Enbridge Stock: Not as Risky as the Market Believes

Description

Enbridge (TSX:ENB)(NYSE:ENB) has been in the news of late, and not necessarily in a good context. It appears the company's pipeline expansion projects are being met with some resistance, and shares have plateaued somewhat this year.

That said, I'm still a staunch believer in the long-term income-generating power of Enbridge. I think this company is a perfect high-yield option today. This yield, combined with growth potential in its underlying business, ought to provide double-digit expected total returns over time.

Continued operations of Enbridge's Line 5 is non-negotiable for the country

Michigan's order to shut down Line 5, a pipeline that carries petroleum from Western Canada to Eastern Canada via the Great Lakes states, was met with strong resistance from the Canadian government. The Trudeau Government considers that this line is a critical energy artery for Ontario, and shutting it down will have devastating effects such as fuel shortage, loss of employment, and increased energy consumption.

Indeed, it appears the Canadian government is forced into hanging its hat on existing infrastructure projects. That is, even when such projects are contrary to environmental goals set by the same cabinet.

Why?

Well, Enbridge has become an economically sensitive, "too-big-to-fail" Canadian company. There's too much riding on Enbridge's success for the government to let it fail. This sort of "government put" is valuable, and investors should be reminded of this from time to time.

Oil and gas stocks have a long-term future

Yes, there are ongoing negotiations over Enbridge's expansion projects. And yes, oil is likely to take a back seat to renewable sources of energy over time. However, Enbridge is currently trading at what I would consider to be an unreasonably low valuation.

This valuation is reflected in the company's dividend yield. Indeed, Enbridge's 7.4% dividend yield is unsustainable, in my view. Either the company cuts its dividend, or these shares get bid up, reducing its yield. However, investors are pricing in some pretty bearish forecasts for oil at a time when oil appears to be in the midst of a bull market.

Additionally, Enbridge currently provides investors with a long-term CAGR of 8.9%. This sort of growth has powered continued dividend increases over time and will continue for some time to come.

Enbridge's share price hasn't fallen off of a cliff, or anything like that. It's been pretty stable. It just hasn't taken off like a company with a 7.4% dividend yield should.

One crucial reason why Enbridge has remained consistent, in my opinion, is that the transition to alternative fuel resources is going to take time. Moreover, oil and gas firms, including Enbridge, have already started researching ways to reduce their carbon footprint.

A *Reuters* report claims that this company hopes to reduce the intensity of greenhouse gas emissions by 35% by 2030.

Enbridge has a highly strategically diversified asset base. Combine that with the fact that 95% of its customers are investment grade, and we can see that the industry is still thriving and in demand.

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