Oil Price Crash: Buy Pipeline, Not Producers

Description

Two bear markets are simultaneously, destroying value on the **TSX Index**. COVID-19 and the oil price crash have led to the most pronounced bear market in history. As of writing, the price of North American benchmark oil — Western Texas Intermediate (WTI) — is trading at $20.35 per barrel.

This represents a loss of 67% since the beginning of the year. Unfortunately, the price of Canadian heavy oil – Western Canadian Select (WCS) – is faring even worse. WCS is trading at only $5.05 a barrel, down 90% year to date.

It's little wonder that the oil & gas industry has crumbled. Energy is the second largest sector in Canada and accounts for 16.4% of the **S&P/TSX Composite Index.** Given this, it's likely that Canadians are exposed — and sitting on significant losses.

With no end in sight, what's an investor to do in an environment of low oil prices? It is best to buy pipelines and avoid producers.

Canada's leading energy company

The best way to protect your portfolio is to invest in high-quality, blue-chip companies. This is true regardless of industry and becomes more important in times of volatility. In this case, there is none better than **Enbridge** (TSX:ENB)(NYSE:ENB).

Not only is it Canada's largest pipeline company, but it's also the largest energy company on the TSX Index. Similarly, the company is also one of the more diversified. As well, not only does it own the largest network of pipelines in North America, but it also owns renewable energy assets and is a power producer.

Over 98% of EBITDA is underpinned by contracted services of which 95% are investment grade customers. It is not dependent on a single producer, and generates stable, predictable cash flow. History has shown that regardless of oil price fluctuation, Enbridge has posted strong EBITDA.

The company also owns one of the longest dividend growth streaks in Canada. At 25 years and counting, this Canadian Dividend Aristocrat is averaging 10% dividend growth. The dividend is well covered, accounting for only 65% of distributable cash flow.

Having lost 25% of its value in response to low oil prices and COVID-19, Enbridge is a great buy-low candidate.

Low oil prices, no problem for this stock

Year to date, the best-performing pipeline is T**C Energy** (TSX:TRP)(NYSE:TRP). Formerly TransCanada, TC Energy is only down 15% in 2020 — an impressive feat given that oil prices are trading at levels not seen in decades.

The company's outperformance is not surprising. In a low interest environment, pipelines stand to benefit as they are a high capital industry. After multiple cuts this past month, interest rates are near record lows.

It also makes TC Energy's 5.57% yield very attractive. Investors will turn to high-quality dividend stocks as bonds and other fixed-income products will yield little cash.

Like Enbridge, TC Energy has a strong history of dividend growth. It is a Canadian Dividend Aristocrat and owns a 20-year dividend growth streak. The company is targeting 8-10% dividend growth through 2021, and 5-7% thereafter.

Approximately 95% of TC Energy's EBITDA is underpinned by rate regulated assets or long-term contracts, which makes it less susceptible to low oil prices. It has a deep pipeline of projects, with a $30 billion secured capital program through 2023. Impressively, the company has been reducing debt while increasing spending and growing the dividend.

TC Energy has approximately $10 billion in liquidity and expects to spend $7.2 billion in capital expenditures in 2020, giving the company industry-leading flexibility to weather a prolonged downturn.

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