Enbridge (TSX:ENB): Oil Is Surging, So This Stock Could Take Off!

Description

With the economy recovering and a sense of normalcy returning to society, many investors (especially those heavily invested in the energy sector) are asking the question: Is oil making a comeback?

The question is difficult to answer for the long term, but for now, oil is indeed surging, and it's fueled by more than just an intangible sense of recovery. Oil prices have hit a new high, and since the production was slashed during the pandemic, the demand for the current inventory is rising. It's augmented by the efforts of OPEC+ and Saudi Arabia's decision to cut back production by one million barrels a day.

OPEC and other major oil producers of the world expect to eliminate surplus oil by the middle of the year. The only wrinkle in oil's present recovery is that despite a viable vaccine available, the new COVID variants keep the fear of the virus alive, and many people are observing self-administered isolation. But for now, oil and oil companies like **Enbridge** (TSX:ENB)(NYSE:ENB) seem ready to take off.

A relatively safe energy stock

Enbridge is a relatively safe energy stock, even when the energy sector is not safe at all, thanks mostly to its business model. As a pipeline company responsible for transporting the oil that has already been produced, and with its revenues dependent upon long-term contracts, Enbridge's stock is not *as* affected by oil prices as the stocks of major oil producers do.

But it also works the other way around. Once the oil begins surging, Enbridge stock doesn't go up the same way. The stock price growth rate of Enbridge vs. four major oil producers — i.e., **Suncor**, **Canadian Natural Resources**, **Imperial Oil**, and **Cenovus Energy** — for the last few months is very different.

Though the growth pattern is nearly the same, Enbridge stock has grown 24.6% from its lowest point in November, while the other four have grown 45%, 46.6%, 66%, and 76.6%, respectively, aroundroughly the same time. But capital growth hasn't been a strong suit of Enbridge for quite a while. It'sthe dividends that attract most investors to this energy giant.

The coveted growth

Despite going through a rough patch for the industry, Enbridge didn't slash its dividends. It even grew its dividends, continuing along its aristocratic route. Currently, the company offers a generous yield of 7.65%, higher than many other significant players in the industry.

But if oil keeps rising up at this rate, Enbridge stock might take off as well. Even if it doesn't offer as much capital growth potential as others, it seems like a fair price to the safety it offers. The company has grown its profits continuously for the last 10 years, but the winning streak ended in 2020. Still, 2021 might help Enbridge get back on the winning track.

Foolish takeaway

Oil is surging for now, and if the prediction about depleting the surplus by the middle of this year is accurate, the sector might stabilize till the end of this year. If significant oil producers control the supply with a tighter grip and don't flood the market with oil, the industry might stay strong for years or even decades — at least long enough to make the world's eventual transition to green energy easier.

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Author
adamothman