Will Enbridge (TSX:ENB) Stock Go to $0 by 2030?

Description

Enbridge (TSX:ENB)(NYSE:ENB) is a winning stock. Since 1995, shares have produced double-digit annual returns.

But there's a problem: the stock price has been flat since 2013. Dividends have kept returns positive, but there's no doubt the latest decade has strayed from the stock's long and successful history.

What exactly is going on? As we'll learn, there's actually a chance that Enbridge stock goes to *zero* by 2030!

Oil is dead

I have a secret for you: oil is dead. Well, it's not much of a secret. Some of the biggest minds in finance believe the entire fossil fuel industry is in secular decline. If that's true, Enbridge's lacklustre performance in recent years gains considerable context.

Let's start with Larry Fink, head of **Blackrock**. His firm controls $7.4 trillion. When Fink talks, markets listen.

"Awareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance," he wrote earlier this year. "The evidence on climate risk is compelling investors to reassess core assumptions about modern finance."

On the surface, these revelations don't seem to impact Enbridge directly.

As the largest pipeline owner in North America, Enbridge is typically insulated from commodity prices. It essentially has a monopoly over its customer base. That allows it to charge on *volumes*, not commodity prices. As long as volumes stay steady, the company profits.

Just look at what happened in 2014. Oil prices were cut in half, but Enbridge stock *rose* in value. The company has separated itself from the rest of the fossil fuel industry. Could Fink's comments end that separation?

Will Enbridge stock fail?

Enbridge has avoided fossil fuel volatility in the past because volumes kept flowing. If Fink is correct, volumes could be in secular decline. Some of this is driven by environmental regulation, but Fink's major argument is that capital itself will start to avoid the sector. That would raise the cost of financing, pushing many producers out of the market.

"Investors are increasingly focused on the threat of global warming and the need to rapidly decarbonise the global economy, with up to $118 trillion of funds committed to making climate risk disclosures by 2020," reported *Petroleum Economist.*

"Consequently, the sector's weighted average cost of capital (WACC) has risen, causing a valuation derating, reduced capital availability and low market liquidity," the industry magazine concluded.

The bad news for Enbridge is that its pipelines are high fixed-cost assets. They cost the same to maintain regardless of volumes. If revenue dips, profits can drop even further. It's a simple case of leverage. That's bad news for a heavily indebted company.

If we really are experiencing the end of oil, Enbridge's long-term profits will become a thing of the past. The company has US$70 billion in liabilities versus cash and cash equivalents of just US$340 million. Any way you look at it, this business is not capable of weathering a long storm.

If oil is indeed dead, this stock won't make it in its current form. The assets will retain immense value, but that value will eventually shift from equity holders to debt holders.

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