



Warren Buffett: Is Enbridge Stock on His Buy List?

Description

Warren Buffett has a knack for buying [undervalued stocks](#) and reaping massive long-term returns. His purchases of **Suncor** stock and **Barrick Gold** stock earlier this year have investors wondering where the next deal might be in the Canadian market.

Is Enbridge stock attractive?

Warren Buffett's company, **Berkshire Hathaway**, likes to own stocks that provide reliable dividends. It also targets industry leaders that enjoy sustainable competitive advantages.

Enbridge (TSX:ENG)([NYSE:ENB](#)) certainly possesses these characteristics. The company is a giant in the North American energy infrastructure industry. Enbridge transports roughly 25% of all the crude oil produced in Canada and the United States. In fact, Enbridge operates the longest crude oil and liquids transportation system on the planet with 27,500 kilometres of active crude oil pipelines.

The natural gas pipelines transport 20% of all the natural gas used in the United States. Enbridge operates a gas transmission and midstream pipeline network that runs 38,000 km in five Canadian provinces and 30 American states. The gas assets also have 438 billion cubic feet of natural gas storage capacity.

Enbridge's other businesses include natural gas utilities and renewable energy assets. The company distributes natural gas to 3.8 million residential, commercial, and industrial customers in Ontario and Quebec. The wind, solar, and geothermal projects in North America and Europe boast nearly 2,000 megawatts of renewable power generation capacity. That's enough to supply 900,000 homes.

Most of Enbridge's revenue comes from regulated assets, which means cash flow is relatively predictable and reliable in normal economic conditions. The pandemic saw a drop in throughput on the core oil pipelines, but the network normally runs near capacity.

Why would Warren Buffett buy Enbridge stock?

Berkshire Hathaway spent US\$10 billion this year to buy the [gas transmission assets](#) of **Dominion Energy**.

Berkshire also placed a big bet on Suncor Energy stock. So, Warren Buffett and his team apparently see value in the oil and gas industry at a time when everyone else is staying away.

Enbridge trades near \$43 per share at the time of writing. That's up from the closing low of \$34 in March, but still way off the 2020 high of \$57 it hit in February before the market crash. Enbridge just raised its [dividend](#), despite the challenging year, and expects to generate distributable cash flow growth of 5-7% in 2021 and beyond. That should support annual dividend increases in the same range.

The current payout provides a yield of 7.8%.

Enbridge owns unique assets that can't be replicated. In fact, it is very difficult to get new major pipeline projects approved. This means the ones that are already in place have great value and provide a sustainable competitive advantage. Global oil demand will continue to rise for decades despite the push to replace combustion engines with electric vehicles.

Emerging economies don't have the per capita wealth or the electricity infrastructure to simply switch to all-electric vehicles. At the same time, people want to own cars as their incomes expand. This means demand for gasoline and diesel should continue to grow. Oil is also used to make plastics and asphalt, among other things.

On the natural gas side, the global LNG market should expand in the coming decades. Canada and the U.S. have ample supplies of cheap natural gas. In addition, utilities continue to convert coal-fired power plants to burn natural gas.

The bottom line

Enbridge's pipelines operate as toll booths that generate steady cash flow. That's the type of asset Warren Buffett likes to own.

Only Warren Buffett knows if Enbridge is a stock he would buy, but it wouldn't be a surprise to see Berkshire Hathaway take a position in the energy infrastructure giant while it is out of favour.

Even if the Oracle of Omaha takes a pass, income investors with an eye for a deal might want to pick up some Enbridge stock before the market realizes how cheap it is today.

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Date

2025/08/27

Date Created

2020/12/16

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