



3 Reasons to Buy and Hold Enbridge Inc. Forever

Description

“When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever.” — Warren Buffett

There is no secret to successful investing and the formula to success is quite simple. Investors should focus on companies with easily understood businesses possessing a wide economic moat and stable earnings growth. This thesis couldn't be even truer than in times of sustained macro-economic volatility and unsettled stock markets like we are experiencing now.

Companies which possess these attributes have the ability to reward loyal investors year after year despite the state of the economy and have done so for decades.

One company which stands out for all of these reasons is Canada's largest pipeline and midstream company **Enbridge Inc.** ([TSX: ENB](#))([NYSE: ENB](#)). Over the last decade, the strengths of Enbridge's business have seen its shares soar to new heights, appreciating by 323% over that period.

Enbridge's strengths can be distilled into a few key points.

First and most importantly, its business is almost impossible to replicate. It has the largest crude transportation pipeline network in Canada and provides the single largest conduit of Canadian crude into the vital U.S. market.

The cost of replicating this network is almost prohibitive for new entrants to the pipeline and midstream industry, and even if a new entrant had the required capital to do so, the regulatory hurdles are immense. These steep barriers to entry essentially prevent another company from coming along and building a rival business, protecting Enbridge's competitive advantage.

Second, Enbridge's business is almost recession-proof. Crude is an essential component of our daily lives. It is the key ingredient in a range of fuels that power the modern economy and is used in a wide range of manufacturing processes producing plastics, lubricants, and essential chemicals. Demand for the majority of these products is highly inelastic and continues regardless of the state of the economic cycle.

With pipelines being the most cost effective and safest means of transporting crude coupled with Canada's existing lack of pipeline capacity there is always demand for Enbridge's key service, the transportation of crude.

More importantly, Enbridge continues to expand both the capacity and reach of its pipeline network, giving operators in Canada's energy patch access to a range of refining markets in the U.S. and elsewhere. This continues to boost the volumes of oil and natural gas transported across Enbridge's network increasing the revenue it is able to generate through "clipping the ticket" on each barrel of crude and cubic foot of gas it transports.

These attributes not only protect Enbridge's earnings but ultimately guarantee the long-term growth of its earnings.

Third, Enbridge has a solid history of rewarding loyal shareholders.

Not only has it consistently paid a dividend since 1953, but it has hiked its annual dividend 43 times since then, including for the last 18 consecutive years since 1995.

Today Enbridge's dividend yields 2.7%, a far better return than many supposedly lower risk investments like cash and government treasuries. This is also marginally higher than the average dividend yield of the **S&P TSX Composite Index**.

However, the real test is how a company performs in difficult times.

Enbridge consistently has paid a dividend since 1953 through all of the ups and downs that have affected the Canadian and global economy over that period. This includes the oil shocks of the 1970s, the market crash of 1987, and even during the dark hours of the global financial crisis. In fact during the GFC, Enbridge hiked its dividend each and every year, when many companies were slashing theirs or ending dividend payments altogether.

Any company that can continue to reward shareholders through regular dividend hikes even during recessions is one that should attract the continued attention of investors.

Clearly Enbridge has a durable and sustainable business model, with stable earnings growth which will continue to reward investors for decades to come. This makes it a key buy and hold stock for every investor's portfolio.

CATEGORY

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2. Energy Stocks
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