



## Will Warren Buffett Buy Enbridge (TSX:ENB) Stock?

### Description

Warren Buffett loves to buy big companies with durable competitive moats. His favourite thing is to buy these stocks on sale. That's why many investors believe **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) will be his next acquisition.

In way, this acquisition would mirror Buffett's Burlington Northern Santa Fe (BNSF) purchase in 2009. BNSF has a quasi-monopoly on low-cost transportation wherever it owns railroad tracks. That's made it a reliable cash flow machine for decades.

Enbridge brings similar advantages. Wherever it owns pipeline capacity, it almost always dominates demand for fossil fuel transportation. That's because its pipelines are the cheapest, fastest, and safest way to ship crude oil and natural gas.

Think Buffett will buy Enbridge? Let's look at the odds.

### This is the right business

BNSF is one of Buffett's most famous transactions, not only because it was one of his largest, but also because it typified his investing strategy. The railroad has a permanent competitive advantage and, more importantly, monopolistic power over its customers.

Enbridge is very similar. It's the largest pipeline owner in North America. This is a high fixed-cost business, just like railroads. It takes billions to lay down the initial infrastructure, but once that's complete, the cash flow faucet turns on at full blast.

The monopolistic nature of Enbridge is clear. To compete, another company would need to build a pipeline in the same region, targeting the same customers. This is unfeasible for a few reasons.

First, pipelines cost millions of dollars per kilometre to construct. No company is going to build a competing pipeline just to split volumes. There wouldn't be enough demand for both to survive.

Second, permitting and regulation can make building a new pipeline a decade-long process.

Third, Enbridge forces customers to sign long-term contracts, so they couldn't leave without paying a steep penalty.

All of this should be music to Buffett's ears. His holding company currently has enough cash to buy Enbridge outright. Will he make a move soon?

## Will Buffett acquire Enbridge?

Despite all of these competitive advantages, Enbridge stock still dropped 26% in value this year. What happened?

"Enbridge needs steady oil volumes to maintain profitability. A slight dip would put its entire business model in doubt," I recently [explained](#). "Worse still, the company is moving forward with massive expansion projects that will take a decade or more to pay off."

Enbridge's business model is strong when fossil fuel production rises, but if it falls, or even just plateaus, the company's finances will quickly be stretched. This possibility should give Buffett pause.

Just look at **BP's** recent energy forecast, which believes world oil demand may have already peaked. That means oil demand will never reach 2019 levels again!

BP isn't alone. Oil majors like **Royal Dutch Shell** and institutions like the IEA are also sounding the [alarm](#). Buffett likes durable advantages, but Enbridge's might run out by the end of the decade.

There are plenty of reasons to think Buffett will buy Enbridge stock, but the challenging long-term story should prevent him from making a move.

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