



Afraid of Oil? Invest in Enbridge Inc.

Description

Investors have lost a lot of money on oil stocks these past few months. With the price dropping so ferociously, energy companies have been put in a very serious situation where they need to cut costs, but still pump enough oil to generate profits. It's a really bad place for oil producers to be.

But just because oil prices are depressed does not mean there's not a lot of money to be made investing in oil service businesses. These companies provide a specific type of service to the oil providers, such as transportation. One of those companies that I think you should consider investing in immediately is **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)).

Amazing business model

What makes Enbridge such a great buy even when oil prices are low is that it's a pipeline company. It makes money every time a barrel of oil flows through its pipes. Enbridge is sort of like a tollbooth. If you want to use the road — the pipeline — you need to pay the toll. It's this consistent fee that it charges that makes the business so great.

Naturally, people might question how Enbridge can remain profitable if oil companies are losing so much money. The reason is because it charges a flat fee for the oil rather than a percentage of the price of that oil. And, more importantly, it signed contracts with the oil companies when oil prices were really high. Therefore, it's getting a solid price per barrel and doesn't need to worry about price fluctuations.

This business model allows Enbridge to generate insane amounts of cash without worrying about competitors popping up. It's not easy to get a pipeline approved, as can be seen with Keystone XL.

Dividend

Because the business model is such an effective one, Enbridge has been able to pay a consistent dividend since 1953. On top of that, for the past 18 years, the company has increased the dividend.

At the end of 2014, Enbridge increased its dividend by 33%, which will go into effect March 2015. And this was while oil prices were continuing to drop, so clearly the company was bullish on its ability to continue generating significant cash flow. As of today, the company pays a 3.02% yield, which is a really great number. In March, that number is going to be even higher. And to be honest, I wouldn't be surprised if that goes even higher over the next few years.

Enbridge is a cash-generating, dividend-paying beast. It makes money even when oil prices are low and it rewards its investors for being a part of the experience. If you are looking for a company that won't disappoint your portfolio and will generate income, this is it.

However, if you really want to take your portfolio to the next level, you should consider adding a few more income-generating companies to it. There's no reason you should rely only on Enbridge to provide you with cash. There are plenty of companies that pay a mean dividend.

CATEGORY

1. Energy Stocks
2. Investing

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