



Enbridge (TSX:ENB) Stock: Should You Panic After Biden's Keystone XL Bombshell?

Description

Enbridge Inc ([TSX:ENB](#))([NYSE:ENB](#)) is one of Canada's most popular energy stocks. With a 7.5% yield at today's prices, it's a high-yield play with a long track record of delivering income to investors. Sure, its projects have encountered regulatory resistance in the United States. But the company has mostly prevailed in the long run, so why worry?

Well, investors may now have good reason to worry. Recently, it was revealed that U.S. President-Elect Joe Biden was planning on rescinding **TC Energy's** Keystone XL Permit in his first few days in office. Immediately afterward, Canadian energy companies expressed dismay. But there has been no indication that Biden will go back on his word.

It's pretty clear that this news is bad for TC Energy. With the company's biggest project hanging in limbo, much of the money it has invested will go to waste. It could also be bad news for Enbridge. ENB has many pipeline projects in the works south of the border, some of them still facing regulatory hurdles. If Biden's [actions toward Keystone](#) indicate how he'll treat pipelines as a whole, ENB could be in real trouble.

So the question is: Does Biden's Keystone decision indicate his attitude toward energy pipelines as a whole, and what does that mean for ENB?

Biden's stance on pipelines

Joe Biden's [energy policy](#) does not mention pipelines specifically. However, we know the following about Biden's stance on energy:

- He plans to invest in clean energy.
- He wants to bring the U.S. back into the Paris climate accords.
- He has said that he will not ban fracking, except on federal land.

Overall, this gives a mixed picture. It looks like Biden will be less friendly toward fossil fuels than Trump was, but not outright hostile. It seems likely, then, that his decisions on energy projects like pipelines will go on a case-by-case basis. So it's hard to say exactly what his presidency will mean for Enbridge's in-progress projects. What we do know is that Biden isn't as friendly to pipelines as Trump was.

Enbridge's dividend

One of the main draws of ENB stock is the high yield. At today's prices, it yields about 7.5%. At the bottom of the March market crash, rising to 12%. If Enbridge's projects are cancelled or slowed by Biden's administration, it could put ENB's dividend growth in jeopardy.

However, the dividend as it stands today looks fairly safe. In the third quarter, Enbridge had \$2.09 billion in distributable cash flow (DCF) and paid \$1.6 billion in common share dividends, giving a 76.5% payout ratio going off DCF rather than net income.

Some third-party financial data providers give ENB a payout ratio in excess of 100%. You can ignore that. Enbridge's net income in 2020 was heavily influenced by non-cash factors like impairment and unrealized derivative losses. That said, these factors don't impact the company's ability to pay dividends. The payout ratio based on cash flow is much lower than 100% and appears safe based on third-quarter numbers.

Bottom line

I started this article with the question of whether Biden's Keystone XL decision put Enbridge in jeopardy. Now, at the end, I'm ready to deliver a verdict: it depends on your objective in holding the stock.

If you're just after the steady dividend cash flow, nothing Biden is proposing puts that in jeopardy. Enbridge's dividend is well supported by cash flow from its existing projects. But if you're looking for a really aggressive gain with *rising* dividends and strong capital gains, you might be disappointed. Having a pipeline project cancelled by the incoming administration would seriously hurt ENB's growth prospects.

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