Looking to Buy Enbridge (TSX:ENB) Stock? 3 Things You Should Know

Description

Enbridge (TSX:ENB)(NYSE:ENB) stock is falling in the latest market correction. It dipped 4% in September below its 50-day moving average and is down 21% year to date. At $40.72, the stock is an attractive buy with its dividend yield close to 8%. Should you buy the stock at this dip? If you are a long-term investor like Warren Buffett, who is not shaken by short-term headwinds, then Enbridge is the stock for you.

But before you buy the stock, you should understand the three risks that can impact Enbridge's stock price. Only when you understand the risks will you have the courage to stay invested and buy when others are selling.

Three things you should know about Enbridge

Enbridge is North America's largest pipeline operator. It puts in a huge amount of capital to build and maintain large pipelines across North America. Then it approaches utilities and energy companies to transmit oil and natural gas to various cities through its pipelines for a certain fee. It reinvests this money to build and upgrade more pipelines, thereby increasing its cash flows.

It distributes some of this cash inflow to shareholders in the form of dividends. As cash flows increase, so does its dividends. In the last 10 years, it has increased its dividends at a CAGR of 14%. Even now, when the stock price fell 20%, the company maintained its dividend per share, which increased its dividend yield to almost 8%.

On the face of it, the business looks very profitable from a shareholder's perspective. But no business runs without risks. Enbridge stock is exposed to three risks that can make you reconsider your investment in the short term.

Regulatory and environmental challenges

Enbridge's oil and gas pipeline projects face the biggest challenge of securing regulatory and environmental permits. It takes billions of dollars to complete a project, and often the projects are stuck in environmental lawsuits.

Recently, its proposal to replace a section of the Line 5 pipeline in Michigan made the headlines due to opposition from environmentalists and local communities. However, it secured the approval of the Pipeline and Hazardous Materials Safety Administration, as the 65-year-old pipeline posed safety concerns. Such challenges can lead to delays and increase project costs.

However, Enbridge has a strong track record of project execution compared to its peers. It has completed $30 billion of projects since 2016.

Oil demand

The second major risk Enbridge is exposed to is volatile oil prices. Canada has oil, but it faces strong competition from Middle Eastern countries and Russia, which houses some of the world's largest oil producers. If they produce more oil, oil prices dip. Oil demand depends largely on the economy.

For instance, the COVID-19 pandemic almost halted air travel and closed many factories and offices, thereby reducing energy demand.

Even though energy demand fluctuates in the short term, factors that are driving future energy demand, such as rising population, urbanization, and a growing middle class, remain unchanged in the long term. The increasing demand for low-cost energy drives the need for modern pipeline infrastructure. This means the short-term challenges have pulled down

Enbridge's debt

The third major risk is the huge long-term debt of $63.7 billion sitting on Enbridge's balance sheet. It has $15.5 billion in long-term investment. It has a debt-to-equity ratio of 97.7. But it also has almost $10 billion in operating cash flow. Its resilient pipeline utility model generates predictable cash flows, which help the company manage its debt and also pay dividends.

Investor corner

Enbridge stock will dip when the economy slows, oil demand falls, or its major projects are stuck in regulatory and environmental issues. But the company has ample resources and management efficiency to withstand these headwinds and return to growth in the long term.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. 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. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing

Date
2025/08/27
Date Created
2020/09/15
Author
pujatayal