Oil Crash 2020: Should You Buy Enbridge Stock Today?

Description

The oil crash of 2020 has altered the energy world. As the worst oil crash in history, it has stakeholders scrambling. Some are struggling to just survive, while others are redirecting efforts and regrouping. **Enbridge** (TSX:ENB)(NYSE:ENB) is one energy company that is simply standing steadfast in its strategy.

Oil prices today are rallying 7% to just below $26. As Saudi Arabia continues to make production cuts, this rise will intensify. In the west, the massive price declines have necessitated production cuts. The supply/demand forces are at work to support prices.

Enbridge stock is a special energy stock. It is a defensive stock within a highly volatile energy world. Enbridge stock is up 8.7% so far in May and 36% from March lows. Should you buy Enbridge stock today?

Despite the oil crash of 2020, Enbridge maintains its guidance

The oil crash is a big deal. It is putting many energy companies into survival mode. In fact, many of them are bordering on bankruptcy. In this environment, a stock like Enbridge stock sticks out for its resiliency. It did get hit as the oil crash unfolded, but it is recovering nicely.

As a glimpse into what's to come, let's look at the company's guidance. At a time when many companies are not only reducing estimates but even completely withdrawing guidance, Enbridge stands out. Not only does Enbridge have enough visibility to issue guidance, but it is actually maintaining it. Guidance will remain consistent to pre-crisis guidance.

As it stands today, Enbridge is expecting distributable cash flow per share of $4.50 to $4.80 in 2020. So far, the first quarter came in above expectations. The company is off to a good start.

Enbridge stock: Strong financial health to weather the storms

The downturn is here to stay at least for a little while. But Enbridge is prepared. The company is reducing costs by $300 million in response to the oil crash and coronavirus crisis. This will include salary reductions. Beyond this, the company has $14 billion in excess liquidity, and its ongoing projects remain self-funded.

Enbridge's financial health will see it through this oil crash. It will also ensure that the company's $10 billion in growth projects are completed. The growth projects will add $2.5 billion to Enbridge's cash flow once they are completed.

Despite the oil crash, Enbridge stock benefits from the company's defensive business

Enbridge's most significant segment is its liquids pipelines segment, representing 55% of EBITDA. The significant majority of Enbridge's revenue here is covered by low-risk contracts. These contracts mean that Enbridge has minimal direct commodity exposure.

These “take-or-pay” and “cost-of-service” contracts provide high-quality, low-risk characteristics. Furthermore, almost 90% of revenue in this segment comes from refiners and integrated producers. By definition, these companies have less commodity exposure. So, while this segment is being impacted by the oil crash, the impact has been manageable so far.

The gas transmission segment represents 30% of EBITDA. This segment is also well positioned. Here, Enbridge expects no impact from COVID-19 and the oil crash. 99% of 2020 EBITDA is contracted or cost-of-service regulated. There is therefore limited volume exposure. And over 90% of customers are investment grade.

Foolish bottom line

Enbridge stock is a defensive stock that is pretty much immune to disruptions related to the coronavirus. It is also relatively immune to recent oil price shocks. Yielding 7% today, Enbridge stock is showing great value and is a screaming buy.

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