3 Reasons to Buy Enbridge (TSX:ENB) Stock Today

Description

Enbridge (TSX:ENB)(NYSE:ENB) is a winning stock. Shares have posted double-digit annual gains since 1995. Much of that return came from dividends, which currently pay a 7.9% yield.

The COVID-19 pandemic provides a rare buying opportunity. Total returns have still been positive, but well below their historical norms.

If you want to own a monopoly-like business that can deliver consistent long-term returns, Enbridge is the right pick.

This is a monopoly

Enbridge is in the pipeline business. In fact, it's the largest pipeline operator in North America. If you know anything about pipelines, you know that bigger is better.

Pipelines can take a decade or more to fully build. Construction costs can surpass $4 million per kilometre. Regulations make it difficult to add new capacity. All of this limits industry supply.

Demand for pipeline capacity, meanwhile, continues to rise, even with falling oil prices. New technologies have forced the cost of production lower and lower, so even though pricing has fallen, total volumes are increasing. That results in more demand for pipelines.

Imagine you're Enbridge. You own the biggest pipeline network on the continent. Your competition is limited, yet demand for your services is on a multi-decade rise. This is a good place to be.

The company's monopoly-like positioning won't go away, meaning pricing power is a durable competitive advantage.

Enbridge is a cash flow machine

All that pricing power makes Enbridge a cash flow machine. Most of its costs were involved in the initial construction of the pipeline network. Now, it's all about reaping the rewards.

Importantly, pricing power allows the company to charge on volumes, not prevailing commodity prices. So, when oil prices fall, cash flows are insulated from the volatility.

This cash flow allows Enbridge to invest in itself even during a down market. New infrastructure could add significant value in the decade to come.

"We still anticipate that all three major pipeline expansion projects — Enbridge's Line 3 replacement, TC Energy's Keystone XL, and the Trans Mountain Expansion—will be built by the end of 2023," said a *Morningstar* report. "In our view, this will provide enough takeaway capacity to stabilize heavy oil pricing and greatly expand market access."

Capitalize on confusion

Enbridge is almost always lumped together with the rest of the fossil fuel industry. It's not hard to see why. The company transports roughly 20% of North America's crude oil, and a similar share of the continent's natural gas.

The energy sector, however, is largely dominated by oil and gas producers. That's a *completely* different business model than Enbridge.

When commodity prices fall, these businesses are hit hard as their profits are a direct function of selling prices. Due to its pricing power and volume-based approach, Enbridge doesn't experience these hard swings in profitability. Nonetheless, the market has sold-down the stock anyway.

Right now, Enbridge stock trades at an eight-year low. Cash flows remain high, however, enough to sustain the 7.9% dividend. It may take years for the market to turn around, but you'll receive a handsome payout each year while you wait.

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