Beat the Oil Rout With Enbridge Inc.

Description

The oil rout and ongoing uncertainty regarding the outlook for crude has triggered a sharp sell-off of energy stocks, making the energy patch unpopular with many investors. Despite this, some energy companies have shown themselves to be highly resilient to the impact of the collapse in oil prices, one of which is midstream services provider **Enbridge Inc.** (TSX:ENB)(NYSE:ENB).

Now what?

You see, unlike oil explorers and producers, Enbridge is not overly dependent on high oil prices to turn a healthy profit. This is because as the largest Canadian provider of crude transportation services it is an integral link between the energy patch and crucial U.S. refining markets.

By virtue of a number of characteristics of its business, Enbridge is highly resilient to downturns in the economic cycle and has been able to consistently grow earnings. The 2014 earnings grew by an impressive 1.6 times compared with 2013 and I expect such strong earnings growth to continue for three key reasons.

First, Enbridge possesses a wide multifaceted economic moat that protects its competitive advantage.

This is because the capital investment required to develop a pipeline network of the same depth and breadth as Enbridge's is prohibitive. Plus there are significant regulatory barriers to entering the midstream industry. You can see these regulatory barriers at work with the controversy surrounding **TransCanada Corporation's** troubled Keystone XL pipeline, as well as Enbridge's own Northern Gateway pipeline.

Second, Enbridge remains committed to growing its pipeline network and diversifying its business, having committed $44 billion to do so.

Enbridge will expand its liquids and natural gas transportation infrastructure and increase itsinvestment in power generation, as well as in power transmission. These are all defensive businessesand will help to boost earnings and the resilience of Enbridge's operations to downturns in theeconomic cycle.

Such a high level of investment will also cement its presence as the leading midstream services provider in Canada, allowing it to boost the volume and value of the tolls that it collects on the crude and natural gas it transports.

The diversification of its business will also diversify its earnings and reduce its dependence on the energy patch.

Finally, demand for additional crude and natural gas transportation over the long term will continue to grow.

The IEA expects worldwide demand for energy to grow by a third between now and 2035.

Canada's energy patch has also been coping with a lack of pipeline capacity for some time, and despite rail freight services stepping in to fill the gap, demand for pipeline transportation will continue to grow. This is because pipelines are a less risky and a more cost-effective means of transportation.

So what?

All of these characteristics not only bode well for Enbridge to continue growing earnings, but are reasons for its impressive dividend history. It has paid an annual dividend since 1953 and has hiked that dividend for the last twenty years straight. It now yields 2.9% and has an impressive compound annual growth rate of almost 11%, which is far higher than the average annual rate of inflation over that period.

Such an impressive dividend history, coupled with the resilient and defensive nature of its business, makes it a core holding in any portfolio.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:ENB (Enbridge Inc.)
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