The Upcoming Market Crash Is No Match for This Canadian Defensive Gem!

Description

Valuations have increased to what many are calling obscene levels. We haven't seen stocks this pricey since the dot-com bubble crash.

With that in mind, finding stocks that can help add defensiveness right now seems like a good idea. In this article, I'm going to discuss why I think **Enbridge** (TSX:ENB)(NYSE:ENB) is the perfect such company.

The business model is recession-resistant

Enbridge's business model is one which is about as resistant to recessionary forces as one can get. This goes double for companies in the energy sector, which continued to have depressed valuations.

High levels of exposure to commodity prices have hampered the oil patch in Canada. However, Enbridge's exposure to these forces is minimal. The company's business model is well insulated from these pressures. This is primarily due to the high-quality contracts with blue-chip oil producers, which lock in revenues over the long term. Enbridge's cash flows are thus extremely stable, and need to be, given the long-life, high-capital-intensity needs of its assets.

I think Enbridge could get a big boost if we see this recovery in oil prices persist in the coming years. This is a pure, extremely long-term holding, so if you're of the view that oil prices can't stay this low, this is a great pick. Many analysts have pointed to the fact that oil is simply unproductive at these levels. Accordingly, the poor supply/demand fundamentals of this sector have already begun to improve naturally. I think these macroeconomic forces will eventually force a rebound in commodity prices to longer-term equilibrium levels. This is broadly bullish for the sector, and Enbridge could turn out to be one of the biggest winners in such an environment.

Dividend stability is key with an Enbridge investing thesis

One of the issues many investors have with Enbridge right now is the relatively high dividend yield of this company. Any dividend around 8% focused on Canada's energy patch ought to be taken with a grain of salt. Some investors are simply pricing in a dividend cut with shares trading at these levels. Pessimism around the ability of Enbridge to continue to raise its dividend have put this stock under pressure.

That said, fellow Fool contributor Joey Frenette recently wrote: "Borrowing money or selling non-core assets to finance a dividend can be a risky proposition that could lead to longer-term business erosion. With a shareholder-friendly management team that's reluctant to go back on its dividend hike promise, though, the dividend is likely to be left standing, even if it means pulling back modestly on growth initiatives amid continued headwinds."

I couldn't agree more. At the end of the day, mid- to high single-digit dividend increases could be out the window for the foreseeable future. That said, this dividend is very likely to be left standing and could grow closer to the 3% pace of late.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. dividend
2. dividend stock
3. energy
4. growth
5. investing
6. market
7. value investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Energy Stocks
2. Investing

Tags

1. dividend
2. dividend stock
3. energy
4. growth
5. investing
6. market
7. value investing

Date
2025/07/02
Date Created
2021/01/10
Author
chrismacdonald