Beat the Oil Price Crunch With Dividend Champion Enbridge Inc.

Description

Over the last month, Canadian investors have witnessed a massive sell-off of energy stocks as the price of crude continues to plunge, having recently slipped under $90 per barrel for the first time since April 2013. These softer crude prices can be attributed to growing U.S. light oil production, aggressive price cutting by the Saudis, and declining economic activity in China and the eurozone. I expect these factors to continue applying downward pressure to oil prices for some time, placing considerable pressure on a number of operators in the patch and driving energy stocks lower.

But there is one energy stock that is well positioned to weather this downturn and continue to unlock value for investors. It is Canada's largest provider of midstream services **Enbridge Inc.** (TSX: ENB)(NYSE: ENB). Let's take a closer look at why it is a valuable defensive hedge against lower crude prices.

1. Possesses an almost unassailable economic moat

Enbridge is the largest provider of petroleum transportation services in Canada, shipping over half of all the crude exported to the U.S. This dominant market position continues to provide it with solid earnings growth.

For the second quarter of 2014, earnings for liquids pipelines popped a healthy 38% compared to the same quarter in 2013, because of higher crude throughput generating increased tolls on its pipeline network. The key drivers of this increased throughput were greater crude production in the patch coupled with elevated demand from core U.S. Gulf coast refining markets.

More importantly, I expect this trend to continue even with softer crude prices and widening price differentials between Canadian crude blends and the WTI benchmark. This is because Canadian crude production is expected to grow at an annual rate of 4% between now and 2030. While overall global energy demand is expected to jump a healthy 25% for the same period. Softer crude prices will also force many oil producers to boost production as a means of filling the shortfall in earnings so as to meet cash flow targets and maintain dividend payments.

These factors, coupled with high barriers of entry including significant industry regulation, endow

Enbridge with a wide, multifaceted economic moat, which will protect its competitive advantage and future revenue growth for sometime yet.

2. Continues to boost pipeline capacity

A compelling aspect of Enbridge's business is that it continues to forge ahead with expanding its pipeline network. Already, for the second quarter it completed construction of the Seaway Twin pipeline between Cushing, Oklahoma, and Freeport, Texas, adding additional daily capacity of 850,000 barrels of crude. It also expects to complete the Flanagan South project by the end of 2014, adding another 600,000 barrels per day of heavy crude capacity to its network.

Enbridge has also received conditional approval for the vital Northern Gateway pipeline, which will connect the patch to Canada's west coast, providing access to increasingly important Asian energy markets.

There are also over another 20 projects in various stages of development and the company is targeting the addition of another 1.7 million barrels daily of pipeline capacity to be in place by the end of 2016.

The successful completion of these projects can only further cement Enbridge's dominant market position, fortify its economic moat, and boost earnings growth.

3. Strong dividend growth

The strength of Enbridge's business becomes clear when we take a closer look at the company's dividend history. Not only does it have a lengthy history of paying dividends going as far back as 1953, but it has hiked its dividend for the last 18 consecutive years.

This gives Enbridge a dividend yield of 2.6%, coupled with a sustainable 93% payout ratio. But most impressive is the dividend's compound annual growth rate of 10% since inception. This is almost triple the average annual inflation rate over the same period and a superior return than many other investments including cash and bonds.

When all of these attributes are taken into account, coupled with growing Canadian crude production and the current shortage of pipeline capacity, Enbridge's future earnings growth is virtually guaranteed. This will see further value unlocked for investors while they are rewarded through additional dividend hikes.

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mattdsmith