



This Battered Energy Stock Has a 7.75% Yield: Should You Buy?

Description

Energy stocks were some of the hardest-hit equities in the COVID-19 market crash. Following a collapse in global demand for oil, energy stocks tanked, a situation that was worsened by a Saudi-Russian price war. The crisis reached its apex in April, when WTI futures briefly went negative due to unused inventory accumulating in storage.

Since then, energy stocks have recovered somewhat. Since the 18th of March, the TSX Energy Index (TTEN) has risen 86%. That's still way down from all-time highs, as the initial selloff saw the index fall by nearly two thirds. But clearly, sentiment toward energy stocks is improving.

Nevertheless, this remains a sector where massive bargains can be found. Some of Canada's best energy stocks are trading at discount prices, with big yields up for grabs. While not as cheap as they were months ago, these stocks are now facing fewer issues from COVID-19 and price wars. The following is one such stock with a whopping 7.75% yield.

Enbridge

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) is one of Canada's biggest [energy pipeline companies](#). It ships crude oil and LNG all over North America through a [massive transmission system](#). Like most energy stocks, Enbridge got hit hard by the COVID-19 market crash. Falling 39% top to bottom, it got hit harder than the broader TSX. However, it fared relatively well compared to stocks in the same industry.

As previously mentioned, energy stocks fell dramatically in the March bear market. While the TSX fell 37%, the energy index fell 66%. So, Enbridge fared better in the crash than the average energy company did.

Recent earnings

Enbridge's most recent quarterly report looked bad on the surface but had some definite bright spots.

The big headline number from the release was a \$1.4 billion loss (-\$0.71 per share), which is definitely not a positive. However, when we examine this loss in detail, it was largely thanks to non-recurring factors like a \$1.7 billion impairment charge and a \$1.9 billion (not realized) derivatives loss.

With these taken out of the equation, the company fared much better. Enbridge reported *adjusted* earnings of \$1.6 billion in the first quarter. These are probably more reliable than reported earnings in this case because the company's GAAP loss was almost entirely due to non-recurring, non-cash factors.

Business set to bounce back

The really big thing Enbridge has going for it is that its business is set to bounce back massively when the COVID-19 crisis is finally over. We've already seen the company post solid adjusted earnings in Q1. Once the COVID-19 pandemic is over, the company will presumably be moving more oil and gas than it did in that quarter, positioning it for a massive comeback. Of course, the difference may not be that big.

A lot of Enbridge's contracts are set ahead of time, which may explain why the company's revenue didn't take a huge hit in Q1. However, the economic recovery could set the stage for totally new transportation contracts — and perhaps progress on the company's long-delayed infrastructure projects.

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Author

andrewbutton

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