Should You Buy Enbridge (TSX:ENB) Stock After Warren Buffett Acquires $10 Billion of Dominion Energy's Assets?

Description

Companies in the energy space have been pummeled in 2020 due to the COVID-19 pandemic and lower demand, which has resulted in rock-bottom crude oil prices. This led to dividend cuts by several energy companies, as oil production turned unprofitable. However, since COVID-19 restrictions are slowly but surely lifting, oil prices should move higher, making this beaten-down sector attractive for contrarian and value investors.

Warren Buffett, an avid value investor, was in the news recently, as he acquired assets of a large energy company south of the border. Earlier this month, Warren Buffett's **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) disclosed an agreement to acquire the natural gas transmission and storage assets of **Dominion Energy**. Berkshire Hathaway will spend close to $10 billion on this transaction and is the investment's giant's first major purchase in 2020.

Berkshire Hathaway ended the March quarter with $137 billion in cash, up from $128 billion at the end of 2019. During the company's shareholder meeting, Warren Buffett claimed there were no attractive deals available, despite the massive decline in stock prices. The Oracle of Omaha, in fact, exited the airline space and sold positions in all major airlines.

Warren Buffett fully acquired Dominion Energy Transmission, Carolina Gas Transmission, the Questar Pipeline, as well as 50% stake in Dominion's Iroquois Gas Transmission System. This will give Berkshire Hathaway Energy access to 7,700 miles of natural gas transmission and control of 18% of the country's interstate natural gas transmission, up from 8%.

Berkshire Hathaway Energy owns a 25% stake in Cover Point's LNG (liquefied natural gas), export, import, and storage facility. While Dominion owns a 50% stake here, the rest is owned by **Brookfield Asset Management**.

Should you buy energy stocks like **Enbridge** (TSX:ENB)(NYSE:ENB) after Warren Buffett's recent energy acquisition?

Warren Buffett is a fan of cash flows, and Enbridge has plenty

Enbridge stock is currently trading at $40.15, which is 30% below its 52-week high. This pullback in stock prices has increased its dividend yield to a tasty 8.1%. So, if you invest $5,000 in Enbridge stock, you will generate over $400 in annual dividend payments.

Warren Buffett generally eyes companies that have a huge asset base and generate a steady stream of cash flows. Enbridge ticks most boxes, as it is an energy infrastructure giant that manages to offset volatility in commodity prices. The company generates the majority of EBITDA from its contract-based model and investment-grade customers.

In fiscal 2020, Enbridge has forecast distributable cash flow between US$4.5 and US$4.8. We can see Enbridge has enough liquidity to cover dividend payments of US$2.3 per share, as its payout ratio is less than 50% at the midpoint estimate.

While Enbridge's dividend is relatively safe, the current macro-economic uncertainty has led to companies increasing liquidity. For example, Enbridge aims to reduce 2020 costs by US$300 million and also sold US$400 million in non-core assets. It deferred capital spending by US$1 billion and increased liquidity to US$14 billion to US$5 billion.

Investing in quality pipeline companies such as Enbridge is attractive given its robust and predictable cash flows, high dividend yield, and potential for long-term capital appreciation.

CATEGORY

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Date
2025/08/20
Date Created
2020/07/13
Author
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