



## Is Enbridge (TSX:ENB) Stock a Buy After the OPEC Oil Price Boost?

### Description

For oil investors, it was a reassuring start to the week. OPEC's agreement to slash output by 10 million barrels daily nudged prices in the black gold up a fraction. But why weren't oil price moves higher? Part of the problem is that oil investors are well aware that the emergency measure doesn't go nearly far enough. The move, designed to boost oil prices, may need to be replicated in order to be truly meaningful.

### The OPEC oil production cut may not go far enough

However, it's a step in the right direction. Oil prices recently hit near 20-year lows after the world's biggest oil producers ramped up production and flooded the market. The oil price war has become one of the biggest headwinds facing the liquid fuel sector.

Indeed, it's significant that the biggest cuts will be made by Russia and Saudi Arabia, two of the biggest players in the price war.

What producers failed to see coming, though, was the COVID-19 shutdown, which has seen demand plummet to historic lows. Demand was already weakened by the grinding Sino-American trade war.

If ever there were a perfect storm of oil headwinds, this is it. So devalued is oil that the 10 million barrels-per-day reduction now accounts for just 10% of the world's total oil production, of which 20% is excess.

Again, this initial move by OPEC may be too little, too late. Price-wise, Western Canadian Select has all but collapsed, which makes the thesis for buying shares in producers — and the midstreamers that transport it — increasingly weak.

Storage has become one of the major issues in oversupply. With space running out for storing oil, producers are faced with the decision to stop pumping. The situation is fraught, with the Mainline network operating with space to spare.

## A wide-moat play for long-term oil price recovery

So where does that leave stocks like **Enbridge**? With its dividend yield ratcheted up to the 8% range, the case for buying on weakness is compelling.

But investors should be prepared for dividend stocks to slash or even suspend their payouts. What is left, then, is a case for [snapping up quality shares](#) in blue-chip names like Enbridge and holding for the long-term.

Indeed, bullishness in oil hasn't entirely faded yet, however, as [an oil rally is still possible](#), though a full recovery looks increasingly unlikely. Demand could be propped up by an end to the coronavirus lockdown, and further production cuts could support prices long-term. Simply put, a scenario in which the fittest survive is likely. The case for contrarian buying of wide-moat Enbridge stock therefore looks viable.

## The bottom line

Demand destruction and struggling producers have transformed the fossil fuel sector from an oilfield of upside to a minefield littered with craters. However, Enbridge still stands out from the crowd.

Contrarians should take note of its insider buying and the wide economic moat provided by its Mainline pipeline system.

The general investor eyeing the potential for a rally also has a clear value opportunity and should consider buying the dips.

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