



Should Investors Buy Enbridge Inc. Despite the Oil Bear Market?

Description

Times have definitely been better for oil investors. Analysts are predicting that this could be one of the worst oil bear markets of all time. Iran might finally be able to start selling oil on the open market. Oil fields across North America are increasing oil production despite where the price is. All of this has resulted in the near-perfect storm where oil prices have effectively plummeted. The reality is, the demand for oil hasn't been as great as some analysts expected, which has created excess supply.

When things like this happen, many investors run for the hills. They worry about the entire sector and immediately give up on it rather than realizing there are wonderful opportunities if they just pay attention. Fortunately for those investors that are sitting on some cash, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) is the perfect investment. And because many investors have ditched the sector, shares down from a high of \$65 to its present price of approximately \$55.

The reason I like Enbridge is because it is a pipeline business. It generates its revenue on the transportation of oil rather than on the production of it. Therefore, what Enbridge has to be concerned with is getting the oil from point A to point B as expeditiously and safely as possible. The thing is, this business model makes Enbridge price agnostic. In other words, whether the price of oil is \$100/barrel or \$20/barrel, Enbridge is still in business.

The reason why has to do with the need to transport oil no matter what. Enbridge doesn't take a percentage of the value of oil; instead, it acts as a true toll booth. It takes a flat fee per barrel irrespective of price. Therefore, Enbridge is able to estimate pretty precisely how much revenue the company will bring in based simply on oil market demand.

Under normal circumstances, it would be rational to think that a lower oil price would be bad for Enbridge. If oil companies can't make money, they won't have oil to ship, which hurts Enbridge. However, as I stated above, there hasn't been a decrease in oil production. On the contrary, many companies are increasing productions with the goal of generating more revenue to offset the minimizing margins. Therefore, Enbridge should see even more business as these companies try to outlast the low price.

Buy Enbridge and be rewarded

The reality is, Enbridge is a great buy. It has been growing for years now and the company intends on a 10-12% compounded annual growth of earnings per share. Because of how well the company does with its earnings, it is able to project aggressive growth in its dividend. For 62 years, the company has paid dividends. And over the past 19 years, it has increased it. Things have been so good for Enbridge, the past decade has seen an average annual increase of 11-14%.

All told, if you were to buy Enbridge today, you'd be getting a 3.39% yield, which I find tremendously appealing. This stock is going to rebound from this dip. By purchasing shares now, you'll be rewarded for many years to come.

CATEGORY

1. Energy Stocks
2. Investing

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