



## Enbridge Inc. Continues to Perform Despite the Collapse in Oil Prices

### Description

The oil rout has hit the energy patch hard, but midstream giant **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) continues to go from strength to strength. Even with oil producers cutting investments in exploration and well development because of stubbornly low crude prices and declining output across North America, Enbridge continues to perform strongly.

### Now what?

Enbridge's business basically involves transporting, storing, and marketing oil and natural gas. It continues to demonstrate considerable resilience to the sharp downturn in oil prices. While it missed the consensus analyst forecast earnings for the first quarter 2015 by 7%, it still delivered a credible result considering the harsh operating environment, with adjusted net earnings of \$0.56 per share.

Despite the declining growth of oil production, throughput in Enbridge's liquids mainline remained strong, with it shipping 2.2 million barrels per day across the Canadian-U.S. border during the quarter. A stronger U.S. dollar against the loonie also helped Enbridge to post a solid financial performance after allowing for mark-to-market losses on its currency and commodities hedging program, which saw an unadjusted loss of \$383 million for the quarter.

These results illustrate the resilience of Enbridge's business, particularly its ability to deliver a solid operating performance despite low oil prices. This resilience can be explained by a range of factors, the most important being Enbridge's wide moat and steady demand for its transportation and storage services.

You see, Enbridge operates in a highly regulated industry that requires an immense capital investment to acquire the required pipeline and storage infrastructure to commence operations.

These characteristics, along with its dominant market position as the largest provider of pipeline transportation and midstream services in Canada, give Enbridge a wide economic moat and strong competitive advantage. This has allowed Enbridge maximize the value delivered by its "tollbooth" business model in order to smooth out earnings and virtually guarantee long-term growth.

I expect Enbridge to continue delivering solid operational performances.

It has embarked on an aggressive expansion program and will spend \$44 billion on expanding its oil infrastructure network. There are now 26 projects under development that are set to be completed between now and 2018. On completion they will increase the capacity of Enbridge's pipeline system, allowing it to boost the tolls it collects from transporting oil and natural gas.

In order to fund this program as cost effectively as possible Enbridge is using "asset drop downs," where it transfers assets to a subsidiary. The latest proposal is the sale of its Canadian Liquids Pipelines business and other assets to subsidiary **Enbridge Income Fund Holdings Inc.** (TSX:ENF) with a carrying value of \$17 billion. This will provide funding for its capital program and boost its income. Management estimates that after the transaction, Enbridge's dividend could be boosted by 10% in 2015 and again by that amount in 2016.

### So what?

Because Enbridge has an impressive history of hiking its dividend for the last twenty straight years, it is clear the company is a dividend champion with solid growth prospects that belongs in every portfolio. Not only is its business demonstrating its resilience to weak crude prices, but has solid long-term growth prospects particularly when oil rebounds.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

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2. TSX:ENB (Enbridge Inc.)

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### Author

mattdsmith

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