Enbridge Stock: 3 Reasons to Buy This TSX Giant for Your TFSA

Description

The recent weakness in the stock market has driven shares of **Enbridge** (TSX:ENB)(NYSE:ENB) lower. Along with the rest of the sector, the Canadian energy giant's shares have been volatile in 2020 amid the coronavirus-led sell-off and falling oil prices. Yesterday, Enbridge's stock price closed trading at $43, or 25% below its 52-week high. In comparison, the **S&P 500 ETF** and the **iShares S&P/TSX 60 Index ETF** are trading 12.4% and 17.4% below their record highs.

While Enbridge stock has underperformed the broader markets, it remains a compelling buy for long-term investors. So, if you have some contribution room left in your TFSA (Tax-Free Savings Account), you could look into allocating a portion of your funds to this stock. For 2020, the TFSA contribution limit is $6,000.

Here's why I think Enbridge stock remains a top buy right now.

Enbridge is not an oil producer

Oil prices have plummeted due to oversupply issues and low demand. The oil price war between Saudi Arabia and Russia is not completely resolved. Lockdowns put in place to help slow the spread of COVID-19 are just starting to be lifted in parts of the world. As a result, traditional oil companies are far from being out of the woods.

However, Enbridge is not an oil production company. Instead, it is an energy infrastructure company with a robust network of pipelines. As the largest infrastructure firm in North America, Enbridge owns several assets that generate predictable cash flows. Its key pipeline system, which is the liquids mainline system, accounts for 30% of EBITDA.

Historically, this pipeline has operated at or close to full capacity. The current decline in gasoline and jet fuel consumption, however, has impacted crude oil production. This, in turn, has led to lower volumes for Enbridge.

In the March quarter, Enbridge's throughput fell to 400,000 barrels per day (bbl/d), down from an average of 2.84 million bbl/d. We can see that while Enbridge is immune to lower commodity prices, it is exposed to volume risk in the current macro environment.

According to Enbridge CEO Al Monaco, a volume reduction of 100,000 bbl/d impacts margins by $12 million per month. In 2019, the company generated close to $14 billion in EBITDA.

A diversified company

We have seen how low volumes can impact Enbridge financials. But this volatility can be offset by the company's other low-risk businesses. Its natural gas distribution utility segment is a regulated business that ensures a stable stream of cash flows. Enbridge's natural gas storage and distribution business accounted for 13% of earnings in 2019.

It also has a low-risk gas transmission business that serves power plants and distribution companies. In 2016, Enbridge generated 75% of its EBITDA from the pipeline business, followed by 20% from gas infrastructure, and 6% from power and energy. In 2019, 53% of EBITDA came from pipelines, 42% from gas infrastructure, and 5% from power & energy.

Enbridge has a safe dividend

With the pullback in share prices, Enbridge stock has a dividend yield of 7.5%. It aims to generate cash flows of between $4.5 and $4.8 per share. Compare this to its dividends per share of $3.24 and we can see that the payout ratio is sustainable.

Enbridge aims to reduce operating costs by $300 million and delay growth-related capital spending by $1 billion in 2020. It sold $400 million of assets, which will increase financial flexibility and short-term liquidity.

With over $14 billion in available liquidity and 98% of EBITDA underpinned by long-term contracts, Enbridge's dividend payout remains safe. This Canadian giant remains a top pick for your TFSA.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred

4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing

Date
2025/07/20
Date Created
2020/05/15
Author
araghunath