Enbridge (TSX:ENB): The Line 5 Fight Could Cost Canada Dearly

Description

Enbridge Inc (TSX:ENB)(NYSE:ENB) is in the fight of its life. Following the revocation of a 1953 permit that allowed the company to operate in Michigan, the company is pleading for a quick solution. While Enbridge is prepared to take the matter to the courts if necessary, it is hoping for a political compromise. Just recently, its head lawyer, Vern Yu, went before the House of Commons, warning Ottawa of the dangerous consequences of having Line 5 shut down. In this article, I'll explore those consequences and what they could mean for Canada.

What's at stake

Various stakeholders in both Canada and the U.S. will be affected if Line 5 is shut down. Most obviously, Enbridge itself will lose revenue from no longer being able to use the pipeline in Michigan. It will also most likely have to lay workers off. Both investors and workers stand to lose out financially if Line 5 is forced to close.

There are also Canadians who depend on Line 5 for their energy needs. Currently, Line 5 supplies about 45% of the energy needs of Ontario and Quebec. If it's shut down, then oil and gas will need to be shipped to these provinces some other way–possibly by rail. If it has to be sent by rail then the costs will be higher, as crude-by-rail costs much more per barrel than pipelines do.

Is Enbridge still a good stock?

As we've seen, the closure of Enbridge's Line 5 would come at a great cost to various stakeholders. Investors, workers and consumers would lose out.

As for Enbridge itself, its stock price could easily be affected.

ENB is a popular dividend stock yielding 7.3%. Retirees and portfolio managers like it for its tendency to produce stable, dependable income. The closure of Line 5 would call all of that into question. Currently, Enbridge pays out 74% of its distributable cash flow in dividends. That's not a ridiculous payout ratio. But if the company lost, say, $1 billion a year in revenue, it would go much higher. If it risked going over 100%, Enbridge would have to cut the dividend.

The closure of Line 5–assuming it happens–increases the risk of that happening. A recent press release by the St. Louis Corridor Economic Development Commission said that Ontario alone receives 540,000 barrels of petroleum products a day through Line 5. If all of that is crude oil, then that's $11.8 billion worth of product per year at today's West Texas Intermediate (WTI) price of $60.

If Enbridge's fees added up to just 1% of that, they'd lose $118 million per year from the line being shut down. And that's not even factoring in oil shipped to Quebec, the United States and other destinations. This is just going off shipments to Ontario.

Foolish takeaway

2021 is shaping up to be a stressful time for Enbridge shareholders. With Michigan saying Line 5 needs to be shut down by May, there's no telling how much longer Enbridge can keep it operating for. ENB's management believes that it was illegal for the governor to revoke the easement, and has hinted that it will keep operating even if this isn't resolved by May. Overall, it's a tense situation with no easy solution.

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Date
2025/09/14
Date Created
2021/04/01
Author

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