



Enbridge (TSX:ENB)/Michigan Stand-Off: Will it Impact the Stock?

Description

The energy sector and environmentalists have been at odds for decades. Sometimes this age-old conflict manifests as rallies and protests; other times (when environmental causes get official backing) it manifests in legal stand-offs. The problem is that despite the overwhelming evidence that fossil fuels are harmful to the environment, the world doesn't have viable alternatives yet.

The **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) and Michigan state stand-off is an example of this.

Enbridge vs. Michigan

Enbridge's Line 5, which is capable of moving over half-a-million barrels of oils in a day and transports synthetic/sweet crude and natural gas liquids from Western Canada to Eastern Canada, has been a point of conflict for quite a long time. The pipeline runs through the Great Lakes states, including the relatively sensitive Straits of Mackinac in the U.S. state of Michigan.

Michigan has been concerned with [Enbridge's presence](#) in state waters since a significant spill in a separate line (6B) that flooded the Kalamazoo River in the state with over three million litres of oil. The company was also ordered to move the pipeline to a relatively safer bedrock.

But now, the state has decided that the parts of Line 5 are too dangerous to be allowed to operate on the straits of Mackinac. The company has set the deadline, which Enbridge is expected to ignore.

Michigan governor Gretchen Whitmer has rallied the support of Democrat attorneys general. However, Enbridge is confident that the government of Canada will back up its decision by invoking the 1977 transit pipeline treaty (it has been ratified by Congress).

Whether the company or the government caves into Michigan's demands is yet to be seen, but its consequences for the consumers served by the pipeline would be disastrous. The sheer resources that will need to be mobilized to replace the pipeline would drive the costs up and are expected to create a demand/supply discrepancy.

Enbridge stock

Will the decision impact the stock? It hasn't yet, but the chances are that if the balance is tipped against the company, it will most likely have a negative impact on the stock as well. The stock might not reach exactly crater, but a dip can be expected. A long-term shutdown of the pipeline might have relatively disastrous consequences to the company's income and revenue.

Currently, [the stock](#) is trading quite near its pre-crash valuation. It has grown over 24% in 2021, and the growth has been relatively steady so far. But even after the recovery bout, Enbridge's chief attraction, its dividend yield, is still a mouthwatering number of 6.8%.

Foolish takeaway

Enbridge stock might not be in any permanent danger, unless the state of Michigan goes through with its "financial threat" of taking the profits Enbridge makes since the claim is of trespassing and unjust enrichment. The company might expedite the creation of a pipeline bypass, and the resulting financial losses and subsequent valuation drop might actually benefit investors.

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