



Enbridge (TSX:ENB) Stock Could Surge From This Upcoming Catalyst

Description

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) was one of Canada's best-performing stocks over the last several decades. It's success is literally *built into* its business model. If you're not familiar with the power of pipelines, pay close attention.

Great stocks continually find a way to [move higher](#). Enbridge is no different. An upcoming catalyst could potentially move the stock *much* higher.

Pricing power is real

The upcoming catalyst for Enbridge should make sense after you understand how much pricing power Enbridge has over its customers.

As the largest pipeline company in North America, Enbridge helps transport more than 20% of the continent's oil and gas. This is a huge advantage in an industry dominated by scale. Think of pipelines as highways. Would you rather work with a highway company that serviced only your state, or one with a network spanning coast to coast?

When it comes to transporting fossil fuels, Enbridge's capabilities are unrivaled. Importantly, it has access to both the Pacific and Atlantic oceans, so customers can target either the Asian or European export markets.

Customers benefit immensely by using Enbridge's network, but in many cases, they have no choice, especially in capacity-constrained Canada, where pipeline infrastructure lags demand.

According the *Oil Sands Magazine*, this means energy producers are forced to seek higher-cost alternatives. "Since Canada's export pipelines are at capacity, the incremental barrel of oil needs to be shipped by rail, which has a higher transportation cost and drives up pricing discounts," it noted. Due to the cost advantage, pipelines are nearly always the priority choice for potential customers, making them flush with demand.

High demand, structurally lower costs, and limited alternatives give pipelines *extreme* pricing power. In an industry rife with pricing fluctuations, pipeline operators avoid volatility altogether by charging customers on volumes, not commodity prices. For example, in 2014, when oil prices fell by 50%, Enbridge stock actually *gained* in value. Its sales, profits, and cash flow were barely impacted.

This could be a game changer

Last year, reports surfaced that Enbridge was asking customers to commit to a 10-year contract to secure pipeline space on its Canadian lines. Think about what this means. The pipelines in question were already expected to operate at full capacity. With decade-long contracts, Enbridge would be guaranteeing itself billions in cash flow with almost zero volatility or risk.

What's not to love? Well, customers weren't exactly keen. Pipelines can cost billions to build and can take more than five years to bring online. Enbridge's ploy essentially took advantage of this dynamic, knowing customers would bid to the death to secure capacity.

Regulators eventually got involved, but in recent weeks, Enbridge submitted another proposal that would set aside 90% of its Mainline pipeline capacity to customers that sign long-term contracts. The proposed structure would take effect in mid-2021.

This is something to watch *very* closely. If Enbridge's terms are approved, it would be a game changer for the company, effectively validating its pricing power for the next decade and beyond. Similar pricing schemes could be rolled out across its entire network.

A rejection from regulators isn't a dealbreaker for the stock, but an approval would add significant long-term value. Expect shares to respond quickly.

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