Should Investors Sell Enbridge (TSX:ENB) Stock After the Recent Line 3 Setback?

Description

The week didn't get off to a great start for **Enbridge** (TSX:ENB)(NYSE:ENB). On Monday, the company received yet another setback on its Line 3 oil pipeline. The Minnesota Court of Appeals said that the current environmental impact statement is insufficient. More specifically, it "doesn't address the possibility of an oil spill into the Lake Superior watershed."

This is now the second delay for the project to hit the company in 2019. In March, Enbridge said that the pipeline wouldn't be commissioned until late 2020 due to permitting issues. This is a year later than originally expected. In response to the most recent court ruling, Enbridge's stock suffered a 4.70% drop in price on Monday.

Line 3 is a key growth project for the company. It is expected to upgrade the existing pipeline and double its carrying capacity. Although the general consensus is that the project will eventually receive approval, the setback casts uncertainty on the project timeline.

So, what should investors do? For starters, *don't panic!*

When it announced the first delay in March, the company also re-iterated 2019 guidance. There is no question that Line 3 is an important project for the company. It is an $9 billion project. However, Enbridge has more than the Line 3 project in the pipeline. In 2019, it expects to put into service approximately $3 billion worth of projects. In 2020 and beyond, it has an additional $4.8 billion of proposed projects.

Over the short term, I anticipate that more delays to Line 3 will cause further share weakness. Once it digests the most recent court ruling and determines next steps, the company will most likely revise 2020 guidance downwards. This is especially true if the company pushes out the project into 2021 or beyond. Expect analysts to follow suit and revise 2020 earnings and revenue estimates downwards.

Furthermore, this could also impact the company's dividend-growth rate. As of writing, the company has committed to grow dividends by 10% through 2020, and discounted cash flow is expected to grow at a 6% clip post 2020. However, the timing of the Line 3 project can impact these numbers. If the company revises these numbers downwards, its stock can see additional weakness.

This is not to say that you should dump the company's stock. On the contrary, Enbridge may end up being an attractive contrarian investment. The company's current dividend is well covered by existing cash flows. As such, although dividend growth may slow, there is no risk that the dividend will get cut.

Foolish takeaway

There is no question that the Minnesota Court of Appeals's issue with Line 3 is yet another setback for the company. However, it is expected to be temporary. Stripping out this important project, Enbridge should grow earnings in the low single digits. Although a far cry from the double-digit earnings growth expected before the ruling, it still has plenty of projects that will drive modest growth.

The dividend is safe, and at a current yield of approximately 6%, investors are paid well to wait out the current setbacks with Line 3. Enbridge is a hold and a buy on further weakness.

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