Is Enbridge (TSX:ENB) Stock a Buy Right Now?

Description

Global equity markets are in a state of turmoil. The World Health Organization has declared the COVID-19 a pandemic and this exacerbated the sell-off in stocks yesterday. The **iShares S&P/TSX 60 Index ETF** is down over 20% since its 52-week high and has officially entered bear market territory.

A market decline between 10%-20% is termed as a correction, while a decline of over 20% is considered a bear market. The **Dow Jones** is also down 20% from record highs, while the **S&P 500** and **NASDAQ** are just shy of this figure.

According to one *Washington Post* report, since World War II, the S&P 500 has experienced 12 bear markets with an average decline of 33%. Bear markets have lasted an average of 14 months.

The oil price war in the last few days has added fuel to fire and contributed significantly to the sell-off, making investors anxious. Several companies across industries, including technology, retail, airlines, and energy have cut short-term forecasts due to lower consumer demand.

Analysts expect the markets to remain volatile in the short term. While there is a good chance for Canadian stocks to move lower, it is impossible to time the market. Let's see if the recent decline has made one of Canada's energy giants an attractive buy for value and contrarian investors.

Enbridge stock is down 25%

Shares of Canada's energy heavyweight **Enbridge** (TSX:ENB)(NYSE:ENB) have declined 25% in the last one month, wiping out major gains. The stock is down close to 10% in the last year, compared to the S&P 500 gains of 3.3%. So, are Enbridge shares attractive at the current valuation?

Enbridge owns and operates North America's largest fossil fuel pipeline. It transports around a quarter of the crude oil shipments and 20% of natural gas shipments in North America.

The company has a network spanning several countries and is an integral part of the energy supply chain in this region, as it provides customers an economical option to transport fossil fuel.

According to Fool contributor, Ryan Vanzo, Enbridge's benefits from its huge market presence with enough bargaining power due to its vast network. The company earns about 98% of revenue from fixed-service contracts which mean Enbridge is somewhat insulated from falling commodity prices.

However, several Canadian oil producers may have to shut operations as lower oil prices will result in huge losses and this will impact Enbridge's top-line significantly.

Enbridge has a yield of 7.3%

The recent drop in Enbridge's stock price has increased the company's forward dividend yield to a mouth-watering 7.5%. While several energy companies have announced dividend cuts, there is a good chance that Enbridge will be able to sustain its current payout given operating cash flows of $9.4 billion.

Enbridge has increased dividend payments every year since 1999. In the last three years, it has increased dividends at an annual rate of 9.6%.

The verdict

Oil is a major pillar of the Canadian economy. This sector will remain an integral part of the investor portfolio despite low prices. However, Enbridge's debt of $66 billion might concern investors who might look at other transportation companies that might benefit from lower oil prices.

In case you think oil prices will stabilize in the near future and that Saudi Arabia and Russia will come to an agreement regarding production limits, Enbridge is a solid bet.

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Date
2025/07/04
Date Created
2020/03/12
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