Is Enbridge (TSX:ENB) Stock Headed for $40?

Description

Enbridge (TSX:ENB)(NYSE:ENB) has been struggling as of late, and the danger is that the stock could be headed even further down in price. Despite strong quarterly results and good financials overall, investors have not been eager to buy the stock.

Although it briefly flirted with $50 a share earlier this year and looked like it may have been about to break out, sluggish oil prices saw an end to that and ensured that stock would go in the other direction instead. To make matters worse, Enbridge's stock recently made a dangerous crossover that could see its share price plummet even further.

Death cross to send the stock down even more?

Early in the month, Enbridge's 50-day moving average (MA) fell below the 200-day MA, which is known as a "Death Cross" and is a bearish sign that could trigger more selling. When it happened, the stock was trading around $45 and would go on to fall further since then. The last time we saw this crossover happen was back in late November, but soon after that the markets as a whole had a strong recovery, and so Enbridge quickly did a reversal.

This time around, the markets are again at a weak point but Enbridge was also notably lower back in November, trading at around $42 when the crossover took place. And even though the stock recovered, it wouldn't happen until after it dipped below $40.

Why the stock may not get a boost anytime soon

While the markets have been struggling lately, they also aren't nearly as bad as they were at the end of 2018. What that tells us is that there likely isn't going to be a push from the markets this time around, certainly not with trade still being a big question mark these days.

That's bad news for Enbridge, because that means, barring a sharp increase in the price of oil or a positive development in the industry, the stock may very well continue falling through no fault of its own. In the end, even a good quarterly performance likely wouldn't be enough to give the stock more than a temporary lift.

At a price-to-earnings ratio of around 18, investors simply don't have the willingness to give the stock much of a premium. Stocks that normally trade at low multiples often do so for a reason — usually, it means there's limited growth or the risk is high. In Enbridge's case, growth is a big question mark, and it'll continue to be one even if oil prices rise.

Until conditions in the oil and gas industry in Canada improve where politics don't become obstacles to growth, it's going to be a struggle for any oil and gas stock to sustain any type of a rally.

Is Enbridge worth buying today?

The only reason why Enbridge might be a good buy today would be for its dividend, which continues to creep closer to 7%, as its stock continues to decline. However, a dividend should never be the sole reason for investing in a stock.

Without a strong outlook for the future, it's hard to see a justification for buying Enbridge today. The stock is falling, and there isn't a bottom in sight. While dividend income would be great, it may prove to be useless if it's going to offset losses incurred from a falling share price.

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