



Why Higher Oil Prices Could Send Enbridge (TSX:ENB) Stock Soaring

Description

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) has been having a [great year this year](#). After falling precipitously from 2015 to the end of 2018, the company's shares have risen 15% year to date in tandem with the TSX. Granted, a rising tide lifts all boats, and Enbridge's year-to-date rise is consistent with the broader TSX trend.

However, there are reasons to believe that Enbridge could become a breakout stock of 2019 independent of the index as a whole. With the price of oil on the rise, there are good reasons to believe that Canadian energy stocks have significant upside. As the operator of the world's longest and most sophisticated crude oil transportation system, shipping 60% of U.S.-bound Canadian oil, Enbridge will be one of the main beneficiaries of the rising oil price. To see why that's the case, we need to look at how a rising oil price could increase demand for pipeline capacity.

Increased demand

It goes without saying that increased demand for oil increases oil prices, which benefits oil explorers and producers. It's less obvious how the same benefits pipelines, which charge fees and make money irrespective of the price of oil. However, benefit they do. First, the greater the demand for oil, the more contracts companies like Enbridge get. Second, a massive increase in demand could justify the creation of new pipelines, each of which would represent new revenue streams for such companies.

Growing pipeline capacity

Another reason that rising oil prices could benefit Enbridge is that the company is adding new pipeline capacity. Whereas **TC Energy's** Keystone expansion is being mired in delay, Enbridge's most notable infrastructure project — the [line three expansion](#) — is going ahead at full speed. This means that Enbridge is perfectly positioned to take on new contracts in an environment where demand for oil is rising.

Improved investor sentiment

A final reason that a rising price of oil could be good for Enbridge is that it could improve investor sentiment. Stocks tend to move together as sectors, so price fluctuations don't always perfectly track the underlying business' fundamentals in the short term. From 2015 to 2018, Enbridge's revenue rose from \$8 billion to \$16 million, while net income grew from \$250 million to \$2.8 billion. However, during that entire period, the company's shares were tanking.

The most likely culprit for Enbridge's falling stock price between 2015 and 2018 is negative investor sentiment toward energy stocks as a whole. Although the company's fundamentals would have justified rising prices, the stock fell anyway. The reason is that investors don't always look too deeply into balance sheets and income statements and often buy or sell based on vague feelings. For the same reason, Enbridge may rise if there's a broad perception that oil is set to do well — and with demand on the rise, such a perception is now widespread.

In truth, Enbridge as a company is not all that dependent on the price of oil. It has contracts set up that guarantee it gets paid even if its clients aren't using its infrastructure. However, being an energy company, its stock is likely to be lifted by rising oil prices for psychological reasons, if nothing else.

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