



Should Canadian Investors Add Uncertainty by Buying This Oil Stock?

Description

Investors following the pipeline developments this summer may have been aware of the proposed changes to the Mainline network put forward by its operator, **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)). In short, the pipeline giant is keen to get shippers onto long-term contracts — a move that could change the face of the Canadian oil market.

Meanwhile, recent positive developments have seen a return of Enbridge's popularity among energy investors. So, while the ubiquitous energy stock remains a strong dividend payer, is it worthy of a long-term position, or do ongoing pipeline hold-ups introduce too much uncertainty into a low-maintenance stock portfolio?

Wild cards and black swans

From talk of impeachment in the U.S. to our own upcoming election, from the Saudi oil situation to [an increasingly chaotic Brexit](#), there are more potential market disruptors than one can shake a stick at right now. Throw in an overheated housing market, a grim global outlook, an ongoing China-U.S. trade war, and the potential for an American recession, and you have a situation in which holding oil stocks requires nerves of steel.

Against this turbulent backdrop, 2019 has seen a glut of negative headings weighing on Enbridge's share price, generated by pipeline hold-ups, legal challenges, and shipper concerns to name just a few challenges. However, there has been some improvement heading into fall, and the year's middling performance has left investors with a tasty 6.3% yield to contemplate.

Enbridge stock has its pros and cons

Aside from the fact that its Mainline network makes it one of the widest moats on the TSX, Enbridge also tends to improve when a pipeline development makes it into the press. As a case in point, Enbridge's share price, which has been steadily rising since the end of August, saw a steepening of its climb this week after news that work on Line 5 was going ahead after a 17-month wait for permits,

while the Minnesota Supreme Court threw out challenges to its Line 3.

In theory, locking Enbridge customers into longer contracts should be beneficial for assured growth and longevity of dividend coverage, though investors eyeing the less-than-stable state of the oil industry with either of those qualities in mind might disagree. With the amount of uncertainty in the markets, energy stocks should really be hitting all-time highs right now, rather than adding extra doubt to one's stockholdings.

Long-term investors may also want to question the sustainability of a shifting business model that constrains reluctant shippers with lengthy contracts, especially if attractive, large-scale alternatives were to arise. Indeed, a future change in the pipeline approval system and initiatives like crude by rail could conspire to bridge that wide moat in time.

The bottom line

Enbridge benefits from being one of the widest moats in the oil patch, with its Mainline pipe network still the benchmark system of crude transportation in Canada. However, [this could change over time](#), so investors should examine their financial goals and question how pipelines fit into a "big sky" investment horizon. For the foreseeable future, though, Enbridge remains a moderate buy according to analyst consensus.

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Author

vhetherington

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