Will Enbridge (TSX:ENB) Stock Double or Go to $0?

Description

Enbridge (TSX:ENB)(NYSE:ENB) is one of the top stocks in Canada. Since 1995, shares have produced double-digit annual returns, fueled by a dividend that now exceeds 7%.

But history isn't always an indicator of future performance. Some analysts think the stock will double in 2021. Others believe shares will ultimately go to $0.

What's the truth?

You need to know these facts

Before we get to the bull case, let's get the uncomfortable facts out of the way. Enbridge faces an uncertain and troublesome long-term future. And by long term, I mean several decades.

The reality is that global consumption of oil may have already peaked. A report from **BP** last year said exactly that, and BP isn't incentivized to bash its primary profit machine. Even if demand hasn't exactly peaked, there's no doubt that renewables will eat more and more into oil consumption as time goes on.

This shift to renewables is terrible for Enbridge. As the largest pipeline operator in North America, its pipelines are stuffed with fossil fuels like oil and natural gas. If demand for those fuels declines, Enbridge is directly vulnerable.

Meanwhile, the rise of renewables isn't going away. Around $1.5 trillion was invested into renewable energy projects worldwide over the last five years. Over the next five years, investment should exceed $5 trillion. Meanwhile, increased regulatory pressures due to climate change continue to present long-term headwinds.

This is why many analysts believe the clock is ticking for Enbridge. Imagine owning a newspaper distributor in the 1980s. You would have minted a fortune. Today, you'd be eating massive losses.Long term, fossil fuels could go the way of the newspaper: they're still in use but dramatically less than historical levels.

Take advantage of the Enbridge fear

Fossil fuel demand will trend lower globally in the decades to come. But this decade, the immediate impacts are unclear. You can take advantage of this fear by purchasing ENB shares on the cheap.

Several new projects are coming online that will add significant cash flow to the current business. That's because pipeline economics remain very encouraging.

"To understand how this stock will be an income investor's dream, you need to learn how pipeline economics work. It's actually quite simple," I recently explained. "You spend billions to build the initial infrastructure, but then ongoing expenses are fairly low, meaning cash flow generation is very high."

"Once Line 3 is in service, it's going to contribute a lot of free cash flow — and this year we anticipate it will be about $200 million in Q4 — with volumes and EBITDA ramping up in 2022," said Enbridge CEO Al Monaco.

These cash flows will continue to support the 7.2% dividend. That outsized payout is attainable because shares trade at multi-year lows due to long-term concerns over fossil fuel demand.

How should you invest? I doubt ENB stock has the potential to double in value ever again due to heavy long-term headwinds. And shares going to $0 won't occur for another decade, even in a bearish scenario. Instead, expect meagre but consistent returns, mostly fueled by the dividend.

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