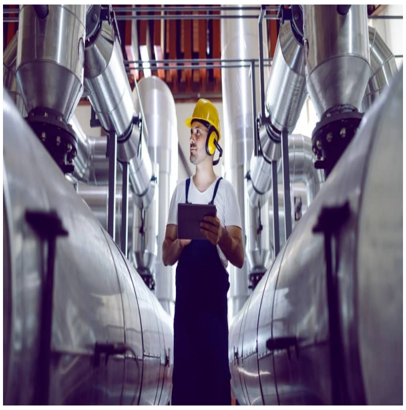

Could Enbridge Stock Become a Political Battleground?

Description

Headlines tend to be a good thing for any stock. However, the kind of headline attention **Enbridge** (TSX:ENB)(NYSE: ENB) has gotten these days isn't necessarily of the positive variety.

The pipeline operator has been engulfed in a heated dispute with U.S. regulators of late over the company's Line 5 project. This pipeline leg passes through Michigan and has received the thumbs-down from regulators south of the border. That said, Enbridge has continued to operate this pipeline in defiance of orders, spurring a unique political situation between Canada and the U.S.

Let's discuss what Enbridge's status as a potential political battleground stock means for investors.

A political battleground: good or bad?

Gretchen Whitmer, the Governor of Michigan, has directed Enbridge to shut down its Line 5 pipeline that runs beneath the Straits of Mackinac by May 12. This shutdown was imposed part to be a pre-emptive strike on any pipeline spills, particularly in key waterways. Enbridge, like other pipeline operators, has had a history of large spills in recent years. Accordingly, these fears from environmentalists are driving the agenda in certain States like Michigan right now.

However, Enbridge has maintained the production of its Line 5 pipeline. Operating this line illegally puts political actors in the hot seat. And Enbridge's management team seems to be okay with that.

The company's argument that the flow of this oil is essential to the North American economy is hard to ignore. And Canadian politicians have pushed hard to get U.S. regulators to change their minds. However, Michigan is now reportedly seeking ways to seize Enbridge's profit from operating its Line 5 if the company loses its lawsuit with the State.

While this all remains in flux, it appears pipelines are simply becoming political hot potatoes right now. Enbridge's other pipelines carry higher regulatory risks than ever before. And investors are pricing in these risks on an increasing basis every day.

Bottom line

This whole ordeal makes clear one pertinent concept: Getting new pipelines approved from here on is going to be near-impossible. What this means for Enbridge shareholders is quite mixed.

On the one hand, investors can't bank on future cash flow growth from new projects they once may otherwise have been able to. On the other hand, the company's existing pipeline infrastructure is going to become even more important. Enbridge's ability to raise prices as capacity is constrained could actually boost near-term profits. Fewer capital expenditures plus higher revenues are a good thing for pipelines.

Right now, there are many political risks priced into Enbridge stock. Accordingly, for value investors, this may be the best time to pick up shares.

For those who believe Enbridge's 7.3% dividend is safe, it's about as good a yield as one can get in the market today. I'm certainly in this camp. Accordingly, now is a great time to take a look at this high-income play today.

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