Buy Enbridge Inc. for Long-term Growth and a Juicy 4% Yield

Description

Since the sharp collapse in crude, oil stocks have fallen into disfavour with investors, particularly because many oil companies have been forced to slash expenditures and even eliminate their dividends.

There is, however, one energy company that has continues to perform well and is investing to expand its business. This company is pipeline and midstream services company **Enbridge Inc.** (TSX:ENB)(NYSE:ENB). The resilience of its business to the sustained weakness in crude and its ongoing investments in growing its core business are among the key reasons that it should be a core holding in every portfolio.

Now what?

One of Enbridge's core strengths is its dominant market position and wide economic moat. Enbridge is responsible for shipping over half of all the crude exported to the U.S., which, along with the length and breadth of its pipeline network, makes it a key link between the energy patch and its core markets.

Enbridge has demonstrated that its business is highly resilient to movements in oil prices, primarily because its revenues are more dependent on the volumes of crude and natural gas transported rather than the prices.

While the sustained weakness of crude has led to concern among analysts that volumes will eventually fall with oil companies, markedly reducing investments in production, to date there are signs that this is not occurring. For February 2016 Canada's National Energy Board estimated that national crude production was almost 3% higher than it was in December 2015, which is good news for Enbridge.

This is easy to explain.

You see, the cash costs per barrel of many Canadian oil companies are well below the price of crude. As a result, there is no incentive to curtail or cease production until oil prices fall below those cash costs.

Now, with West Texas Intermediate up by 44% from its January lows of under US$30 per barrel to hover near US$40 per barrel, there is considerable incentive for Canadian oil producers to continue pumping crude. Should this rally continue, there will be a considerable uptick in production as companies move to cash in on higher prices. This would lead to increased volumes for transportation and eventually a healthy bump in Enbridge's bottom line.

It should also be considered that Enbridge remains focused on expanding its business. It has $18 billion of projects secured with customers, of which $4 billion worth is expected to be completed in 2016 and 2017 alone.

Enbridge also continues to concentrate on increasing its exposure to the Montney and Duvernay formations, which are shaping up as two of the most competitive natural gas plays in North America.

Then there is Enbridge's move into renewable power. It has invested about $5 billion in renewable power generation and transmission over the last 14 years, highlighting that it is future proofing its business. This is particularly important because growing environmental pressures make it likely that oil sands will become stranded assets in the not-so-distant future.

All of these strengths have allowed Enbridge to pay a dividend since 1953 and hike that dividend for an impressive 20 years straight, giving it a tasty 4% yield that will reward patient investors as they wait for its share price to appreciate.

So what?

The resilience of Enbridge's business to downturns in the price of crude coupled with the ongoing development of its pipeline network leave it well positioned to weather the current storm and take advantage of the eventual rebound in crude. For these reasons, I expect Enbridge to continue to perform strongly and sustain its history of solid dividend growth.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/22
Date Created
2016/03/14

Author
mattdsmith