Is Enbridge Inc. Taking on Too Much Risk?

Description

Enbridge Inc. (TSX:ENB)(NYSE:ENB) has one of the largest growth pipelines in the energy sector with the company expected to invest $38 billion through 2019. The company expects that these projects will drive strong double-digit earnings growth for years to come. Having said that, only $24 billion of its projects are fully secured commercial projects, which suggests that the company could be taking on a lot of risks if it builds everything in its pipeline.

If you build it they will come?

Overall, Enbridge has $14 billion in projects that are risky and not fully secured with customer contracts. In other words, if it moves forward with those projects, it is, in a sense, building them on the speculation that the customers will be there when the projects are complete. In other words, it's reading the market and projecting where demand will be in the future.

Building on speculation can be very lucrative if demand does indeed materialize as expected. However, if demand doesn't materialize due to a continuation of the oil market downturn or some other reason, this move could backfire. It's why CEO Al Monaco said the following at the company's recent investor day: "We have so many opportunities in front of us and a lot of them come with, let's just call it, a higher degree of risk."

Time is on its side

Having said that, none of those risky projects are scheduled to be in service until 2019 at the earliest. That does give Enbridge a lot of time to secure customers as well as to defer projects if conditions remain weak.

Further, it's also important to note that there are two forces at work that are fueling Enbridge's growth. First is the push to move oil and gas out of producing regions. That growth could be muted in the future because weaker prices could limit supply growth, especially from oil sands producers.

However, the other big dynamic at play is the pull of demand with consumers demanding more energy now that it’s cheaper.

This is one area that Enbridge sees a lot of potential; for example, in the U.S. Gulf Coast, Enbridge sees the potential to invest upwards of $5 billion to support that key oil refinery hub, which is being expanded to handle greater quantities of cheaper North American crude oil. This is leading to demand for pipelines, storage terminals, and other assets that Enbridge is hoping to build.

In other words, there’s a lot of potential for demand-driven energy infrastructure assets that could help offset some of the more supply driven projects that the company has historically built.

Investor takeaway

Ideally, Enbridge’s pipeline would consist only of commercially secured projects that would completely lock in future growth. While the company does indeed have its fair share of those projects, it also has a growing pipeline of projects that look compelling based on where demand trends are heading.

That’s why Enbridge is willing to take on a little more risk by keeping the door open on some of these projects, because these opportunities could really pay off if everything plays out the way the company expects.

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mdilallo