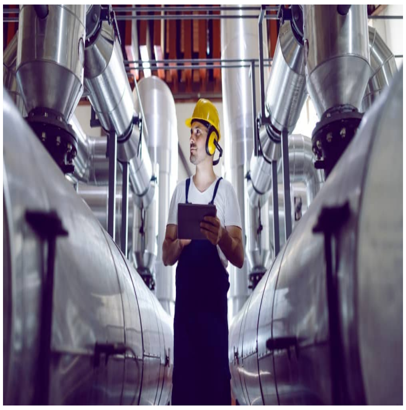

2 Reasons to Be Cautious With Energy Investing Today

Description

Oh boy, energy investing.

The energy sector is one that has been under pressure for some time. Indeed, many investors simply won't touch energy stocks, for good reason. Conventional investments in the energy sector may continue to be under pressure over the long term. However, investors who are willing to invest in this space with less risk do have options. One of my top picks for some time for investors in this boat has been **Enbridge Inc.** (TSX:ENB)(NYSE:ENB).

Here's more on why I think Enbridge is a great pick for energy investors today.

Worldwide oil demand will probably not recover to pre-pandemic levels until 2023

According to the International Energy Agency (IEA), worldwide demand for oil will not be returning to 2019's pre-pandemic levels before 2023, if at all. Moreover, the Paris-based organization also stated that growth would be low following the pandemic recovery. Our newfound work-from-home society and increasing focus on renewable energy options are two such catalysts for this decline.

It's expected that oil demand will average 101 million barrels per day in 2023. This figure factors in a full recovery of the 9 million barrels a day that were lost due to pandemic-related lockdowns. That's good news for energy investors.

However, with fewer people heading into the office, commuting, and traveling, demand growth will likely be muted over time. Additionally, as governments continue to take targeted action against climate change, "dirty" energy options are likely to be pushed aside in favour of renewable energy sources. Accordingly, the demand for oil during the middle of this decade is estimated to be 2.5 million barrels lower than what the IEA predicted last year.

As oil demand may or may not recover to the pre-pandemic levels, pure-plays on the energy sector could be much more risky than investors thought a few months ago. Betting on an energy demand surge to record levels in the near-term is one I wouldn't take right now.

Enbridge is one of the best ways to play oil indirectly

Enbridge has built a solid business model based on long-term pipeline contracts with oil producers. Importantly, the provisions of the contracts are favorable for Enbridge and its shareholders.

Indeed, Enbridge's business model is instrumental in providing cash flow stability over time. This makes the company a preferable option when compared to pure-play oil producers. Enbridge makes money irrespective of whether the price of oil goes up or down.

This cash flow stability provides investors with a relatively high dividend yield, which is over 7%. As interest rates for most savings accounts remain near-zero, Enbridge stock is a great option for income investors.

Bottom line

Yes, Enbridge stock has proven its value as a long-term core portfolio holding option.

The company's high dividend yield and efficient business model make Enbridge a much more secure and profitable option than pure-play oil producers. Additionally, the fact that pipeline stocks such as Enbridge are less impacted by fluctuations in oil prices when compared to oil-producing companies is a great thing for long-term investors.

Indeed, I believe this is one of the best options for investors who want to invest in energy with less exposure to the commodity. Those with an income tilt should certainly consider this stock today.

CATEGORY

1. Dividend Stocks
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POST TAG

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7. yield

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