



What Enbridge (TSX:ENB) Has to Say About Energy Industry Fundamentals

Description

Enbridge Inc. ([TSX:ENB](#)) management had a lot to say on its second quarter earnings call today. And some of the most relevant insights were those that related to energy industry fundamentals.

Quarterly earnings results always give us so much more than just a snapshot of a business. On Enbridge's earnings conference call today, we got that and so much more. We heard about how Enbridge is managing in an extremely difficult environment. And we heard about the state of the energy industry straight from this major energy infrastructure player.

The challenges to the energy industry are well known. There are the long standing challenges such as strong opposition to energy development and regulatory hurdles. And there's the inevitable transition to cleaner forms of energy. Add to that the recent coronavirus pandemic and we have unimaginable troubles in the industry.

But let's take a look at what Enbridge has to say about energy industry fundamentals. These insights are valuable for energy investors. They are also valuable for investors considering investing in this beaten down industry. According to Enbridge, there is an investment case to be made. And I agree.

Growing global energy demand

Forecasts call for a healthy pace of growth in energy demand for decades to come. Oil and gas energy is the energy that underpins the economy. It is the economic engine that will support continued economic growth globally. This will drive demand for oil and gas. It will also drive demand for additional energy infrastructure.

With oil and natural gas expected to be in high demand, Enbridge has a bright future. Enbridge's second-quarter results are testament to this fact. Demand has been more resilient than expected, and the recovery so far has been better than expected.

While revenue and earnings took a hit versus last year, results came in slightly better than expected. Volumes in Enbridge's mainline fell, but the fall was in the low end of expectations. Since March, crude

demand rose from roughly 15 million barrels per day (bpd) in April to 18 million bpd in June.

In the second quarter, Enbridge's liquids pipeline mainline was 85% utilized. Offsetting this, Enbridge benefitted from higher tolls and a stronger U.S. dollar.

At a time of weak oil and natural gas prices, Enbridge's business has held up exceptionally well.

Enbridge: the North American advantage

North America is famous for its low cost, reliable energy. This, coupled with the fact that there is an undeniable need for more energy, makes the North American energy industry look attractive. From a long-term perspective, it will boil down to these two simple yet key facts.

In this context, Enbridge has a highly strategic, resilient and diversified asset base. As well, 95% of its customers are investment grade, and Enbridge has completed \$30 billion of projects since 2016. So we can see this industry is still alive and in demand.

Low risk, low cost capital investment needed

As Enbridge management stated on the call, "[If there ever was a time to have a low risk business model, it's now.](#)" We can't stress this enough. The coronavirus pandemic has made this even more obvious. And with potential future shutdowns looming, Enbridge's business model stands out.

Future growth will come from low risk activities, such as cost reductions and streamlining. Enbridge captured \$300 million in cost reductions in the second quarter — and there's more to come. The growth projects that will fuel growth are also low risk. They are composed of extensions, expansions, and modernizations.

Foolish bottom line

Enbridge highlighted the long-term resiliency of the energy industry today in its second quarter call. Within the industry, Enbridge is a solid holding with a strong yield.

Enbridge stock is rallying today off its second quarter earnings result, up almost 2% at the time of writing. Today, Enbridge stock is yielding a very generous 7.53%, with a positive long-term outlook and a strong balance sheet. Therefore, Enbridge stock looks like a steal to me.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/08/25

Date Created

2020/07/29

Author

karenjennifer

default watermark

default watermark