Enbridge (TSX:ENB) Stock: Good News Has Arrived

Description

The TSX's energy sector is going down again. The S&P/TSX Capped Energy Index has dropped 17% in just 30 days. It might be because of the fear of a second wave of coronavirus and another phase of lockdowns and low travel. Another factor can be the perception that the post-COVID-19 world will focus more on clean energy and leave fossil fuel behind.

OPEC and BP are not very optimistic about the oil price recovering and growing much in the near future. The low demand caused by the pandemic was balanced out by a reduction in oil production by OPEC countries and the Saudi-Russia oil war. But the internal conflicts that prevented Libya from exporting oil for so long are settling down.

When Africa's largest oil reserve holder joins the game, especially at the same time a second wave of the pandemic is expected, the world may again see a sharp fall in demand and oil prices. But in the Canadian energy sector, there is some good news for **Enbridge** (TSX:ENB)(NYSE:ENB).

The good news

The good news is about Enbridge's Line 5, which experienced a bottleneck. It goes under the straits of Mackinac and splits into two legs: east and west. A while back, movement beneath the underwater anchor that supported the eastern line caused Enbridge to immediately shut down construction. This fell in line with the local pushback regarding the line that was already there.

The local government stopped Enbridge from taking the line further. The western line was allowed to be constructed, but the last leg was completely shut down. But now, Enbridge has won approval to continue with the eastern portion of the pipeline.

The impact

The news isn't big enough to cause the stock to soar, but it does play an important role. The pipeline transports light crude, and the natural gas line is expected to help other major players like **Suncor**. The pipeline primarily serves Michigan, and with the legal issue out of the way, its construction will help improve Enbridge's revenue stream.

The stock is currently trading at $30.9 per share. That's 9% down from the post-pandemic high and 28% down from its pre-pandemic yield. But since it wasn't a powerful growth stock to begin with, most investors won't worry about Enbridge, as long as it keeps paying its dividends. In fact, investors might want to add Enbridge in their portfolios mostly because of its mouthwatering 8% yield.

The payout ratio is currently very unstable, but if the demand resumes nearing its pre-pandemic value, this aristocrat will cover its dividends quite easily.

Foolish takeaway

The stock was overbought in February before the pandemic. And like most other stocks, investors dumped so much of Enbridge back into the market that it almost became oversold in March. The pattern traces the market crash, and, unfortunately, the current momentum of the stock isn't in Enbridge's favour. According to its 14-day RSI, it's not oversold yet, but it's going in the right direction.

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