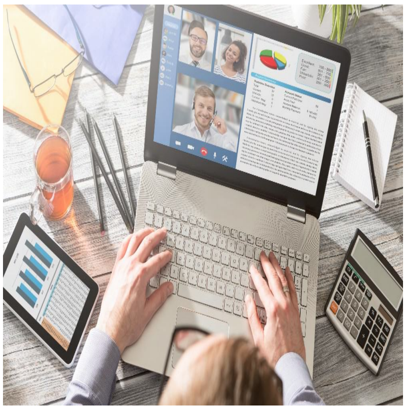

This Stock Should Be the Cornerstone of Every Portfolio

Description

Energy happens to be a cornerstone of the Canadian economy. For many Canadian investors, blue chip oil & gas investments continue to be cornerstone investments for long-term portfolios.

Enbridge Energy Inc. (TSX:ENB)(NYSE:ENB) is perhaps one of the highest quality options to choose from in the Canadian oil patch. There are many options available to investors in this space. I believe this stock is one of the safest plays. This stock is also one of the best income-generating investments for those with a long-term investment time horizon.

Safety is everything

Fellow Fool contributor Ryan Vanzo who wrote a recent piece outlining a bearish case for why Enbridge could go bankrupt. However, I believe this is one of the safest stocks any investor could own.

Mr. Vanzo cites weak supply/demand fundamentals and weak commodity prices as reasons why Enbridge could be under siege. These are certainly headwinds for the sector. That said, here's why Enbridge is relatively immune to these macroeconomic forces.

Supply and demand in the energy sector have been out of whack for some time. This is because new technologies have come online in fracking, oil sands, and other forms of drilling. Oil is easier and cheaper to produce. Lower near-term demand is driven mostly by the recent global pandemic. The near-term outlook for oil is therefore certainly not pretty.

Contracts and clientele iron-clad

That said, Enbridge's business model is built on a strong foundation of mainly take or pay contractswith blue chip oil producers. Counterparty risk (the risk that oil producers go bankrupt and can't paytheir bills) does exist, although Enbridge's contracts and clientele are of the highest quality. We willcertainly see a lot of bankruptcies in this sector over the next few years, but looking at Enbridge'soverall exposure, one must realize this risk is minimal.

Pipelines are essential to this sector, and Canada actually has a shortage of pipelines to get oil to international markets. This means that Enbridge's actual capacity in its pipelines is likely to remain at or near full capacity for the long-term. The same can't be said of producers with commodity price risk as price-takers, however.

Pipelines the railroads of energy

Pipelines could be viewed in a similar way to railroads. These assets are expensive, have high capital costs to build and maintain and are not viewed as "sexy" investments by growth investors. That said, these assets are also rare, difficult to build, and the barriers to entry in this sector are therefore sufficiently high. This makes pipelines extremely safe as far as the supply/demand fundamentals of the pipeline business go.

Debt isn't really an issue

As far as the company's large debt load goes, one may have noticed that bond rates across the board have dropped to extremely low levels. Corporate bonds (how these pipelines raise money in the debt market) demand correspondingly low yields.

This means money is cheap, so in theory, this increases the net present value of any unfunded project currently on Enbridge's books. This also makes refinancing any existing debt a heck of a lot more attractive. With average project life cycles in the decades, being able to obtain cheap long-term financing is important for pipeline operators like Enbridge.

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