Enbridge (TSX:ENB) Suffers Line 3 Replacement Delay: Buy the Dip or Jump Ship?

Description

In a devastating and unexpected punch to the gut of investors, **Enbridge** (TSX:ENB)(NYSE:ENB) announced that its much-anticipated Line 3 Replacement (L3R) in-service would be delayed to the second half of 2020. The stock immediately pulled back 5.8% in the trading session that followed the news, as the L3R was seen as a significant catalyst and a much-needed source of relief for a company that's been in the doghouse for years.

Indeed, the unfortunate news was salt in the wounds of investors, especially when you consider the considerable debt that's been sitting on the balance sheet and the tightening financial conditions that have had many analysts questioning whether Enbridge's management team would consider renewing its 10% annual dividend raise promise past 2021.

Sure, the L3R was a huge growth engine for the company at a time when it needs it most, but the negative reaction that followed the news of the delay (a near 6% single-day plunge) was overblown. Nobody likes delays, but the exaggerated negative move was likely driven by weak-handed traders that threw in the towel over the lost opportunity to make a quick buck from the L3R catalyst.

At this juncture, the longer-term story is still intact, and while the L3R delays will likely result in a wave of analyst guidance downgrades across the board, I still think Enbridge is more than capable of getting its wheels back on the tracks.

In fact, I think that the delays are unremarkable for true long-term investors who intend on holding the stock for years as they continue to collect the fat dividends slated to increase 10% per year over the next few years. I'd take it a step further by calling a renewed dividend hiking promise come 2021, when L3R should be up-and-running, providing Enbridge with the financial relief that it so "desperately" needs.

While the dividend and the 10% in raises over the near future are a huge commitment given Enbridge's limited financial flexibility, management has been making the solid moves given the unfortunate hand it's been dealt.

Fellow Fool Chris MacDonald recently shed light on Enbridge's DRIP suspension and why it was a good move for the company and its shareholders. The DRIP suspension was just a small win-win move that investors might have mistaken as something insidious. It sure sounded scary, but it was yet another shareholder-friendly move that'll marginally help ease a bit of pressure.

Foolish takeaway on Enbridge and the L3R delays

After the recent pullback, Enbridge sports an even larger 6.33% dividend yield, which while stretched appears safe, pending a potential disaster that could derail management's long-term plan.

The L3R delay is a clear negative, but it's no disaster. Not even close. This pullback is nothing but a blip in the grander scheme of things, so if you are buying into Enbridge's turnaround story, know that the L3R delay is just a bit of short-term pain that's standing between you and a potentially large long-term gain.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

Date
2025/08/27

Date Created
2019/03/07
Author
joefrenette