Enbridge Inc. Is Looking Past the Oil Sands for Growth

Description

The steep drop in oil prices over the past year and a half has firmly put the brakes on investments in new oil sands projects. Because of that, the industry's growth is very questionable once its current slate of projects are complete.

This is a concern for pipeline company **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) because it relies on production growth from the region to fuel its own growth. That lack of visible growth on the horizon is one reason why Enbridge is looking past the oil sands to drive its growth in the years ahead.

Nearing the drop-off point

As it stands right now, Enbridge has plenty of projects to keep it busy in the short term. In fact, the company has $18 billion of projects with secured customers through 2019. That's largely because oil sands projects take a long time to build; the current slate of projects were given the green light long before oil prices started to slip.

This near-term growth is something that **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) CEO Steve Williams highlighted recently when he talked about the macro picture of the oil sands:

> …Canadian oil sands [production] will grow because there are major capital investments in flight that will be completed and it makes absolute sense to complete those for a couple of reasons. One, these are very long-life assets and we're viewing them over the life of the project. The other one from a pure execution point of view is this is a very productive time to be investing and to be spending that money because we are getting good productivity and very good quality results from the construction in the field as we speak.

In other words, producers such as Suncor (which is building the Fort Hills oil sands project) won't stop mid-construction. That's because these are very long-term-producing projects and costs have come down because of the downturn, making it cheaper to build these projects.

So, at least for the next few years, Enbridge's oil sands growth is safe because these projects will be completed, necessitating its new pipelines.

What’s next for Enbridge?

That said, beyond this current slate of projects, growth is a big question mark, which was something Suncor’s CEO readily admitted. Producers need oil in the $70-90 a barrel range in order to justify new investments, according to Williams. While he sees that happening eventually, the actual timing is anyone’s guess.

That leaves Enbridge in a tough spot because it needs to see these projects to be given the green light in order to project its own growth. Because of this lack of visibility, the head of Enbridge’s pipeline operations said the following:

> It is difficult to determine how and where producers will make decisions going forward, which is why when we look at our strategy it falls back to setting up an inventory of opportunities for Enbridge that aren’t reliant on the oil sands post 2019.

Instead of pipelines, the company is looking closely at power generation and energy services as potential areas to drive growth post-2019.

Enbridge is already starting to invest capital in both areas, though renewable power generation looks to be an important growth driver for the company. It is already one of the largest renewable energy companies in Canada with investments in 16 wind farms, four solar energy projects, five waste heat recovery facilities, and a geothermal project.

Given climate change worries as well as continued population growth and the expansion of the middle class, there should be an abundance of opportunities for Enbridge to invest in renewable energy projects across the globe.

Investor takeaway

While there’s plenty of near-term growth in the oil sands due to projects already under construction, the region’s longer-term visibility is clouded by the ultra-low oil price. Because of that, Enbridge is looking beyond the oil sands for growth with renewable energy potentially being a big growth driver in future years.

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