Enbridge (TSX:ENB) Is a Top Stock to Create Wealth and Hold Forever

Description

Crude's latest weakness coupled with its uncertain outlook has led some pundits to claim that now is the time to sell North American midstream services and energy infrastructure giant **Enbridge** (TSX:ENB)(NYSE:ENB).

Since the start of 2019, Enbridge has failed to perform as expected, losing just over 1%, because it is weighed down by the poor outlook for crude and Alberta's mandatory production cuts, which have reduced oil sands production.

The energy infrastructure giant is also attracting considerable interest from short-sellers to see it ranked as the sixth most short stock on the TSX by value, after the Big Five banks. Much of that negative interest is centred on the belief that demand for Enbridge's infrastructure and services will decline impacting earnings and ultimately its share price.

A reduction in transportation and storage volumes will have a negative on Enbridge's cash flow and earnings, which will be further magnified by its high level of debt.

While there are headwinds impacting Enbridge's operations, the midstream services provider is still one of the best stocks available for those investors seeking exposure to a oil and natural gas recovery.

Virtually guaranteed earnings growth

One of Enbridge's main strengths is that its pipeline and storage infrastructure forms a key link between the oil patch and vital U.S. energy markets. The company is responsible for transporting a quarter of all petroleum liquids in North America as well as a fifth of the continent's natural gas.

A critical shortage of pipeline exit capacity means that demand for Enbridge's infrastructure remains strong, regardless of reduced output from the oil sands because of Alberta's production cuts.

For this reason, Enbridge's earnings growth is virtually guaranteed, especially when it is considered that it has a $19 billion portfolio of projects under development, including the Line 3 Replacement

Program. The importance of the Line 3 Replacement is underscored by the government of Alberta's commitment to wind down the mandatory production cuts once it enters services, which is expected to occur during the second half of 2020.

Those assets on entering service will significantly expand the capacity of Enbridge's pipeline network, thereby boosting throughput volumes and ultimately earnings.

Another important aspect to consider is the demand for oil and natural gas remains relatively inelastic, because it is an important fuel for modern economic activity. The energy infrastructure sector, because of its heavily regulated nature and considerable amounts of capital required to enter the industry, possesses steep barriers to entry, endowing Enbridge with a wide, almost insurmountable economic moat.

That moat protects the midstream services giant from competition, which — along with the oligopolistic nature of the industry in which Enbridge operates and growing Canadian hydrocarbon production — will ensure that transportation volumes and hence earnings will keep growing. That — along with most of Enbridge's earnings coming from contracted or regulated sources — virtually assures that its income will continue to grow.

These attributes will support Enbridge's planned 5-7% distributable cash flow growth and further annual dividend hikes. In fact, Enbridge has an impressive history of dividend hikes, having increased the payment for the last 23 years straight, giving it a compound annual growth rate (CAGR) of 11% and a very juicy 6% yield.

Foolish takeaway

Enbridge, regardless of the naysayers, remains one of the best buy-and-hold stocks for investors seeking to build wealth over the long term. For the last 10 years, the midstream services giant has delivered a whopping 212%, including dividends, for investors, which is 12% on an annualized basis. For those reasons, now is the time to buy an attractively valued Enbridge today and lock in a 6% yield.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/19
Date Created
2019/10/26
Author
mattdsmith