



Will Enbridge (TSX:ENB) Stock Really Go Bankrupt?

Description

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) was founded in 1949 to build a pipeline that transports Alberta crude to refineries in Regina. Today, it's one of the largest pipeline owners in the world.

The scale of this business is [staggering](#). It transports 20% of North America's crude oil, plus a large share of its natural gas, generating more than \$30 billion in annual revenue using 11,000 employees.

Here's the thing: this company will eventually go bankrupt. Seriously. If you don't believe me, just look at the math.

This is the problem

Pipelines are expensive. Some sections cost several million dollars to construct a single kilometre. Expansion projects cost anywhere from \$100 million to \$10 billion. If you want to compete, you need deep pockets.

This dynamic is partially what made Enbridge successful over the years. High costs limit competition. There's a reason why a single company commands 20% of the market.

High costs have a downside, however. If a pipeline costs \$1 billion to construct, it'll take a long time to pay off. Plus, the company responsible needs to borrow huge sums of money for the initial construction.

Enbridge is a good example. It has \$67 billion in debt. In 2016, it had just \$40 billion in debt. All this debt accrues interest. To pay the interest, Enbridge relies on its pipelines to generate revenue.

In short, pipelines are a long-term bet. You borrow a bunch of money, build an expensive asset, and hope it makes enough money over time to service the interest payments and pay off the debt when it matures.

For decades, this strategy worked very well. Oil demand in North America has grown historically. More importantly, oil *supply* has consistently grown. All that oil needs to be transported to refineries and end

users. That's where Enbridge comes in.

But what if oil demand has already peaked globally? What if North American oil supply starts to fall?

In this scenario, Enbridge would be in *huge* trouble. Its network of pipelines would still transport fossil fuels, but not enough to service the fixed-cost debt payments. The assets would have value, but legacy debt could wipe out equity holders.

When will Enbridge go bankrupt?

A [dark](#) future for pipeline owners isn't a fringe idea.

Last month, **BP** released a report arguing that global oil demand has already peaked. That's right, the world may never consume more oil than it did in 2019.

In addition, many analysts are sounding the alarm that Enbridge's pipelines are built for a world that won't exist.

"Because of their typical lifespans of 40 years or more, pipeline projects and their sponsors tend to be highly leveraged, with long payback periods," argued a [report](#) from *Global Energy Monitor*. "The world for which many North American pipelines are being built may no longer exist by the time they are completed."

The reality that these businesses could collapse (at least for equity owners) isn't a fantasy.

"Such a possibility is not just hypothetical: it is exactly the combination of elements that created the coal mining meltdown of 2008 to 2014," the report concluded.

When will Enbridge go bankrupt? It's hard to say. To be sure, the world will be consuming fossil fuels for decades to come. The company's pipelines will be used throughout that period. But the debt clock is ticking, and equity holders should eventually lose everything. It's only a matter of time.

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