Enbridge (TSX:ENB) Is a Must-Buy While Shares Are Severely Undervalued

Description

The collapse in crude oil has dimmed the lights on the Canadian energy sector. Even midstream players like **Enbridge** (TSX:ENB)(NYSE:ENB), which are supposedly less sensitive to near-term oil price fluctuations, aren't immune from the coronavirus-induced implosion of oil prices.

A brutal environment for Canadian energy firms across the board

Storage fears could mean that the new low for WTI could lie in the teens. And if that's the case, a plethora of the clients that Enbridge serves are going to fall under even more pressure, and pipelines may be underutilized as production is curbed.

Last month, oil made an unprecedented move into negative territory. And while it may make it seem as though there's no sense of transporting the supposedly "worthless" commodity, investors need to remember that free or nearly free oil prices just aren't sustainable over the long haul. The coronavirus-induced demand shock will leave a long-lasting dent in the energy industry, but in due time, demand will gradually recover.

In the meantime, heavy crude production could plunge in response to these insanely low oil prices, and that means less product for Enbridge to transport via its Mainline pipeline system. Although it seems like Enbridge is just another energy firm with a dividend that's skating on thin ice, I'd urge investors to consider looking at the name from a longer-term vantage point.

Enbridge could pop as oil prices normalize

Once the pandemic is over, oil prices will likely return to the old normal — not US$100 WTI, but at around US$50.

Enbridge's Mainline system will be back at full utilization, and the firm will be back to pursuing growth projects and will likely be in a spot to renew its "dividend-growth promise" to shareholders once again.

In the meantime, Enbridge is going to be a painful ride for investors, as the Albertan oil patch attempts to navigate through this typhoon. Shares of Enbridge sports a 7.6% yield, which will not be on as stable footing should these coronavirus-era oil prices stick around for years rather than months. Fortunately, Enbridge is in decent financial shape relative to most of its peers thanks to its gas distribution operations that have more stable cash flows.

Enbridge is a buy, even if you think the dividend will be cut

Even if Enbridge were to eventually drop a bombshell by slashing its dividend, as **Royal Dutch Shell** did, I expect the dividend to be hiked back once the tides turn back in Enbridge's favour. The pipeline kingpin is between a rock and a hard place thanks to the hideous energy environment, but the recent sell-off appears to be overblown beyond proportion.

At the time of writing, Enbridge stock trades at 1.5 times book and is close to the cheapest it's been in recent memory.

Foolish takeaway

The dividend looks safe, but I wouldn't bank on it if you're a retiree who's dependent on investment income. Instead, the name is a better bet for younger investors who can handle the volatility and wait years for the oil patch to normalize to pre-pandemic levels.

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