2 Huge Tailwinds Could Take Enbridge Inc. Much Higher in the Next Year or 2

Description

With most financial news headlines in the Canadian oil & gas space overly bearish in recent months, my take is that specific Canadian companies have been beaten up excessively by markets as investors continue to move away from commodities toward growth sectors.

With the Canadian oil sector largely sitting on the sidelines and not participating in the recent run-up in the stock prices of other global oil & gas firms, I see two key headwinds that will take pipeline companies such as **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) higher in the medium term.

Western Canadian Select discount likely to narrow over time

At the time of writing, the discount Canadian producers receive for the heavy crude produced out of Canada's oil sands has narrowed from a high of around $30 per barrel to approximately $18 per barrel. A halving of this steep discount has done little to sway the opinions of many investors and analysts, however, as transportation issues remain and refineries continue to see an influx of light, sweet crude produced in the U.S., hampering Canadian producers.

This trend is likely to continue as new pipeline capacity comes online, much of it from Enbridge.

As I have commented on before, the reality remains that as an energy infrastructure company, Enbridge is less tethered to this discount than other heavy oil producers are. With most of the company's capacity locked into long-term contracts, Enbridge has the ability to generate excellent returns over time if the company is able to retain its strategic focus on its energy infrastructure assets.

Appetite for Enbridge's assets a huge plus

One of the most significant headwinds for Enbridge recently has been a rising interest rate environment, making any new debt, as well as any old debt that needs refinancing much more expensive for the company.

Enbridge's large debt load has weighed down the company's share price as investors have moved away from companies with higher-than-average debt loads to those with "cleaner" balance sheets.

That said, Enbridge has engaged in a key $10 billion asset divestiture program that the company hopes will allow it to navigate a rising interest rate environment and focus its operations more strategically on the company's assets into the next century.

A recent report stating that Enbridge has engaged a large Canadian bank to sell $2 billion of non-strategic Western Canadian assets has been viewed positively by financial markets, with the company's stock price up approximately 1% on the news at the time of writing. Promised future asset sales will play a huge part in renewing investor enthusiasm for a company with stable cash flow and earnings growth, along with a dividend yield and annual dividend growth rate that currently dwarfs that of many of its competitors.

Stay Foolish, my friends.

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