



Why Enbridge's (TSX:ENB) Stock Price Is Too Low

Description

Energy markets have had a difficult run. In 2013, oil prices were as high as US\$100 a barrel. By 2014, they were under US\$50. Many analysts were expecting a rebound, but that never happened, at least in any sustained way.

Recent years have brought even more turmoil. The threat of increased regulation looms large. In Canada, limited pipeline capacity has regularly sent regional price sharply lower. Meanwhile, pricing for renewables like wind and solar continue to fall.

These challenges have pressured nearly every energy stock, but that doesn't mean every energy-related stock deserves a pummeling. In fact, some businesses have been completely unfazed by the last decade's hurdles.

Stocks that are unfairly punished due to industry-wide troubles are perfect opportunities to make considerable money. You just need to sift through the options one by one, patiently awaiting your [diamond](#) in the rough.

Sell the shovels

They have a saying during a gold rush: sell the shovels. Throughout history, exploring for gold was a risky and costly proposition. It could also be deadly. While thousands rush to find riches, the smartest investors *supplied* the movement.

If you sell the shovels, you never have to worry about the eventual economics of gold mining. In fact, you could turn a profit, even if no gold is ever found. There are several instances of this happening throughout history.

When it comes to energy, **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) sells the shovels.

Exploring for fossil fuels like oil and natural gas is an all-or-nothing bet. Companies stake millions of dollars on a certain property. If reserve estimates don't match up with reality, investors could take a

complete loss.

Meanwhile, commodity prices fluctuate on a minute-by-minute basis. Countless companies have developed major projects, banking on energy prices remaining high. When prices dip, these mega-projects can bleed cash, threatening the viability of the entire company.

Despite these troubles, oil and natural gas production in North America has been on a multi-decade rise. Over the next decade, production is expected to increase every year. There will be many winners and losers, but the one thing we know is that all that production needs to go somewhere. That's where Enbridge comes in.

As the largest pipeline operator in North America, Enbridge's network is unparalleled. It can transport oil from British Columbia to a refinery in Saskatchewan, then down to the Gulf of Mexico for international export.

Here's the secret sauce: Enbridge's pricing power is *incredible*. Pipelines are costly to build. It can take more than a decade to construct more infrastructure. Delays and cost overruns are frequent events. These natural factors limit industry-wide capacity.

Because pipelines are the fastest, cheapest, safest, and often *only* choice for energy producers, they'll fill pipeline capacity until there's no room left. Oversupplied pipelines actually caused a panic in Canada in late 2018.

Due to structural demand, Enbridge is able to charge on volumes, not commodity pricing. For example, in 2014, oil prices were slashed in half, yet Enbridge stock *gained* in value. Its business was barely impacted.

Canada has been going through an energy bear market for more than five years. The industry is in a lot of pain, but not Enbridge. Still, Enbridge shares have been pulled down by the industry's woes. This has pushed its dividend yield above 6%. Cash flow this year is expected to hit all-time highs, yet the valuation has been stagnant since the energy bear market began.

Enbridge doesn't play by the same rules as the rest of its industry, but its valuation has taken a hit, nonetheless. This looks like an opportunity to capitalize on that mismatch.

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Author

rvanzo

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