Banking On an Oil Rally? Then You Need This High-Yield Stock in Your Portfolio

Description

The past few weeks have seen a minor rally in the price of Canadian crude, which has risen to $42 after falling as low as $34 earlier this month. Although the Canadian Crude Index is still way off its 52-week highs, its price has been gaining short-term momentum.

In general, analysts and industry insiders are bullish on oil. OPEC members are purportedly aiming for $70 prices on average, while one Merrill Lynch analyst even forecasted a $95 Brent barrel by the end of 2019. It's probably not safe to assume that the more optimistic of these forecasts will come to fruition, but a more moderate bullish trend appears likely to continue.

If you want to bet on a rise in the price of Canadian crude, oil stocks are some of the best bets. While you can make money on a rising oil price with futures, stocks have the potential to produce income as well as gains. Additionally, some oil stocks have the potential to appreciate even when oil itself is weak. One such stock is Canada's biggest pipeline company, **Enbridge** (TSX:ENB)(NYSE:ENB).

Why Enbridge stands to benefit from higher oil prices

On the surface, Enbridge might not look like a stock to bet on the price of oil. Pipelines make money off toll fees, which are based on distance travelled rather than the price of oil, which is why Enbridge grew earnings between 2015 and 2018, when oil was weak. However, there are three reasons to bet on Enbridge as an oil play.

First, stocks tend to move together as sectors, so if oil rises, Enbridge will likely rise with, it even though its fundamentals aren't affected by commodity prices that much.

Second, a rise in the price of oil can indicate a strengthening in demand, in which case Enbridge could benefit from higher volumes.

Third, the fact that Enbridge's income stream is not affected by the price of oil means that its dividend is safe, so the stock may rise with higher oil, but the dividend will be paid regardless.

About Line III

One Enbridge project that deserves particular mention is its Line III replacement. Although technically only an infrastructure upgrade, it will increase transportation capacity, because the new pipe will be wider than the one currently in use. Additionally, the replacement comes with three new storage tanks.

Line III recently encountered a minor legal setback, when a Minnesota court ruled that its environmental impact statement was inadequate. This delayed the project significantly but will not necessarily prevent it from going ahead. The court in question did not say that Line III had to be rejected for environmental reasons — simply that the company needed to supply more thorough environmental impact data. Assuming the company can produce such data, the project will likely go ahead.

Foolish takeaway

Enbridge is undoubtedly one of Canada's best oil and gas stocks. As a pipeline company, it's not too vulnerable to oil price swings, yet can enjoy upside when oil rises. The delay in Line III is a short-term problem, but the project will likely go ahead in the next few years. All in all, Enbridge is a quality stock with a super-high and reliable dividend.

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Date
2025/09/18
Date Created
2019/06/28
Author
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