Should Investors Be Worried About Enbridge Inc.?

Description

Times have been very rough for the oil companies across Canada. However, as with any industry, the producer is only one of the many companies that touch the oil before it becomes a finished product that is actually used by consumers.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is an oil pipeline company that is responsible for getting the oil from the fields to the refineries. Naturally, investors are concerned about whether or not Enbridge can handle oil prices as depressed as they currently are. The question is, Are those concerns valid or is Enbridge all right?

It was announced on Monday that in an effort to stay competitive and keep costs down, the company was letting go 5% of its workforce, which is approximately 500 people, along with 100 unfilled jobs. “While Enbridge is more resilient to commodity price downturns than others, we’re not immune,” said Graham White, manager of business communications, in a statement.

White is right about the company’s resiliency. Unlike oil companies, which see profits rise and fall depending on what the price of oil is, Enbridge has contracts that stipulate how much money per barrel of oil is transported in the pipelines. Therefore, if the price of oil is $100 a barrel or $40 a barrel, the contract stipulates the cost. This means that Enbridge is able to, more or less, predict how much money it will bring in.

The best way to think about the business model is to compare it to a toll booth. If I drive through a toll booth, I have to pay a flat fee. It’s the same way with Enbridge. If a barrel of oil goes through the pipeline, Enbridge doesn’t think about how much profit the oil company is making; it thinks about the flat fee.

The future could hurt

But that doesn't mean that the company is immune forever. If oil prices stay low for long, there might come a point where oil companies are simply unable to afford the fees assessed by the pipelines. That would require the company to rethink its pricing, thus diminishing the margins that Enbridge has been able to generate.

Some investors have also grown concerned that the reduced margins could also result in the dividend being cut. And it's a logical discussion; however, I don't think that will happen. Consider that for the past 19 years, Enbridge has increased its dividend. Over the past decade, the dividend has increased by over 14% every year.

The good news for investors is that Enbridge is well run. The company has been in operation for decades, so it has experience dealing with the ebbs and flows of oil prices. I anticipate that the company will continue to make changes to ensure that it is able to keep investors satisfied and continue paying its dividend. Could the future hurt? Yes. But at the end of the day, companies still have to get oil from point A to point B.

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