Why Enbridge (TSX:ENB) Stock Is Among Top Losers of 2020

Description

This has been possibly one of the most volatile years for global financial markets. Already weakened global economic growth further slowed down due to the pandemic and subsequent shutdowns.

However, stocks have shown a more surprising move, particularly in the second quarter. **TSX** stocks have been reasonably strong, and many have almost reached their pre-pandemic levels.

What's behind Enbridge's weakness?

One Canadian giant that notably stood out is the energy infrastructure company **Enbridge** (TSX:ENB)(NYSE:ENB). The stock exhibited a dismal recovery and is still trading 20% lower against its early 2020 levels.

Why is Enbridge stock among the laggards? How is it positioned for the future?

Energy markets were in terrible shape back in April 2020. While demand was dwindling amid the lockdowns, oil majors were just pumping more and more oil, further disturbing the demand-supply equation.

The storage tanks across the globe ran out of capacity, and crude oil plunged into negative territory. While volatile oil prices do not hamper Enbridge's earnings much, the gloomy sentiment weighed on it in the second quarter.

Additionally, energy pipeline companies face a risk of depressed business when oil producers cut their output amid lower crude prices. This also might have driven Enbridge stock lower.

Problems with its pipelines

However, the company clarified that its 2020 earnings would not likely be affected by the current downtrend in energy markets. It generates a large chunk of its revenues from fixed-fee, long-term contracts, which bodes well for its earnings stability.

When many energy companies suspended their earnings guidance, Enbridge maintained its full-year outlook for the year.

What's more concerning for investors is Enbridge's legal troubles related to its key pipelines. First, it was the Line 5 project, and now it's the Dakota Access pipeline, which the court has ordered to shut down on environmental concerns. However, early this month, Michigan Court ordered to partially re-open the Line 5 pipeline.

Line 5 is Enbridge's one of the key pipelines that connect Wisconsin to refineries in Ontario and Quebec. A $40 billion midstream energy company owns 28% in Dakota Access Pipeline.

While these pipelines generate a fair chunk of Enbridge's revenues, customers in these two provinces will likely suffer more due to higher fuel prices if they shut down. Thus, Enbridge's near-term challenges, related to its pipelines could weigh on its stock, further delaying the recovery.

Attractive valuation and dividends

However, Enbridge remains a solid bet for long-term investors. Its unique network of pipelines is a significant competitive advantage. Enbridge transports 25% of the oil and 20% of North America's total natural gas needs.

Its earnings stability and visibility are highly valuable for investors, especially amid these uncertain times.

Enbridge stock yields 8% at the moment, one of the highest among Canadian broader markets. Not just its yield, its dividend growth rate also stands out. It has managed to raise dividends by 10% compounded annually in the last 25 years.

With a solid dividend profile and discounted valuation, Enbridge is nothing short of a steal at the moment.

Long-term investors should see Enbridge's near-term weakness as an opportunity. It's operational efficiency, and attractively valued stock will make up for the lost time.

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