Enbridge (TSX:ENB) Stock Price: Will Shares Rise in October?

Description

Enbridge (TSX:ENB)(NYSE:ENB) shares were a reliable bet for decades. In 1995, the stock price was under $4. Today, it's above $40.

The most impressive part is the dividend, which now yields above 8% per year. Just by collecting the dividend income you could have made market-beating returns. Adding in the capital gains made this a millionaire-maker investment.

Of course, history doesn't guarantee future success. Following the COVID-19 pandemic, Enbridge's stock price fell to a multi-year low.

There are a few reasons to believe the correction has gone too far, making Enbridge stock a compelling buy for October.

Can you take advantage?

The COVID-19 pandemic upended the energy market. Oil demand slipped suddenly, with major demand sources like airplanes and passenger vehicles experiencing historic dips in traffic intensity. Since it makes money by transporting fossil fuels, Enbridge stock was immediately hit.

When the crisis first began, many were expecting a quick recovery. The virus rages on, and it's now clear that the effects will be with us for some time. But what about oil demand? Last week, **BP** threw cold water on a recovery with its 2020 annual energy outlook report.

"The 2020 edition of the annual outlook reveals – albeit indirectly – that global oil demand will not regain the levels seen last year," reports the *World Economic Forum*. "It adds that demand could soon fall rapidly in the face of stronger climate action – by at least 10% this decade and by as much as 50% over the next 20 years."

Falling demand should keep a tight lid on oil prices, especially since low-cost supply continues to flood the market. This is terrible news for oil producers. It's a big reason why Enbridge stock now trades at an eight-year low, despite being a winning bet for two decades.

The market has soured on fossil fuel stocks, but in a way, Enbridge is built differently. This stock could actually survive, and even thrive in the difficult conditions to come.

Enbridge is different

Take a look at Enbridge's historical trading price and you'll notice something odd. In 2014, for example, oil prices were cut in half. The company's stock, however, *rose* in value. What happened?

As the largest pipeline operator in North America, Enbridge is actually well-insulated from gyrations in the oil markets. Its pricing power allows it to base contracts on volumes, not commodity prices. So when oil prices drop, the company's profits remain the same, as long as enough volumes are generated.

The stock is in the penalty box because of a double-whammy: lower oil demand *and* lower oil prices. But that second piece, lower prices, doesn't have a huge impact on the bottom line. Some customers may be forced out of business, but new developers will line up quickly with lower cost structures.

So despite the difficult pricing environment, Enbridge's cash flows should remain relatively consistent with history. A peak in demand will lower its long-term growth opportunities, but the 8% dividend should be safe for now.

If you want massive growth, look at tech stocks. But for immediate income, Enbridge is a solid pick.

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