Why Did Enbridge (TSX:ENB) Stock Fall 18%?

Description

Enbridge (TSX:ENB)(NYSE:ENB) stock has long been a reliable investment. In 1995, shares were valued at $4. Today, they're above $40. That doesn't even include the return from dividends, which push average annual returns into the double-digits.

Over the last 12 months, however, things don't appear as rosy. Shares are lower by 18%.

Despite the lower stock price, executives *raised* the dividend, which now pays investors a 7.7% yield. Is now the time to buy and lock in this incredible income stream?

This stock is a monopoly

Here's the first thing to know about Enbridge: it's basically a monopoly. The company transports 20% of North America's crude oil, plus a sizable portion of the continent's natural gas. This fact alone confers a ton of market power, but it goes much further than that.

Enbridge transports fossil fuels using pipelines. This infrastructure is far more efficient than using roads or railways. If you own a pipeline, odds are that oil and natural gas producers are knocking on your door for access.

The problem, at least for customers, is that there's not a lot of pipeline capacity out there. Fossil fuel production continues to rise thanks to technological innovation, but pipelines takes years and billions of dollars to build. Regulatory uncertainty alone makes it nearly impossible to add new capacity quickly.

All of this means existing operators win. Customers need pipelines, and there aren't a lot available. We saw this in action a few years ago when a sudden surge in Canadian production forced suppliers to bid to the death to secure capacity. Fossil fuel companies lost, but pipeline operators had their monopolistic powers verified in real time.

Enbridge will be challenged

There's no doubt this is a fantastic business, but even strong competitors can be challenged by macroeconomic factors.

To make money, Enbridge needs to transport oil and natural gas. That means end users need to demand those things. If they don't, energy producers will stop producing, eliminating the need for Enbridge's infrastructure to exist.

Unfortunately, the demand picture looks bleak. **BP** released a report last year claiming that oil demand globally may have already peaked. That spooked markets.

To be sure, we'll be consuming oil for a long time, but even small decreases in demand can hit pipeline businesses hard.

"Because of their typical lifespans of 40 years or more, pipeline projects and their sponsors tend to be highly leveraged, with long payback periods," argues 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."

Enbridge has more debt than its current market cap. That debt comes with fixed payments. If revenues dip, even slightly, the entire operation could be in peril, at least for equity holders.

Bottom line

The world is changing. Over the next few decades, renewables will eat into Enbridge's former monopoly position. But as mentioned, none of this will happen overnight. The question now is: what is your time horizon?

If you'd like to own a stock for decades, this likely isn't for you. However, if you're looking for a multi-year income generator, Enbridge still has plenty of cash flow to generate.

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