Sell or Hold Enbridge (TSX:ENB) as Energy Sector Gets Whipsawed?

Description

The share price of **Enbridge** (TSX:ENB)(NYSE:ENB) fell 31% on March 12, 2020, a week after rising to $52.01. Many were expecting a further drop, but the top-notch energy stock made a resounding 20.7% rebound on the next trading day.

Enbridge is holding ground. If you're looking for exposure to the energy sector, this $87.67 billion energy infrastructure company is the best bet. The recent collapse of oil prices is so discouraging that some investors are avoiding oil assets. Enbridge, however, is a cut above the rest.

Profitability highlights

The largest pipeline company in North America suffered a 16.5% drop in a single day last week due to panic selling. Only a few stocks were able to advance during the market correction. But it would help if you looked deeper to understand why Enbridge remains a solid investment pick.

Enbridge's gross margin is 37.20%, which represents the percent of total sales revenue that it retains after direct cost of goods sold. The net profit margin of the company is 10.60% ($0.106 earning for every dollar of sales).

On the other hand, the operating margin or the proportion of what remains from revenue after paying for variable costs of production costs (wages and raw materials) is 16.50%.

Growth prospects

It is also important to highlight the growth prospects to appreciate Enbridge. The company finished 2019 with $11 billion worth of commercially secured expansion projects. These projects are due to come online through 2022.

The amount of backlog justifies analysts' estimates that Enbridge can grow its cash flow per share by roughly 2% in 2020 and about 5% to 7% annually beyond this year. Enbridge should be able to selffund between $5 billion and $6 billion of growth projects yearly from a combination of retained cash flow and new debt.

Low-risk option

Aside from a healthy financial profile and imposing growth prospects, Enbridge pays a generous 6.31% dividend. If you’re an income seeker, you have the option to hold longer, reducing risk, to realize higher returns in the years ahead. In the preceding 20 years, the total return from this energy stock is 1,300.78%.

Before investing in Enbridge, be aware of operational risks. The company will be in the headlines occasionally due to pipeline leaks, splits, or blow-ups. A plus factor is the low-interest-rate environment. The longer it runs or if more cuts come, Enbridge should benefit the most.

Clear storyline

Enbridge is an operator of a pipeline system and acts as a transport service intermediary for oil producers. Therefore, it has less exposure to oil. However, the current oil price war initiated by Saudi Arabia, and OPEC members could have an overall negative effect on the global economy.

Throw in the coronavirus outbreak, and you have a global recession waiting to happen. For now, it’s essential to watch the market behaviour. But if you own Enbridge shares today, hold them. The storyline is clear – cash flow growth, fantastic dividend yield, and multiple expansions in the works.

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