PRICE ALERT: Enbridge (TSX:ENB) Stock Rockets Higher by 30%

Description

Enbridge (TSX:ENB)(NYSE:ENB) is a millionaire-maker stock. The company has produced double-digit annual gains since 1995. Its dividend regularly tops 6%.

The key to this success is a reliable business model. In many ways, this stock is built for consistency. It owns incredible assets that provide it with a near-monopoly over its customers. Long-term tailwinds have pushed demand for its exclusive services higher and higher year after year.

Enbridge is known for its reliability, but not necessarily huge and sudden gains. Yet that's exactly what's happened in recent weeks. Since late March, shares have exploded higher by 30%. Even after the surge, the dividend yield still stands at 7.3%.

Why the sudden uptick in the stock price? Are shares still a bargain with their juicy dividend payout?

Check out these assets

The story of Enbridge starts with its business model. If you understand that, the rest of the investment thesis falls in line.

The most important thing to know is that the company is the largest pipeline operator in North America. Its size is staggering. It transports 20% of the continent's crude oil, and a similar share of its natural gas. Pipelines are all about scale, and Enbridge is king.

Why are pipelines such a lucrative business? They're like owning a major highway with no other roads within hundreds of miles; if traffic wants to cross, they need to go through you.

Fossil fuel producers pump an ongoing stream of supply on a second-by-second basis. This output always needs somewhere to go. Pipelines are the highways of fossil fuels. They're simply the fastest, cheapest, and safest way to transport crude oil and natural gas. Oftentimes, they're the *only* viable method.

The supply of pipelines, meanwhile, is incredibly constrained. They cost millions of dollars per kilometre to construct. Full permitting can take a decade.

With the biggest existing network in North America, Enbridge benefits from this supply-demand asymmetry. And with more resources than many of its competitors combined, the company is usually first in line for any expansion opportunities.

Put simply, Enbridge owns an irreplaceable asset base with extreme pricing power.

Should you buy Enbridge stock?

Dominant market power has pushed ENB stock higher for decades. Reliable levels of cash flow, meanwhile, supports a dividend that typically exceeds 6%. But why the sudden surge in recent weeks?

As with many stocks, the recent uptrend was a reaction to the coronavirus bear market. Enbridge stock in particular was crushed. Oil prices collapsed from US$60 per barrel to US$20, and while the company is typically insulated from swings in commodity prices, the downturn was so sudden that investors feared that its customer base would go out of business.

Oil markets have since corrected, with prices hovering just below the US$40-per-barrel mark. This rebound should protect Enbridge from any large, near-term impacts, hence the sharp uptick in share price.

But the worst may not be over. Many of Enbridge's customers require oil prices in excess of US$40 per barrel to turn a profit. These businesses can turn a loss for months at a time, but eventually, they'll cease production.

Long-term concerns remain, but the impacts won't be experienced unless oil prices remain depressed through the end of the year. If you're confident in the future of fossil fuel pricing, ENB looks like a bargain with a 7.3% dividend. If you're not bullish on a continued rise in commodity prices, however, it's best to leave this opportunity to others.

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