Beat the Crude Price Crunch by Investing in Enbridge Inc. for 2015 and Beyond

Description

With crude plunging to new lows on the back of growing global supply and declining demand, the bloodshed in Canada's energy patch continues unabated. Not only are stock prices plummeting but a number of oil companies have had to slash their dividends as means of shoring up their balance sheets and preserving capital.

But even with growing speculation that significantly softer prices are here to stay, there is one company in the patch that stands out as a hedge against lower crude prices. This is Canada's largest provider of midstream and crude transportation services **Enbridge Inc.** (TSX: ENB)(NYSE: ENB).

Not only has Enbridge continued to deliver solid operating and financial results, but its share price has escaped the frenzied selloff that has driven many smaller oil companies' share prices to new lows. This now sees its share price up by a respectable 15% for the last year and the reasons for this can be distilled into a few key points.

First, Enbridge has built a substantial business that endows it with a wide, multi-faceted economic moat.

The size of Enbridge's crude transportation network now sees it as the leading provider of oil transportation and related services to the energy patch, as well as over half of all the Canadian crude exported to the U.S. More importantly, Enbridge continues to expand its pipeline network with 32 separate projects under development, which will add considerable capacity to its network. These projects are expected to be completed and come into service between now and 2017.

Enbridge is also focused on the development of the Northern Gateway pipeline, which will provide transportation capacity of 525,000 barrels of crude daily to Canada's west coast. This is an important development not only for Enbridge but the energy patch as a whole, providing access to the growing Pacific Rim and East Asian markets.

The size and breadth of Enbridge's crude transportation network along with the steep barriers to entry to the midstream energy industry in including significant regulatory hurdles, gives Enbridge a wide multi-faceted economic moat. This protects its competitive advantage and leaves it well positioned to further grow earnings over the long term, while weathering the current crude price crunch.

Second, Enbridge continues to grow its business and adapt its operating structure to the operating environment.

A key part of Enbridge's strengths is its focus on diversifying its business, which during the third quarter 2014 saw it acquire a $225 million interest in the Lac Alfred and Massif du Sud wind projects.

It also raised an additional $3 billion in funds for the same period in order to allow for its long-term financing needs, as well as continuing to execute its sponsored vehicle strategy. This saw it agree to transfer $1.8 billion in assets to the **Enbridge Income Fund Holdings Inc.** and $900 million in assets to **Enbridge Energy Partners L.P.**

These actions continue to unlock further value for Enbridge by providing it with a low cost source of funding for its growth program while maximizing the cash-generating capabilities of the assets transferred. This leaves Enbridge with considerable liquidity which at the end of the third quarter amounted to net available liquidity of $11.5 billion.

Finally, Enbridge continues to consistently reward loyal investors through a steadily appreciating dividend.

Earlier this month it announced a 33% dividend hike payable in March 2015, as well a policy of ensuring the dividend represents 75% to 85% of Enbridge's adjusted net earnings, enhancing the dividends sustainability. This is the twentieth straight year where Enbridge has hiked its dividend, giving its dividend since inception in 1953, an impressive 11% compound annual growth rate.

Such an extraordinary growth rate coupled with a dividend yield of now over 3% constitutes a tasty income stream, which will reward investors year in and year out despite the vagaries of crude prices.

For each of these reasons not only is Enbridge well positioned to continue growing, but it will weather the crude oil price crunch while continuing to reward investors for their loyalty and patience.

CATEGORY

1. Energy Stocks
2. Investing

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