves residential, commercial, and industrial customers in Ontario and upstate New York. Regulated ROEs on the gas utility and gas distribution assets consistently exceed 10% compared with the average allowed ROE for U.S. utilities of 9.6%. Enbridge's utilities provide additional attractive assets to the portfolio that exceeds the company's cost of capital and generate higher returns than their U.S. counterparts.

Contract quality is primarily assessed by term, with long-term contracts (10-plus years) being preferred with take-or-pay provisions. Contract quality does not directly support the efficient scale moat source, but it more

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directly speaks to the sustainability of future excess returns. Entities that are primarily oriented around pipelines are the strongest positioned as they obtain the longest terms. Long-term contracts for pipelines tend to be made up mostly of capacity reservation fees and a more modest transportation fee. Shippers are obligated to use the pipeline but not required to do so; however, they must pay the reservation charges in any scenario, ensuring rents for the pipelines. The smaller transportation fees are only paid based on actual volumes shipped. Less well-positioned firms typically contain a large component of gathering and processing, storage, fractionation, or other business areas, where it is harder to argue that advantages will persist for two decades or more, and contract terms tend to be only a few years, reflecting the reduced barriers to entry compared with pipelines.

While the Mainline is a common carrier pipeline and doesn't have any firm commitments, it is unlikely that the pipeline will have any unused capacity. The Mainline represents the best option for producers to access multiple markets and to move production. In addition, eight of the 10 largest crude producers, which represent two thirds of Canada's crude production, are investment-grade counterparties and rely on the Mainline.

The Express-Platte and reginal pipeline system possess long-term take-or-pay contracts. The Express-Platte contains 20-year contracts, while regional oil sands system has average durations that range from 20 to over 30 years.

In U.S. natural gas, on average, the pipelines have a remaining contract duration that exceeds 10 years, with over 95% of the capacity contracted by investment-grade counterparties, providing for stable and secured cash flows. Potential pipeline expansion projects will benefit from the same economics. Projects won't be placed into service unless they are underpinned by long-term take-or-pay contracts that extend over the long life of oil sands growth projects.

Contracts on the Alliance pipeline also exceed 10 years.

The combination of attractive regulated returns, near- and long-term expansion projects that are underpinned with long-term contracts, and a vast, diverse midstream network allows Enbridge to realize efficient scale on its midstream asset economics and to generate sustainable excess ROICs. Regulatory approval on crude expansion projects also prevents competitors from undertaking expansion projects without necessary approval, acting as an intangible asset for Enbridge on its Mainline operations. As such, we project that the firm will achieve excess returns on capital within five years and conclude that Enbridge possesses an economic moat. Difficulty obtaining regulatory approval on major pipeline expansions, attractive regulated tolls that exceed the company's cost of capital, and 20- to 25-year contracts on regional pipelines afford the company a wide economic moat.

Valuation 04/03/2019

Our fair value estimate of $47 (CAD 62) per share is based on a discounted cash flow model. We believe that Enbridge's broad network of midstream assets and geographic diversification will serve it well in the low oil and gas price environment, and crude and natural gas pipeline expansions in growing regions will fuel EBITDA growth. Our fair value estimate corresponds to enterprise value/EBITDA multiples of 14 times and 12 times for 2019 and 2020, respectively. Our 2019 adjusted EBITDA forecast is CAD 12.8 billion, and we expect distributable cash flow to reach CAD 8.2 billion in the same period. We forecast a distributable cash coverage

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ratio of 1.5 times. Our 2020 estimates for EBITDA, distributable cash flow, and the distributable cash coverage ratio are CAD 14.1 billion, CAD 9.3 billion, and 1.6 times, respectively.

Risk 03/01/2019

Enbridge's profitability is not directly tied to commodity prices, as pipeline transportation costs are not tied to the price of natural gas and crude oil. However, the cyclical supply and demand nature of commodities and related pricing can have an indirect impact on the business as shippers may choose to accelerate or delay certain projects. This can affect the timing for the demand of transportation services and/or new gas pipeline infrastructure.

In addition, regulated assets are subject to economic regulation risk in which regulators or other government entities may change or reject proposed or existing projects, including permits and regulatory approvals for new projects. The proposed Northern Gateway crude pipeline's approval was overturned by a federal court, affecting Enbridge's ability to develop new major crude pipeline projects.

Management 15/02/2019

President and CEO Al Monaco has been with Enbridge since 1995, serving in his current role since 2012. During his tenure at Enbridge, Monaco has experience in all business segments, international business development, corporate planning, and finance. His experience in various business segments, corporate development, growth projects, and finance positions him to successfully lead the proposed pipeline and gas distribution growth projects.

Management continues to invest in high-return projects in areas of projected oil sands supply, highlighted by the Line 3 Replacement project, and projected natural gas production and consumption growth. Line 3 carries downside protection with its integrity replacement status. The proposed growth projects should continue to generate excess returns on capital and stable cash flows. To further diversify the company's operations, management is developing additional distribution and green-power energy projects.

Management maintains a strong 1-year trailing average distributable cash coverage ratio of approximately 1.6 times, which will continue to allow the company to support its attractive dividend growth. Even after the growth projects are placed into service, we expect Enbridge to maintain a comfortable coverage ratio that approximates 1.45 times. Although we applaud management's investment in high-return projects in regions with growing production and dedication to dividend growth, we assign a Standard stewardship rating while we observe the impact of delays and rejected approvals associated with major crude pipeline expansion projects; early construction on the Line 3 Replacement; and the impact of proposed U.S. regulation on the company's cash flow.

www.tmxmoney / Research

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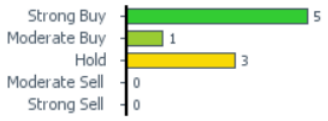
Analyst Recommendations

Analysts recommending Strong Buy	5
Analysts recommending Moderate Buy	1
Analysts recommending Hold	3
Analysts recommending Moderate Sell	0
Analysts recommending Strong Sell	0



Recommendations History

	Current	1 Month Ago	2 Months Ago	3 Months Ago
Strong Buy	5	4	5	4
Moderate Buy	1	1	1	1
Hold	3	5	4	3
Moderate Sell	0	0	0	0
Strong Sell	0	0	0	0
Mean Rec.	1.78	2.10	1.90	1.88

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Data Provider: Zacks Investment Research

FINANCIAL PERFORMANCE:

2018 Financial Highlights

Year ended Dec. 31	**2018**	2017
millions of Canadian dollars, except per share amounts		
Total assets	**166,905**	162,093
Earnings	**2,515**	2,529
Earnings/share	**1.46**	1.66
Adjusted EBITDA[1]	**12,849**	10,317
Adjusted earnings[1]	**4,568**	2,982
Adjusted earnings/share[1]	**2.65**	1.96
Distributable cash flow[1,2]	**7,618**	5,614
Distributable cash flow/share[1]	**4.42**	3.68
Weighted average shares outstanding	**1,724**	1,525
Dividends paid/share	**2.68**	2.41

1 Adjusted EBITDA, adjusted earnings, adjusted earnings/share, distributable cash flow (DCF) and DCF/share are not measures that have a standardized meaning prescribed by generally accepted accounting principles in the United States of America (U.S. GAAP) and are not U.S. GAAP measures. Schedules reconciling these measurements to U.S. GAAP measures are available in the Investment Center at **enbridge.com**

2 Formerly referred to as Adjusted Cash Flow From Operations (ACFFO). Calculation methodology remains unchanged.

Our 2018 financials reflect our first full year as a combined company following the closing of the Spectra acquisition in February 2017. We have a consistent track record of delivering reliable financial results and annual dividend increases, and our continuing goal is to provide superior shareholder returns through capital appreciation and dividends.

Over the past 20 years, Enbridge has delivered 12% dividend per share compound annual growth and generated total annual shareholder returns of approximately 12%, compared to 7% for the S&P/TSX Composite Index. We've accomplished this while building North America's largest energy infrastructure company.

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Source: Annual Report

Profit & Loss Statement; Cash Flow Statements and Balance Sheet

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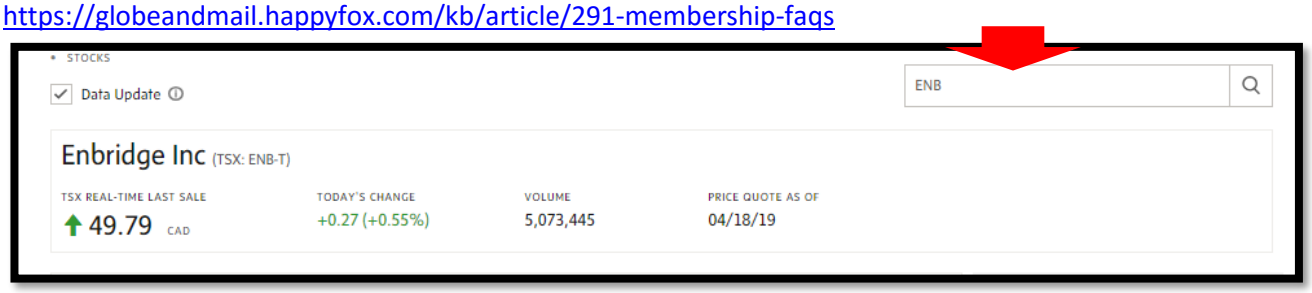
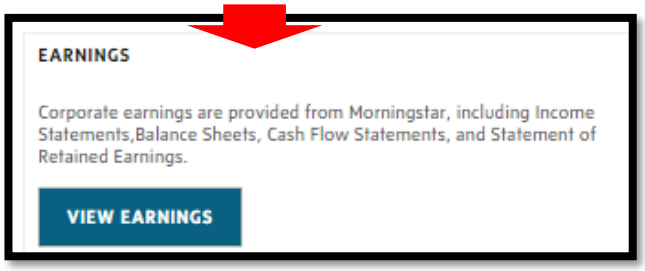
https://globeandmail.happyfox.com/kb/article/291-membership-faqs





PROFIT & LOSS

Quarterly | Annual

Go To: Income Statement

(Values in U.S. Millions)

Next

	12-2018	12-2017	12-2016	12-2015	12-2014
Sales	46,378 M	44,378 M	34,560 M	33,794 M	37,641 M
Cost of Goods	32,647 M	31,800 M	26,245 M	27,265 M	31,060 M
Gross Profit	13,731 M	12,578 M	8,315 M	6,529 M	6,581 M
Operating Expenses	6,792 M	6,442 M	4,357 M	4,225 M	3,378 M
Operating Income $M	6,939 M	6,136 M	3,958 M	2,304 M	3,203 M
Interest Expense	2,834 M	2,826 M	1,590 M	1,624 M	1,080 M
Other Income	-535 M	-2,741 M	83 M	-669 M	50 M
Pre-tax Income	3,570 M	569 M	2,451 M	11 M	2,173 M
Income Tax	237 M	-2,697 M	142 M	170 M	611 M
Net Income Continuous	3,333 M	3,266 M	2,309 M	-159 M	1,562 M
Net Income Discontinuous	N/A	N/A	0 M	0 M	46 M
Minority Interests	-451 M	-407 M	-240 M	410 M	-203 M
Net Income $M	**$2,882 M**	**$2,859 M**	**$2,069 M**	**$251 M**	**$1,405 M**
Ebitda	**$9,650 M**	**$6,558 M**	**$6,281 M**	**$3,659 M**	**$4,830 M**

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Balance Sheet

Quarterly | Annual

Go To: Balance Sheet

(Values in U.S. Millions)

Next

	12-2018	12-2017	12-2016	12-2015	12-2014
Assets					
Current Assets					
Cash & Cash Equivalents	518 M	480 M	2,117 M	1,015 M	1,261 M
Receivables	6,098 M	7,100 M	4,405 M	3,882 M	4,262 M
Inventories	1,339 M	1,528 M	1,233 M	1,111 M	1,148 M
Income taxes - deferred	N/A	N/A	0 M	367 M	245 M
Other current assets	617 M	107 M	487 M	1,041 M	1,182 M
Total	**$8,572 M**	**$9,215 M**	**$8,410 M**	**$7,597 M**	**$8,201 M**
Non-Current Assets					
PPE Net	94,540 M	90,711 M	64,284 M	64,434 M	53,830 M
Investments And Advances	16,707 M	16,644 M	6,836 M	7,008 M	5,408 M
Intangibles	36,831 M	37,724 M	1,651 M	1,428 M	1,649 M
Other Non-Current Assets	10,255 M	7,799 M	4,651 M	4,197 M	3,769 M
Total	**$158,333 M**	**$152,878 M**	**$77,422 M**	**$77,067 M**	**$64,656 M**
Total Assets $M	**$166,905 M**	**$162,093 M**	**$85,832 M**	**$84,664 M**	**$72,857 M**

Liabilities					
Current Liabilities					
Short Term Debt	4,283 M	4,315 M	5,074 M	2,950 M	2,552 M
Accounts payable and accrued liabilities	4,604 M	5,135 M	328 M	561 M	414 M
Accrued Expenses	669 M	634 M	3,820 M	3,352 M	3,203 M
Deferred Revenues	N/A	N/A	138 M	N/A	N/A
Total	**$14,855 M**	**$14,624 M**	**$12,966 M**	**$10,814 M**	**$9,501 M**
Non-Current Liabilities					
Long Term Debt $M	60,327 M	60,865 M	36,494 M	39,540 M	33,423 M
Deferred Revenues	N/A	N/A	138 M	N/A	N/A
Other Non-Current Liabilities	-73,746 M	-77,757 M	-43,107 M	-46,755 M	-40,280 M
Total	**$N/A**	**$N/A**	**$N/A**	**$N/A**	**$N/A**
Total liabilities	**$N/A**	**$N/A**	**$N/A**	**$N/A**	**$N/A**

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Shareholders' Equity					
Common Shares	0 M	0 M	0 M	0 M	0 M
Retained earnings	-5,538 M	-2,468 M	-716 M	142 M	1,571 M
Other shareholders' equity	2,584 M	-1,075 M	956 M	1,549 M	-518 M
Total	**$69,470 M**	**$58,135 M**	**$21,386 M**	**$18,898 M**	**$16,786 M**
Total Liabilities And Equity	**$69,470 M**	**$58,135 M**	**$21,386 M**	**$18,898 M**	**$16,786 M**

Cash Flow Statements

Quarterly | Annual

Go To: Cash Flow

(Values in U.S. Millions)

Next

	12-2018	12-2017	12-2016	12-2015	12-2014
Cash Flows From Operating Activities					
Depreciation Amortization	3,246 M	3,163 M	2,240 M	2,024 M	1,577 M
Income taxes - deferred	-148 M	-2,877 M	43 M	7 M	587 M
Accounts receivable	911 M	-759 M	-444 M	766 M	-267 M
Accounts payable and accrued liabilities	-151 M	286 M	396 M	-1,454 M	-829 M
Other Working Capital	915 M	-412 M	-362 M	-688 M	-1,777 M
Other Operating Activity	5,729 M	7,183 M	3,338 M	3,916 M	3,256 M
Operating Cash Flow	**$10,502 M**	**$6,584 M**	**$5,211 M**	**$4,571 M**	**$2,547 M**
Cash Flows From Investing Activities					
PPE Investments	N/A	N/A	-5,128 M	-7,273 M	-10,524 M
Net Acquisitions	0 M	100 M	-645 M	-106 M	-394 M
Purchase Of Investment	-1,312 M	-4,190 M	-467 M	-622 M	-854 M
Sale Of Investment	N/A	683 M	N/A	N/A	N/A
Purchase Sale Intangibles	-540 M	-789 M	-127 M	-101 M	-208 M
Other Investing Activity	-1,165 M	-6,806 M	1,175 M	169 M	89 M
Investing Cash Flow	**$-3,017 M**	**$-11,002 M**	**$-5,192 M**	**$-7,933 M**	**$-11,891 M**

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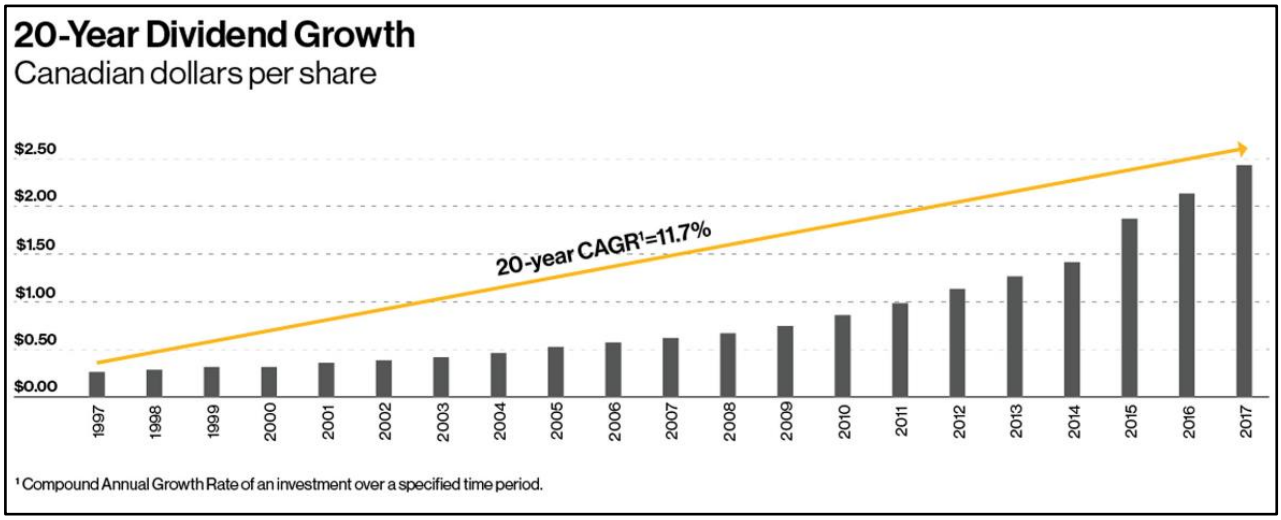
Cash Flows From Financing Activities					
Change In Short Term Borrowing	-420 M	721 M	14 M	-588 M	734 M
Debt Issued	3,537 M	9,483 M	4,080 M	5,274 M	11,133 M
Debt Repayment	-6,701 M	-6,303 M	-4,243 M	-1,023 M	-2,867 M
Common Stock Issued	21 M	1,549 M	2,260 M	57 M	478 M
Dividend Paid	-3,844 M	-3,080 M	-1,443 M	-1,238 M	-994 M
Other Financing Activity	-96 M	1,106 M	434 M	491 M	1,286 M
Financing Cash Flow	**$-7,503 M**	**$3,476 M**	**$1,102 M**	**$2,973 M**	**$9,770 M**
Exchange Rate Effect	68 M	-72 M	-19 M	143 M	59 M
Beginning Cash Position	587 M	1,494 M	1,015 M	1,261 M	776 M
End Cash Position	637 M	480 M	2,117 M	1,015 M	1,261 M
Change In Cash	**$-18 M**	**$-942 M**	**$1,121 M**	**$-389 M**	**$426 M**
Free Cash Flow					
Operating Cash Flow	10,502 M	6,584 M	5,211 M	4,571 M	2,547 M
Capital Expenditure	-7,346 M	-8,864 M	-5,255 M	-7,374 M	-10,732 M
Free Cash Flow	3,156 M	-2,280 M	-44 M	-2,803 M	-8,185 M

Dividend History



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Enbridge Inc (TSX : ENB)						
Year	Declaration Date	Ex-Dividend Date	Record Date	Payable Date	Dividend $ Amount	
2019	11-Dec-18	14-Feb-19	15-Feb-19	1-Mar-19	$	0.74
2019 Total:					**$**	**0.74**
2018	2-Nov-18	14-Nov-18	15-Nov-18	1-Dec-18	$	0.67
2018	2-Aug-18	14-Aug-18	15-Aug-18	1-Sep-18	$	0.67
2018	24-Apr-18	14-May-18	15-May-18	1-Jun-18	$	0.67
2018	29-Nov-17	14-Feb-18	15-Feb-18	1-Mar-18	$	0.67
2018 Total:					**$**	**2.68**
2017	1-Nov-17	14-Nov-17	15-Nov-17	1-Dec-17	$	0.61
2017	2-Aug-17	11-Aug-17	15-Aug-17	1-Sep-17	$	0.61
2017	4-May-17	11-May-17	15-May-17	1-Jun-17	$	0.61
2017	5-Jan-17	13-Feb-17	15-Feb-17	1-Mar-17	$	0.58
2017 Total:					**$**	**2.41**
2016	1-Nov-16	10-Nov-16	15-Nov-16	1-Dec-16	$	0.53
2016	26-Jul-16	11-Aug-16	15-Aug-16	1-Sep-16	$	0.53
2016	22-Apr-16	12-May-16	16-May-16	1-Jun-16	$	0.53
2016	3-Dec-15	11-Feb-16	16-Feb-16	1-Mar-16	$	0.53
2016 Total:					**$**	**2.12**
2015	4-Nov-15	12-Nov-15	16-Nov-15	1-Dec-15	$	0.47
2015	28-Jul-15	12-Aug-15	14-Aug-15	1-Sep-15	$	0.47
2015	5-May-15	13-May-15	15-May-15	1-Jun-15	$	0.47
2015	3-Dec-14	11-Feb-15	16-Feb-15	1-Mar-15	$	0.47
2015 Total:					**$**	**1.86**

Common Share Dividend Information

Enbridge Inc.: ENB

Common Share Dividends

	Q1/18	Q2/18	Q3/18	Q4/18	Q1/19
Dividend	$0.671	$0.671	$0.671	$0.671	$0.738
Payment Date	Mar. 1	Jun. 1	Sept. 1	Dec. 1	Mar. 1
Record Date[1]	Feb. 15	May 15	Aug. 15	Nov. 15	Feb. 15

[1] Dividend Record Dates for Common Shares are generally February 15, May 15, August 15 and November 15 in each year, unless the 15th falls on a Saturday or Sunday.

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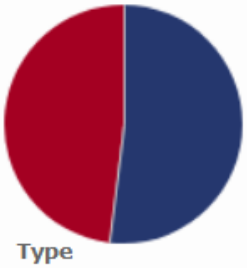
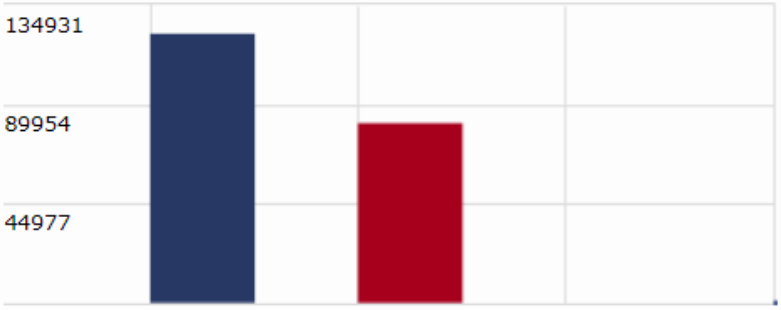
SHAREHOLDER STRUCTURE:

Equity And Debt



Type	Mil CAD
Equity	69,470.00
Debt	64,610.00

Equity Ownership



Type	Mil CAD
Institutions	122,663.97
Mutual Funds	81,810.55

Major Shareholders ENB

Funds | Institutions

Name	Shares Held	% Total Shares Held	Shares Change	% Chg from Prior Port	% Total Assets	Date of Portfolio
American Funds Washington Mutual Fund	47,035,100	2.32	-1,651,400	-3.39	1.51	31/03/2019
Vanguard Total Intl Stock Idx Fund	31,058,943	1.54	364,890	1.19	0.3	31/03/2019
American Funds Fundamental Invs	29,884,093	1.48	2,373,594	8.63	1.1	31/03/2019
American Funds Income Fund of Amer	27,350,745	1.35	1,645,000	6.40	0.92	31/03/2019
RBC Canadian Dividend Fund	19,757,989	0.98	0	0.00	4.94	31/12/2018
American Funds American Balanced Fund	18,982,837	0.94	1	0.00	0.49	31/03/2019
American Funds New Perspective Fund	18,259,699	0.90	0	0.00	0.77	31/03/2019
American Funds American Mutual Fund	15,422,274	0.76	753,524	5.14	0.98	31/12/2018
American Funds Europacific Growth Fd	13,269,930	0.66	0	0.00	0.31	31/03/2019
American Funds Capital Income Bldr	12,670,641	0.63	-2,744,082	-17.80	0.44	31/03/2019

Major Shareholders ENB

Funds | **Institutions**

Name	Shares Held	% Total Shares Held	Shares Change	% Chg from Prior Port	% Total Assets	Date of Portfolio
Capital Research and Management Company	216,826,659	10.72	-6,368,150	-2.85	18.52	31/03/2019
Royal Bank of Canada	114,753,287	5.67	10,241,511	9.80	1.71	31/12/2018
Capital Research & Mgmt Co - Division 3	106,873,629	5.28	5,859,396	5.80	1.66	31/12/2018
Capital World Investors	100,601,333	4.97	833,922	0.84	0.85	31/12/2018
Vanguard Group Inc	59,258,097	2.93	10,541,558	21.64	0.08	31/12/2018
RBC Global Asset Management Inc.	49,446,476	2.44	-334,826	-0.67	0	31/03/2019
TD Asset Management Inc	44,948,053	2.22	1,777,466	4.12	2.43	31/12/2018
Caisse De Depot Et Placement Du Quebec	44,312,118	2.19	-4,446,300	-9.12	3.77	31/12/2018
Bank of Montreal	40,991,140	2.03	1,168,124	2.93	1.2	31/12/2018
BMO Asset Management Inc	40,620,690	2.01	1,648,896	4.23	2.12	31/12/2018

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Update:

INCOME STATEMENT (Quarterly Report)

	Dec 18	Sep 18	Jun 18	Mar 18	Dec 17
Total Revenue	11,562	11,345	10,745	12,726	12,889
Operating Revenue	11,562	11,345	10,745	12,726	12,889
Gross Profit	3,404	3,529	3,217	3,581	3,262
Total Expenses	10,021	9,468	9,164	10,786	11,285
Cost Of Revenue	8,158	7,816	7,528	9,145	9,627
Operating Expense	1,863	1,652	1,636	1,641	1,658
Selling General And Administration	1,863	1,652	1,636	1,641	1,658
Depreciation Amortization Depletion	—	—	—	—	—
Special Income Charges	-74	-1,023	-10	-1,062	-4,549
Operating Income	1,541	1,877	1,581	1,940	1,604

Challenges:

Pipeline expansions – political challenges created by Native & Environmental organizations.

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SUMMARY

Business Analysis

- Position in
  - Domestic Economy: Critical
  - Global Economy > USA: Critical
- Rank in
  - Market Capitalization: within top 10
  - Revenues: within top 20
  - Profits: Within top 20
- Analysts Report / Peer Analysis
  - Largest Mkt Capitalization
  - Ranked with top score by Thomson Reuters
  - Reviewed by 20 analysts
  - Analysts Rating: Strong BUY
- Credit Rating
  - Outlook: Positive/Stable
  - Unsecured Debt: BBB/Baa
  - Pref. Shares: Average

Financial Analysis

- P&L Statement (3 yrs. To 2018)
  - Consistent Revenues
  - Consistent Operating Revenues
  - Consistent increasing Operating Income
  - Positive Net Income
- Cash Flow Statement (3 yrs. To 2018)
  - Positive Operating Cash Flow
  - Negative Investing Cash Flow
  - 2018 Negative Financing Cash Flow
  - Positive Cash Position for 3 yrs.
- Balance Sheet (3 yrs. To 2018)
  - Total assets exceeds total liabilities in all 3 yrs.
  - Shareholders' Equity: Steady increases
  - Equity Ownership: Major Banks & Mutual Funds
- Dividend History (3 yrs. To 2018)
  - 20 year track record
  - 2018: $ 2.68 per share; 2019 (forecast): $ 2.96

Conclusion: add to Portfolio

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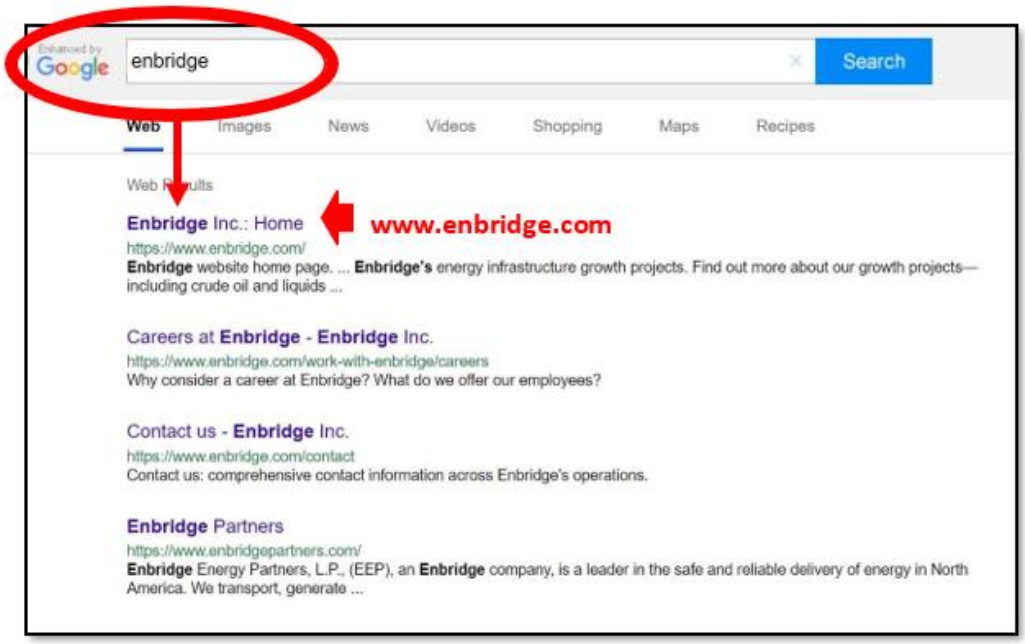
APPENDIX

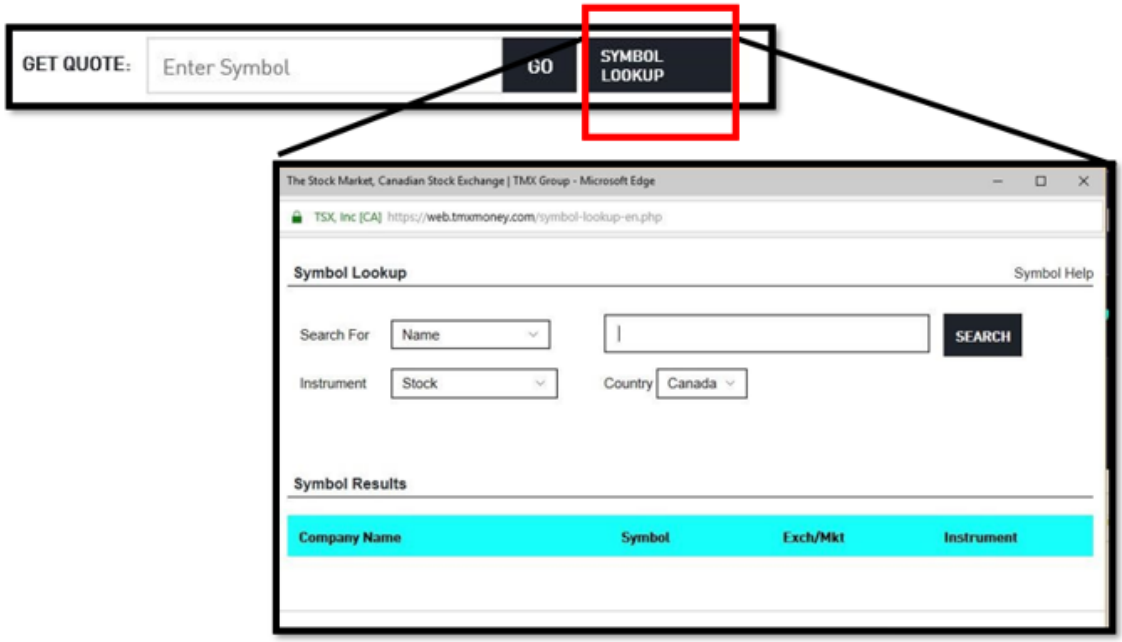
HOW TO OBTAIN ANNUAL REPORTS

If you know the company's name (e.g. Enbridge Inc) but do not know its stock symbol, you can do one of the following:

Google > Enbridge



OR www.tmxmoney.com



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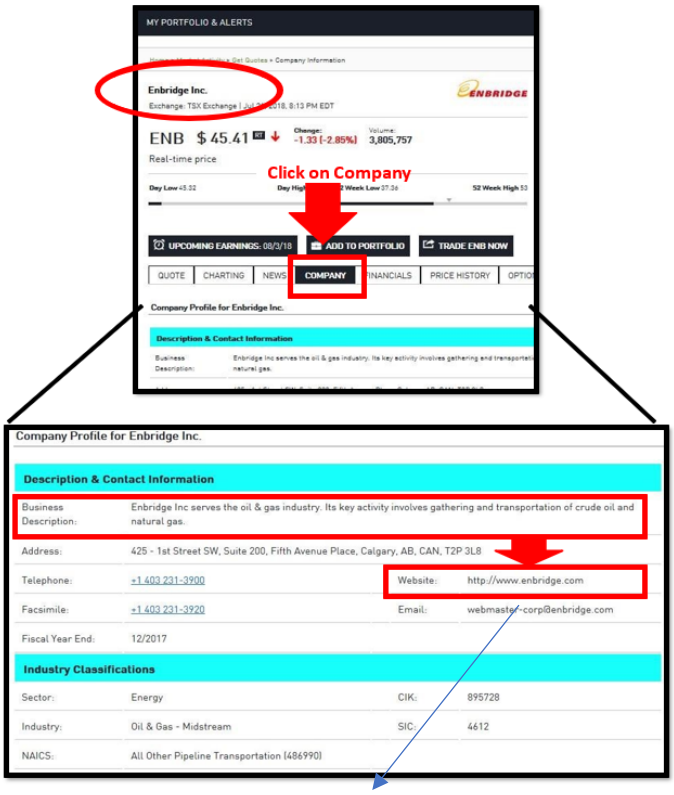
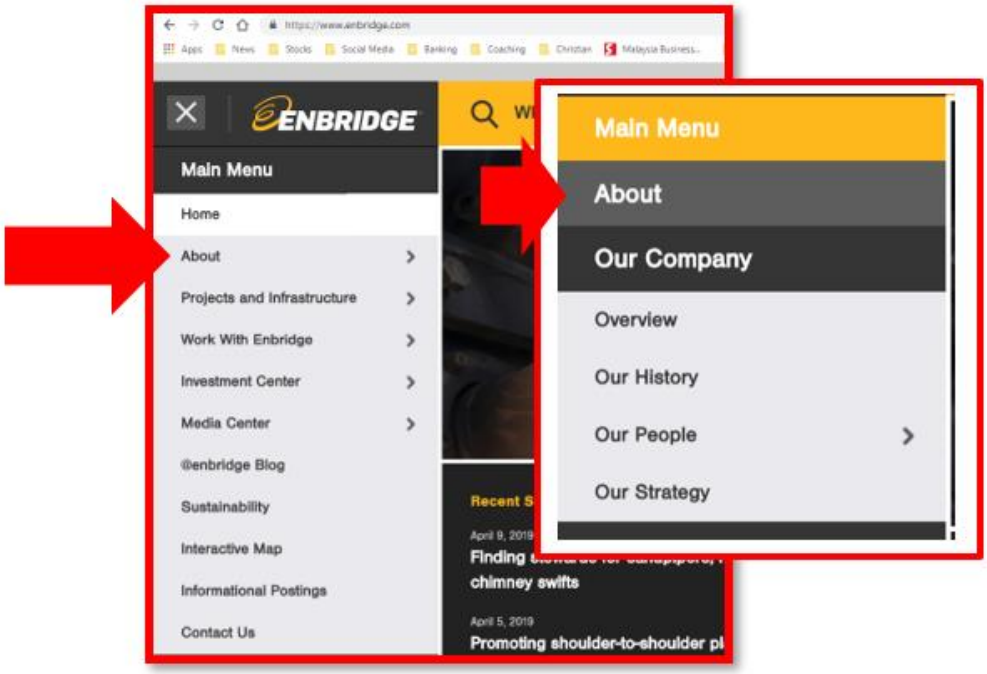
EXAMPLE: ENBRIDGE INC (ENB)

What is ENB's business?



To know more about the company: www.enbridge.com



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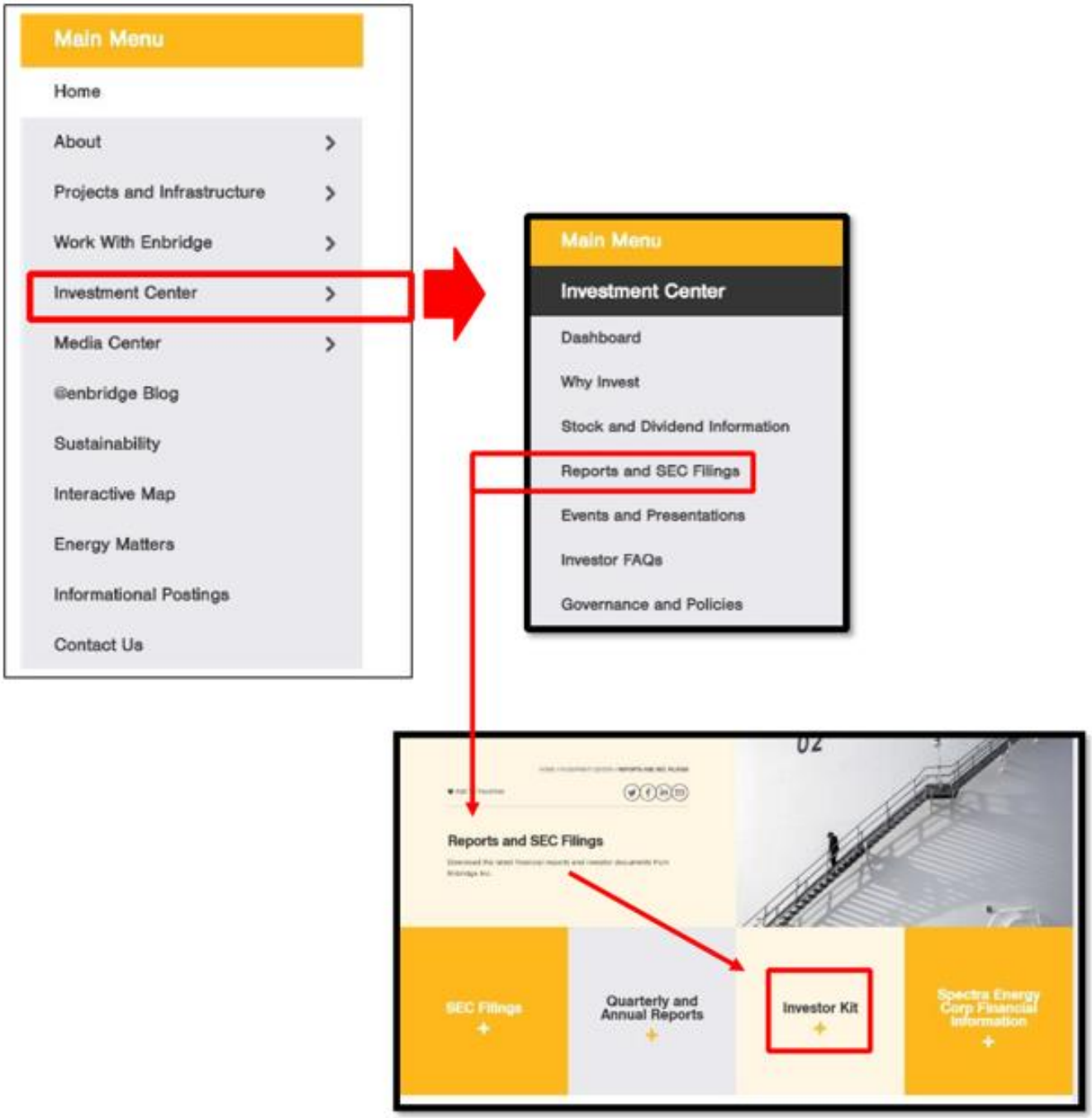
To order hard copies of the company's Annual Reports



Add To Favorites

"How do I receive a printed copy of your Annual Review?"

Our Answer

Anthony asked this question on April 20, 2017.

Hi Anthony,

You can request a paper copy of the Enbridge Inc. 2016 Annual Review, or the full 2016 Annual Report, by visiting the Investor Kit page on our website, and choosing the Paper Copies button at the bottom of the page.

Alternatively, you can request electronic versions of our 2016 Annual Review, 2016 Annual Report and other investor documents—either via PDF download or e-mail delivery—at the same webpage.

Choose how you would like to receive your materials:

PDF DOWNLOAD | EMAIL + | PAPER COPIES +

Add To Favorites

Investor Kit

Enbridge is continually seeking ways to reduce our environmental footprint. That's why we make all of our shareholder documents available electronically. Paper copies are available upon request.

2018 First Quarter Report

2018 First Quarter Report (2.7 MB) PDF

2018 Q1 Supplemental Package

2018 Q1 Supplemental Package (438 KB) PDF

Notice of 2018 Annual Meeting and Management Information Circular

Notice of 2018 Annual Meeting and Management Information Circular (4.5 MB) PDF

2017 Annual Report

2017 Annual Report (14.1 MB) PDF

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USING TMX MONEY TO SOURCE FINANCIAL DATA (AN ALTERNATIVE)

Source: www.tmxmoney.com > ENB > Financials

Income Statement ; Cash Flow & Balance Sheet Data

For detail explanation of the figures, the annual report provides the answers.

INCOME STATEMENT (Annual Report)

	Dec 18	2018	2017	2016	2015	2014
		millions				
Total Revenue	46,378	44,378	34,560	33,794	37,641
Operating Revenue	46,378	44,378	34,560	33,794	37,641
Gross Profit	13,731	12,578	8,315	6,529	6,581
Total Expenses	39,439	38,242	30,602	31,490	34,438
Cost Of Revenue	32,647	31,800	26,245	27,265	31,060
Operating Expense	6,792	6,442	4,357	4,225	3,378
Selling General And Administration	6,792	6,442	4,360	4,248	3,281
Depreciation Amortization Depletion	—	—	—	—	—
Special Income Charges	-2,169	-4,549	-528	-346	38
Other Operating Expenses	—	—	-3	-23	97
Operating Income	6,939	6,136	3,958	2,304	3,203
Net Non Operating Interest Income Expense	-2,703	-2,556	-1,564	-1,600	-1,106
Interest Income Non Operating	—	—	26	24	23
Interest Expense Non Operating	2,834	2,826	1,590	1,624	1,080
Other Income Expense	-666	-3,011	57	-693	76
Gain On Sale Of	-46	16	848	94	38
Gain On Sale Of Security	-522	237	128	-844	-358
Earnings From Equity Interest	1,509	1,102	428	475	368
Pretax Income	3,570	569	2,451	11	2,173
Tax Provision	237	-2,697	142	170	611
Net Income Common Stockholders	2,515	2,529	1,776	-37	1,154
Net Income	2,882	2,859	2,069	251	1,405
Preferred Stock Dividends	367	330	293	288	251
Interest Income	—	—	26	24	23
Interest Expense	2,834	2,826	1,590	1,624	1,080
Net Interest Income	-2,703	-2,556	-1,564	-1,600	-1,106
Net Income From Continuing And Discontinued Operation	2,882	2,859	2,069	251	1,405
Normalized Income	5,394.35	6,028.32	2,445.83	1,125.65	1,589.02
EBIT	6,404	3,395	4,041	1,635	3,253
EBITDA	9,650	6,558	6,281	3,659	4,830
Basic	1.46	1.66	1.95	-0.04	1.39
Basic Continuous Operations	1.46	1.66	1.95	-0.04	1.34
Basic Discontinuous Operations	—	—	—	—	0.05
Diluted	1.46	1.65	1.93	-0.04	1.37
Diluted Continuous Operations	1.46	1.65	1.93	-0.04	1.32
Diluted Discontinuous Operations	—	—	—	—	0.05
Continuing And Discontinued Basic	1.46	1.66	1.95	-0.04	1.39
Continuing And Discontinued Diluted	1.46	1.65	1.93	-0.04	1.37
Dividend Per Share	2.68	2.41	2.12	1.86	1.40

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CASH FLOW STATEMENT (Annual Report)

	Dec 18	Dec 17	Dec 16	Dec 15	Dec 14
Operating Cash Flow	10,502	6,584	5,211	4,571	2,547
Cash From Discontinued Operating Activities	—	—	—	—	19
Investing Cash Flow	-3,017	-11,002	-5,192	-7,933	-11,891
Cash From Discontinued Investing Activities	—	—	—	—	4
Financing Cash Flow	-7,503	3,476	1,102	2,973	9,770
Cash From Discontinued Operating Activities	—	—	—	—	19
Cash From Discontinued Investing Activities	—	—	—	—	4
End Cash Position	637	480	2,117	1,015	1,261
Changes In Cash	-18	-942	1,121	-389	426
Effect Of Exchange Rate Changes	68	-72	-19	143	59
Beginning Cash Position	587	1,494	1,015	1,261	776
Issuance Of Capital Stock	21	2,038	2,997	57	1,843
Issuance Of Debt	3,537	9,483	4,080	5,274	11,133
Repayment Of Debt	-6,701	-6,303	-4,243	-1,023	-2,867
Income Tax Paid Supplemental Data	277	172	194	80	9
Interest Paid Supplemental Data	2,508	2,668	1,820	1,835	1,435

BALANCE SHEET (Annual Report)

	Dec 18	Dec 17	Dec 16	Dec 15	Dec 14
Total Assets	166,905	162,093	85,209	84,515	72,857
Current Assets	8,572	9,215	7,787	7,597	8,201
Total Non Current Assets	158,333	152,878	77,422	76,918	64,656
Current Liabilities	14,855	14,624	12,343	10,814	9,501
Total Non Current Liabilities Net Minority Interes	—	—	—	—	—
Stockholders Equity	69,470	58,135	21,386	18,898	16,786
Minority Interest	3,965	7,597	577	1,300	2,015
Total Partnership Capital	—	—	—	—	—
Total Capitalization	129,797	119,000	57,880	58,289	50,209
Preferred Stock Equity	7,747	7,747	7,255	6,515	6,515
Total Liabilities	93,470	96,361	63,246	64,317	54,056
Total Non Current Liabilities	78,615	81,737	50,903	53,503	44,555

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DIVIDEND YIELD: DEFINITION AND TIPS

Dividend yield is an important factor in determining the true value of dividend stocks. This fact holds especially true when investors are seeking to derive dividend income from their investments.

WHAT IS DIVIDEND YIELD?

Dividend yield is an easy way to compare the relative attractiveness of various dividend-paying stocks. It tells an investor the yield he/she can expect by purchasing a stock. **Dividend yield is the relation between a stock's annual dividend payout and its current stock price.** Depending on how much a stock price moves during the day, the dividend yield is constantly changing as the price of the stock changes.

Most solid companies pay a quarterly dividend that is somewhat predictable to investors. These companies typically pay a regular quarterly dividend around the same times every year. Many of these companies raise their dividends once a year – finding themselves on 10-year dividend increasers and Dividend Aristocrat lists.

For a company that has a stock price that is trending upward, it will need to raise its dividend payout in order to maintain its dividend yield. For example, if a stock goes up by 50%, but does not raise its dividend, its yield will drop significantly.

HOW TO CALCULATE DIVIDEND YIELD?

To calculate dividend yield, use the dividend yield formula. This can be done by dividing the annual dividend by the current stock price:

$$Dividend\ Yield = \frac{Annual\ Dividend}{Current\ Stock\ Price}$$

For example, if stock XYZ had a share price of $50 and an annualized dividend of $1.00, its yield would be 2%.

$1.00 / $50 = .02

When the 0.02 is put into percentage terms, it would make a 2% yield.

If this share price rose to $60, but the dividend payout was not increased, its yield would fall to 1.66%.

Remember: The dividend yield is calculated using the annual yield (every **regular** payout paid that year). It is not calculated by using quarterly, semiannual or monthly payouts.

Beware: High-yield dividend stocks can be a trap!

An investor desiring to put together a portfolio that generates high dividend income should place great scrutiny on a company's dividend payment history. Only those corporations with a continuous record of steadily increasing dividends over the past 20 years or longer should be considered for inclusion. Furthermore, the investor should be convinced the company can continue to generate the cash flow necessary to make the dividend payments.

If you look at the subprime mortgage mess from 2007-2009, companies were sometimes showing yields in the 10%-20% range, but that was only because the stock price had been hit hard, which resulted in a higher dividend yield. So, be careful when you are excited about jumping into a stock, just because the yield may be high.

When analyzing a high yield dividend stock, it is always important to determine why the stock's yield is so high. There are two reasons why a stock may have an above average yield.

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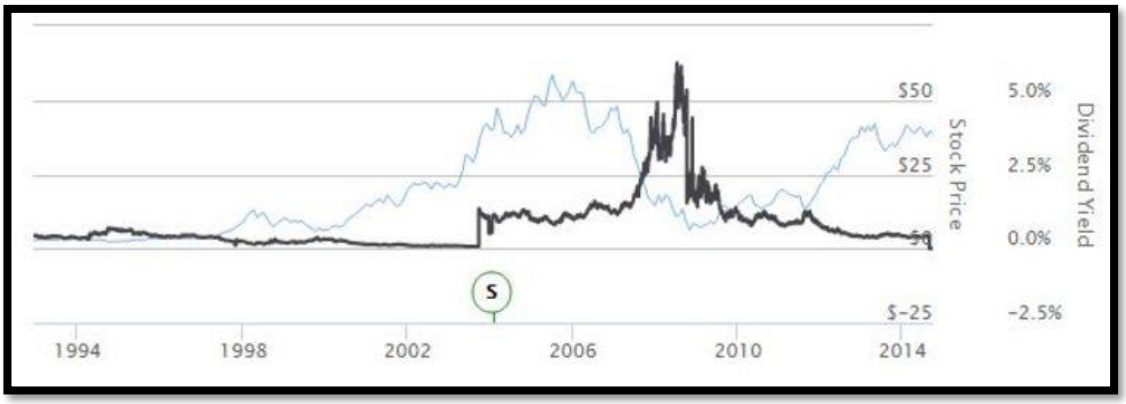
1. The stock price has taken a hit

When a stock price declines and the dividend payout remains the same, the dividend yield will increase. For example, if stock XYZ was originally $50 with a $1.00 annual dividend, its dividend yield would be 2%. If that stock's share price fell to $20 and the $1.00 dividend payout was maintained, its new yield would be 5%. While this 5% dividend yield may be attractive to some dividend investors, this is a value trap.

It is always important for investors to understand why a stock's yield is abnormally high. A company that has a stock price that has fallen from $50 to $20 is probably struggling and should not be considered a solid investment.

An example of this situation is the home builder stocks during the 2008-2009 financial crisis. The chart below shows an inflated dividend yield for Lennar (LEN) during the financial crisis. The blue line shows the company's falling stock price while the black line shows its rising dividend yield.



2. Is It a REIT or an MLP?

Real Estate Investment Trusts and Master Limited Partnerships are very popular among dividend investors as they tend to offer much higher dividend yields than stocks. These companies tend to offer high dividends since they are required to distribute at least 90% of earnings to shareholders in the form of dividends. These companies do not pay regular income tax on a corporate level, instead the tax burden is passed down to the investor.

DIVIDEND-FRIENDLY INDUSTRIES

Investors should also keep dividend-friendly industries in mind. Below are five of the best industries for dividends:

- REITs
- MLPs
- Tobacco
- Telecommunications
- Utilities

DIVIDEND YIELD: KEY LESSONS

- Dividend yield is an important consideration for investors, since it represents the annualized return a stock pays out in the form of dividends.
- Investors looking for income from dividend stocks should concentrate on stocks that have at least a 3% dividend yield.
- Investors should also consider the traps mentioned above to avoid unnecessary risk.

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- Most stocks with a dividend yield of 10% or higher are very risky, since a dividend cut is likely in store.

DIVIDEND DATES EXPLAINED

When investing in dividend stocks, there are a few important dates to keep in mind. These dates will tell an investor when they will receive the dividends and whether or not they are eligible to receive the latest dividend.

WHAT DOES THE EX-DIVIDEND DATE MEAN?

The **ex-dividend date** is the day on which all shares bought and sold no longer come attached with the right to be paid the most recently declared dividend. This is an important date for any company that has many stockholders, including those that trade on exchanges, as it makes reconciliation of who is to be paid the dividend easier. It is just as important for investors, however, since **you must own a stock before the ex-dividend date in order to receive the next scheduled dividend**.

Prior to this date, the stock is said to be cum dividend ("with dividend"): existing holders of the stock and anyone who buys it will receive the dividend, whereas any holders selling the stock lose their right to the dividend. On and after this date the stock becomes ex dividend ("without dividend"): existing holders of the stock will receive the dividend even if they now sell the stock, whereas anyone who now buys the stock now will not receive the dividend.

A NOTE ON DIVIDEND "CAPTURE"

It is standard practice for a stock's price to decrease on the ex-dividend date by an amount roughly equal to the dividend paid. This reflects the decrease in the company's assets resulting from the declaration of the dividend, and **prevents people from "gaming" the dividend system**. The company does not take any explicit action to adjust its stock price; in an efficient market, buyers and sellers will automatically price this in.

One investing strategy, called **"dividend capture,"** refers to an attempt to collect the dividend and immediately sell the stock. In a strong bull market, where stock prices are consistently climbing, this strategy can work very well. Otherwise, it is **extremely difficult to time** and can actually result in the investor losing money more often than not. To be clear, it is not a strategy we advocate here.

WHAT DOES THE RECORD DATE MEAN?

Shareholders who properly registered their ownership on or before the **record date** (or "date of record") will receive the dividend. Shareholders who are not registered as of this date will not receive the dividend. Registration in most countries is essentially automatic for shares purchased before the ex-dividend date.

WHAT DOES THE PAYMENT DATE MEAN?

The **payment date** (or "pay date") is the day when the dividend checks will actually be mailed to the shareholders of a company or credited to brokerage accounts.

WHAT DOES THE DECLARATION DATE MEAN?

The **declaration date** is the day on which a company's board of directors announces its next dividend payment. Also known as the "announcement date," this is the least important date for dividend investors to consider.

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DIVIDEND DATE: KEY LESSONS

- **The ex-dividend date is the most important date in dividend investing, since it determines who and who is not eligible to receive the dividend.**
- **You must own a stock before the ex-dividend date to receive the next scheduled dividend.**
- **Stock markets have safeguards in place to ensure no one can "game" the dividend system by buying a stock before the ex-date then selling it immediately on the ex-date.**

RATIO ANALYSIS DEFINITION

WHAT IS RATIO ANALYSIS?

Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by comparing information contained in its financial statements. Ratio analysis is a cornerstone of fundamental analysis.

Outside analysts use several types of ratios to assess companies, while corporate insiders rely on them less because of their access to more detailed operational data about a company.

WHAT DOES RATIO ANALYSIS TELL YOU?

When investors and analysts talk about fundamental or quantitative analysis, they are usually referring to ratio analysis. Ratio analysis involves evaluating the performance and financial health of a company by using data from the current and historical financial statements.

The data retrieved from the statements is used to compare a company's performance over time to assess whether the company is improving or deteriorating, to compare a company's financial standing with the industry average, or to compare a company to one or more other companies operating in its sector to see how the company stacks up.

Ratio analysis can be used to establish a trend line for one company's results over a large number of financial reporting periods. This can highlight company changes that would not be evident if looking at a given ratio that represents just one point in time.

Comparing a company to its peers or its industry averages is another useful application for ratio analysis. Calculating one ratio for competitors in a given industry and comparing across the set of companies can reveal both positive and negative information.

Since companies in the same industry typically have similar capital structures and investment in fixed assets, their ratios should be substantially the same. Different ratio results could mean that one firm has a potential issue and is underperforming the competition, but they could also mean that a certain company is much better at generating profits than its peers. Many analysts use ratios to review sectors, looking for the most and least valuable companies in the group.

RATIO ANALYSIS: KEY TAKEAWAYS

- Ratio analysis compares line-item data from a company's financial statements to reveal insights regarding profitability, liquidity, operational efficiency, and solvency.
- Ratio analysis can be used to look at trends over time for one company or to compare companies within an industry or sector.

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- While ratios offer several types of insight, other types of information and analysis are usually needed to form a complete picture of a company's financial position.

EXAMPLES OF RATIO ANALYSIS CATEGORIES

Most investors are familiar with a few key ratios, particularly the ones that are relatively easy to calculate and interpret. Some of these ratios include the current ratio, return on equity (ROE), the debt-equity (D/E) ratio, the dividend payout ratio, and the price/earnings (P/E) ratio. While there are numerous financial ratios, they can be categorized into six main groups based on the type of analysis they provide.

- ☐ Liquidity ratios measure a company's ability to pay off its short-term debts as they come due using the company's current or quick assets. Liquidity ratios include the current ratio, quick ratio, and working capital ratio.
- ☐ Solvency Ratios: Also called financial leverage ratios, solvency ratios compare a company's debt levels with its assets, equity, and earnings to evaluate whether a company can stay afloat in the long-term by paying its long-term debt and interest on the debt. Examples of solvency ratios include debt-equity ratio, debt-assets ratio, and interest coverage ratio.
- ☐ Profitability Ratios: These ratios show how well a company can generate profits from its operations. Profit margin, return on assets, return on equity, return on capital employed, and gross margin ratio are all examples of profitability ratios.
- ☐ Efficiency Ratios: Also called activity ratios, efficiency ratios evaluate how well a company uses its assets and liabilities to generate sales and maximize profits. Key efficiency ratios are the asset turnover ratio, inventory turnover, and days' sales in inventory.
- ☐ Coverage Ratios: These ratios measure a company's ability to make the interest payments and other obligations associated with its debts. The times interest earned ratio and the debt-service coverage ratio are both examples of coverage ratios.

MARKET PROSPECT RATIOS

These are the most commonly used ratios in fundamental analysis and include dividend yield, P/E ratio, earnings per share, and dividend payout ratio. Investors use these ratios to determine what they may receive in earnings from their investments and to predict what the trend of a stock will be in the future.

For example, if the average P/E ratio of all companies in the S&P 500 index is 20, with the majority of companies having a P/E between 15 and 25, a stock with a P/E ratio of 7 would be considered undervalued, while one with a P/E of 50 would be considered overvalued. The former may trend upwards in the future, while the latter will trend downwards until it matches with its intrinsic value.

EXAMPLES OF RATIO ANALYSIS IN USE

Ratio analysis can provide an early warning of potential improvement or deterioration in a company’s financial situation or performance. Analysts engage in extensive number-crunching of the financial data in a company’s quarterly financial reports for any such hints.

Successful companies generally have solid ratios in all areas, and any hints of weakness in one area may spark a significant sell-off of the stock. Certain ratios are closely scrutinized because of their relevance to a certain sector, such as inventory turnover for the retail sector and days sales outstanding (DSOs) for technology companies.

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Using any ratio in any of the categories listed above should only be considered as a starting point. Further analysis using additional ratios and qualitative analysis should be incorporated to effectively analyze a company's overall financial position.

Ratios are usually only comparable across companies in the same sector, since an acceptable ratio in one industry may be regarded as too high to too low in another. For example, companies in sectors such as utilities typically have a high debt-equity ratio which is normal for its industry, while a similar ratio for a technology company may be regarded as unsustainably high.

RETURN ON EQUITY – ROE DEFINITION

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE could be thought of as the return on net assets.

ROE is considered a measure of how effectively management is using a company's assets to create profits. ROE is expressed as a percentage and can be calculated for any company if net income and equity are both positive numbers. Net income is calculated before dividends paid to common shareholders and after dividends to preferred shareholders and interest to lenders.

HOW TO CALCULATE RETURN ON EQUITY

Net income over the last full fiscal year, or trailing 12 months (TTM), is found on the income statement—a sum of financial activity over that period. Shareholders' equity comes from the balance sheet—a running balance of a company's entire history of changes in assets and liabilities. It is considered best practice to calculate ROE based on average equity over the period because of this mismatch between the two financial statements.

WHAT DOES RETURN ON EQUITY TELL YOU?

Return on equity (ROE) deemed good or bad will depend on what's normal for a stock's peers. For example, utilities will have a lot of assets and debt on the balance sheet compared to a relatively small amount of net income. A normal ROE in the utility sector could be 10% or less. A technology or retail firm with smaller balance sheet accounts relative to net income may have normal ROE levels of 18% or more.

A good rule of thumb is to target an ROE that is equal to or just above the average for the peer group. For example, assume a company, TechCo, has maintained a steady ROE of 18% over the last few years compared to the average of its peers, which was 15%. An investor could conclude that TechCo's management is above average at using the company's assets to create profits.

Relatively high or low ROE ratios will vary significantly from one industry group or sector to another. When used to evaluate one company to another similar company the comparison will be more meaningful. A common shortcut for investors to consider a return on equity near the long-term average of the S&P 500 (14%) as an acceptable ratio and anything less than 10% as poor.

ROE: KEY TAKEAWAYS

- Return on equity measures how effectively management is using a company's assets to create profits.
- A good or bad ROE will depend on what's normal for the industry or company peers.

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- As a shortcut, investors can consider a return on equity near the long-term average of the S&P 500 (14%) as an acceptable ratio and anything less than 10% as poor.

Example of How to Use Return on Equity

For example, imagine a company with an annual income of $1,800,000 and average shareholders' equity of $12,000,000. This company's ROE would be as follows:

- 15%, or $1,800,000 / $12,000,000 = 15%.

Consider Apple (NASDAQ: AAPL) – for the fiscal year ending Sept. 29, 2018, the company generated $59.5 billion in net come. At the end of the fiscal year, its shareholders' equity was $107.1 billion versus $134 billion at the beginning. Apple's return on equity, therefore, is 49.4%, or $59.5 billion / (($107.1 billion + $134 billion) / 2).

Compared to its peers, Apple has a very strong ROE. Amazon (NASDAQ: AMZN) has a return on equity of 27%, Microsoft (NASDAQ: MSFT) 23%, and Google (NASDAQ: GOOGL) 12%.

USING ROE TO ESTIMATE GROWTH RATES

Sustainable growth rates and dividend growth rates can be estimated using ROE assuming that the ratio is roughly in line or just above its peer group average. Although there may be some challenges, ROE can be a good starting place for developing future estimates of a stock's growth rate and the growth rate of its dividends. These two calculations are functions of each other and can be used to make an easier comparison between similar companies.

To estimate a company's future growth rate, multiply ROE by the company's retention ratio. The retention ratio is the percentage of net income that is "retained" or reinvested by the company to fund future growth.

Assume that there are two companies with an identical ROE and net income, but different retention ratios. The first company, DivCo, has a ROE of 15% and returns 30% of its net income to shareholders in a dividend, which means DivCo retains 70% of its net income. The second company, GrowthCo, also has an ROE of 15% but returns only 10% of its net income to shareholders for a retention ratio of 90%.

For DivCo, the growth rate is 10.5%, or ROE times the retention ratio, which is 15% times 70%. GrowthCo's growth rate is 13.5%, or 15% times 90%.

This analysis is referred to as the sustainable growth rate model. Investors can use this model to make estimates about the future and to identify stocks that may be risky because they are running ahead of their sustainable growth ability. A stock that is growing slower than its sustainable rate could be undervalued, or the market may be discounting risky signs from the company. In either case, a growth rate that is far above or below the sustainable rate warrants additional investigation.

This comparison seems to make GrowthCo look more attractive than DivCo, but it ignores the advantages of a higher dividend rate that may be favored by some investors. We can modify the calculation to make an estimate of the stock's dividend growth rate which may be more important to income investors.

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The dividend growth rate can be estimated by multiplying ROE by the payout ratio. The payout ratio is the percentage of net income that is returned to common shareholders through dividends. This formula gives us the sustainable dividend growth rate, which favors DivCo.

The DivCo dividend growth rate is 4.5%, or ROE times payout ratio, which is 15% times 30%. GrowthCo's dividend growth rate is 1.5%, or 15% times 10%. A stock that is growing its dividend far above or below the sustainable dividend growth rate may indicate risks that need to be investigated.

USING ROE TO IDENTIFY PROBLEMS

It is reasonable to wonder why an average or slightly above average ROE is good rather than an ROE that is double, triple, or even higher the average of their peer group. Aren't stocks with a very high ROE a better value?

Sometimes an extremely high ROE is a good thing if net income is extremely large compared to equity because a company's performance is so strong. However, more often an extremely high ROE is due to a small equity account compared to net income, which indicates risk.

The first potential issue with a high ROE could be inconsistent profits. Imagine a company, LossCo, that has been unprofitable for several years. Each year's losses are on the balance sheet in the equity portion as a "retained loss." The losses are a negative value and reduce shareholder equity. Assume that LossCo has had a windfall in the most recent year and has returned to profitability. The denominator in the ROE calculation is now very small after many years of losses which makes its ROE misleadingly high.

Second is excess debt. If a company has been borrowing aggressively, it can increase ROE because equity is equal to assets minus debt. The more debt a company borrows, the lower equity can fall. A common scenario that can cause this issue occurs when a company borrows large amounts of debt to buy back its own stock. This can inflate earnings per share (EPS), but it doesn't affect actual growth rates or performance.

Finally, there's negative net income and negative shareholder equity that can lead to an artificially high ROE. However, if a company has a net loss or negative shareholders' equity, ROE should not be calculated.

If shareholders' equity is negative, the most common issue is excessive debt or inconsistent profitability. However, there are exceptions to that rule for companies that are profitable and have been using cash flow to buy back their own shares. For many companies, this is an alternative to paying dividends and it can eventually reduce equity (buybacks are subtracted from equity) enough to turn the calculation negative.

In all cases, negative or extremely high ROE levels should be considered a warning sign worth investigating. In rare cases, a negative ROE ratio could be due to a cash flow supported share buyback program and excellent management, but this is the less likely outcome. In any case, a company with a negative ROE cannot be evaluated against other stocks with positive ROE ratios.

THE DIFFERENCE BETWEEN ROE AND RETURN ON INVESTED CAPITAL

While return on equity looks at how much in profit a company can generate relative to shareholders' equity, return on invested capital (ROIC) takes that calculation a couple steps further.

The purpose of ROIC is to figure out the amount of money after dividends a company makes based on all its sources of capital, which includes shareholders equity and debt. ROE looks at how well a company utilizes

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shareholder equity, while ROIC is meant to determine how well a company uses all its available capital to make money.

LIMITATIONS OF USING RETURN ON EQUITY

A high return on equity might not always be positive. An outsized ROE can be indicative of a number of issues—such as inconsistent profits or excessive debt. As well, a negative ROE, due to the company having a net loss or negative shareholders' equity, cannot be used to analyze the company. Nor can it be used to compare against companies with a positive ROE.

Calculating ROE

This is the basic formula for calculating ROE is:

$$ROE = \frac{NetIncome}{ShareholderEquity}$$

The net income is the bottom-line profit—before common-stock dividends are paid—reported on a firm's income statement. Free cash flow (FCF) is another form of profitability and can be used instead of net income.

Shareholder equity is assets minus liabilities on a firm's balance sheet and is the accounting value that's left for shareholders should a company settle its liabilities with its reported assets.

EARNINGS PER SHARE – EPS DEFINITION

What Is Earnings Per Share – EPS?

Earnings per share (EPS) is the portion of a company's profit allocated to each share of common stock. Earnings per share serve as an indicator of a company's profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution.

FORMULA:

$$\text{Earnings per share} = \frac{\text{Net income - preferred dividends}}{\text{End - of - period common shares outstanding}}$$

HOW TO CALCULATE EARNINGS PER SHARE

The earnings per share value is calculated as the net income (AKA profits or earnings) divided by the available shares. A more refined calculation adjusts the numerator and denominator for shares that could be created through options, convertible debt, or warrants. The numerator of the equation is also more relevant if it is adjusted for continuing operations.

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To calculate a company's EPS, the balance sheet and income statement are used to find the period-end number of common shares, dividends paid on preferred stock (if any), and the net income or earnings. It is more accurate to use a weighted average number of common shares over the reporting term because the number of shares can change over time.

Any stock dividends or splits that occur must be reflected in the calculation of the weighted average number of shares outstanding. Some data sources simplify the calculation by using the number of shares outstanding at the end of a period.

The calculation of EPS for three companies at the end of the 2017 fiscal year follows:

Company	Net Income	Preferred Dividends	Weighted Common Shares	Basic EPS
Ford	$7.6B	$0	3.98B	$7.6B/3.98 = $1.91
Bank of America	$18.23B	$1.61B	10.2B	($18.23 – $1.61)/10.2 = $1.63
NVIDIA	$3.05B	$0	.599B	3.05/.599 = $5.09

WHAT DOES THE EARNINGS PER SHARE TELL YOU

The earnings per share metric is one of the most important variables in determining a share's price. It is also a major component used to calculate the price-to-earnings (P/E) valuation ratio, where the *E* in P/E refers to EPS. By dividing a company's share price by its earnings per share, an investor can see the value of a stock in terms of how much the market is willing to pay for each dollar of earnings.

EPS is one of the many indicators you could use to pick stocks. If you have an interest in stock trading or investing, your next step is to choose a broker that works for your investment style. A useful source for this next step could be Investopedia's list of the best online stock brokers for stock trading.

Comparing EPS in absolute terms may not have much meaning to investors because ordinary shareholders do not have direct access to the earnings. Instead, investors will compare EPS with the share price of the stock to determine the value of earnings and how investors feel about future growth.

EPS: KEY TAKEAWAYS

- Earnings per share is a firm's profit divided by the number of common stock shares it has outstanding.
- EPS shows how much money a company makes for each share of its stock.
- A higher EPS indicates more value because investors will pay more for a firm with higher profits.
- EPS can be calculated in various ways, such as excluding extraordinary items or discontinued operations, or on a diluted basis.

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THE DIFFERENCE BETWEEN BASIC EPS AND DILUTED EPS

The formula used in the table above calculates the basic EPS of each of these select companies. Basic EPS does not factor in the dilutive effect of shares that could be issued by the company. When the capital structure of a company includes items such as stock options, warrants, restricted stock units (RSU), these investments—if exercised—could increase the total number of shares outstanding in the market.

To better illustrate the effects of additional securities on per-share earnings, companies also report the diluted EPS, which assumes that all shares that could be outstanding have been issued.

For example, the total number of shares that could be created and issued from NVIDIA's convertible instruments for the fiscal year ended in 2017 was 33 million. If this number is added to its total shares outstanding, its diluted weighted average shares outstanding will be 599 million + 33 million = 632 million shares. The company's diluted EPS is, therefore, $3.05B / 632 million = $4.82.

Sometimes an adjustment to the numerator is required when calculating a fully diluted EPS. For example, sometimes a lender will provide a loan that allows them to convert the debt into shares under certain conditions. The shares that would be created by the convertible debt should be included in the denominator of the diluted EPS calculation, but if that happened, then the company wouldn't have paid interest on the debt. In this case, the company or analyst will add the interest paid on convertible debt back into the numerator of the EPS calculation so the result is not distorted.

EXPANDING THE BASIC EPS FORMULA

Earnings per share can be distorted both intentionally and unintentionally by several factors. Analysts use variations of the basic EPS formula to avoid the most common ways that EPS may be inflated.

Earnings Per Share Excluding Extraordinary Items

Imagine a company that owns two factories that make cell phone screens. The land on which one of the factories sits has become very valuable as new developments have surrounded it over the last few years. The company's management team decides to sell the factory and build another one on less valuable land. This transaction creates a windfall profit for the firm.

While this land sale has created real profits for the company and its shareholders, it is considered an "extraordinary item" because there is no reason to believe the company can repeat that transaction in the future. Shareholders might be misled if the windfall is included in the numerator of the EPS equation, so it is excluded.

A similar argument could be made if a company had an unusual loss—maybe the factory burned down—which would have temporarily decreased EPS and should be excluded for the same reason. The calculation for EPS excluding extraordinary items is:

$$\text{EPS} = \frac{\text{Net Income - Pref.Div.}(+or-)\text{Extraordinary Items}}{\text{Weighted Average Common Shares}}$$

Earnings Per Share from Continuing Operations

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A company started the year with 500 stores and had an EPS of $5.00. However, assume that this company closed 100 stores over that period and ended the year with 400 stores. An analyst will want to know what the EPS was for just the 400 stores the company plans to continue with into the next period.

In this example, that could increase the EPS because the 100 closed stores were perhaps operating at a loss. By evaluating EPS from continuing operations, an analyst is better able to compare prior performance to current performance.

The calculation for EPS from continuing operations is:

$$\text{EPS} = \frac{\text{N.I. - Pref.Div.}(+or-)\text{Extra.Items}(+or-)\text{Discontinued Operations}}{\text{Weighted Average Common Shares}}$$

COMBINING EPS WITH OTHER MARKET INFORMATION

An important aspect of EPS that's often ignored is the capital that is required to generate the earnings (net income) in the calculation. Two companies could generate the same EPS, but one could do so with fewer net assets; that company would be more efficient at using its capital to generate income and, all other things being equal, would be a "better" company in terms of efficiency. A metric that can be used to identify companies that are more efficient is return on equity (ROE).

While EPS is widely used as a way to track a company's performance, shareholders do not have direct access to those profits. A portion of the earnings may be distributed as a dividend, but all or a portion of the EPS will be retained by the company. Shareholders, through their representatives on the board of directors, would have to change the portion of EPS that is distributed through dividends in order to access more of those profits.

Because shareholders can't access the EPS attributed to their shares, the connection between EPS and a share's price can be difficult to define. This is particularly true for companies that pay no dividend. For example, it is common for technology companies to disclose in their initial public offering documents that the company does not pay a dividend and has no plans to do so in the future. On the surface, it is difficult to explain why these shares would have any value to shareholders.

The actual notional value of EPS also seems to have a relatively indirect relationship with the share price. For example, the EPS for two stocks could be identical, but the share prices may be wildly different. For example, in October 2018, Southwestern Energy Company (SWN) earned $1.06 per share in diluted earnings from continuing operations, with a share price of $5.56. However, Mellanox Technologies (MLNX) had an EPS of $1.02 from continuing operations with a share price of $70.58. On the surface, it seems like SWN is the better deal because an investor is only paying $5.25 per dollar of earnings ($5.56 share price / $1.06 EPS = $5.25). Investors in MLNX are paying $69.20 per dollar of earnings ($70.58 share price / $1.02 EPS = $69.20). This ratio is also known as the earnings multiple or Price/Earnings (PE) ratio.

Although the comparison between MLNX and SWN is extreme, investors will generally find a comparison of EPS and share prices between industry groups to be difficult to compare. Stocks that are expected to grow (e.g., technology, retail, industrial) will have a larger price-to-EPS (PE) ratio than those that are not expected to grow (e.g., utilities, consumer staples).

Making a comparison of the PE ratio within an industry group can be helpful, though in unexpected ways. Although it seems like a stock that costs more relative to its EPS when compared to peers might be "overvalued," the opposite tends to be the rule. Investors are willing to pay more for a stock, regardless of its

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historical EPS, if it is expected to grow or outperform its peers. In a bull market, it is normal for the stocks with the highest PE ratios in a stock index to outperform the average of the other stocks in the index.

ADVANCED CLASS: The detailed version of RATIOS will be presented

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