Enbridge Inc (TSX:ENB): 3 Thing to Watch for

Description

Thus far, **Enbridge** (TSX:ENB)(NYSE:ENB) has been able to avoid the massive losses that other Canadian energy companies have experienced over the last 12 months. Many Canadian oil stocks, for example, are down more than 50%.

Throughout its history, Enbridge has simply been one of the most stable energy stocks investors could buy. Now, armed with a 6% dividend yield, shares still look attractive.

If you're looking to buy Enbridge shares or are already invested, here are three important things to watch for.

Regulatory changes

In Canada last year, regulatory and political factors played a crucial role in energy stock prices. This year should be no different.

The biggest regulatory uncertainty remains mandatory production cuts. In late 2018, burgeoning oil supply overloaded Canada's pipeline networks. Even new crude-by-rail capacity wasn't enough to soak up the excess output. Local producers bid against each other to move their production, forcing prices to plummet more than 50%.

Alberta instituted a mandatory production cut to quickly reduce supply pressures. Investors were excited in March when the production cuts were eased, but this was likely due to warmer weather (oil can move more quickly through pipelines), not improved supply conditions.

At the end of the day, Enbridge needs healthy customers to sustain its business. Monitoring the supply cuts is a key metric in gauging this health.

Rising output

While Enbridge needs its customers to remain solvent and profitable, it also benefits from the supply boom. Increased output of oil means higher demand for pipelines.

Despite the current government production cut, Canada’s oil production has nowhere to go but up over the coming decade. Enbridge is capitalizing on this market need.

By the end of this year, the company’s Line 3 replacement will provide 375,000 barrels per day of new pipeline capacity. This has the potential to right-size the entire market, balancing new oil supply with additional pipeline capacity. Still, oil companies are expected to grow output for years to come, creating demand for even more pipelines.

By 2020 or 2021, the Keystone XL pipeline is finally expected to come online. While investors should be skeptical, this time could be different.

In the past, the Keystone XL pipeline was more of a luxury than an intense market need. Recent supply issues have shown that limited pipeline capacity can wreak havoc on Canada’s local economies. If the Keystone XL pipeline were to reach full capacity, it could balance the market through 2030.

Either way, as Canada’s oil output continues to rise, expect Enbridge to find ways to benefit, whether it be through increased capacity or higher pricing.

Political shifts

On April 16, United Conservative Party leader Jason Kenney was elected Alberta’s premier, defeating Rachel Notley and the New Democratic Party. This could be huge for Enbridge.

Kenney’s key promises include getting more pipelines built, ditching the carbon tax, supporting oil sands projects, and cutting taxes.

For years, Canada has struggled to bring on new pipeline capacity. With Kenney as Alberta’s premier, expect that to change.

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