Should You Buy Enbridge (TSX:ENB) Ahead of its Line 5 Review Results?

Description

You cannot take every variable or every angle into account when you invest in a company. And even though the principles of a good investment dictate that you should only invest in assets that you understand, the understanding usually doesn't go too deep.

That's usually not a problem, because stock movements are driven by market perception, which is often swayed by optimism/pessimism within the industry and market news. And if you take advantage of these market movements to time your buys, you might be able to reap gains ranging from decent to extraordinary.

Nowadays, **Enbridge** (TSX:ENB)(NYSE:ENB) is often in the news regarding its Line 5 dispute, which is now being discussed in the White House.

The dispute

The Line-5 dispute, which has grown from a corporation and state level to the federal governments of the two countries, started with Michigan's state's governor's attempts to shut down Line 5 for fear of a spill. The line, which is over 68 years old now, is capable of carrying about 540,000 barrels of crude and liquids (at max), which is more than one-sixth of Enbridge's total liquid transportation capacity.

It's responsible for fulfilling 55% of the Michigan state's propane needs. The Michigan state's stance is that Line 5 is a severe risk of a spill in the Straits of Mackinac. The company claims that Line 5 complies with the requirements placed by the federal government, and the safeguards put in place to prevent a leak are working.

The stock

Enbridge stock took a tumble down 6.6%, following WTI's fall from the recent peak, though Enbridge's fall seems sharper. The whole sector was due to a correction anyway, and Enbridge's current dip might just be a precursor of the things to come. Many investors who opened a position in Enbridge to realize capital gains promised by the energy sector momentum might be leaving the ship. But capital gains are usually not the primary reason to invest in Enbridge.

The dividend yield, which is what Enbridge is beloved for, will become more attractive the further the stock slips. The energy giant is currently offering a mouthwatering yield of 6.5% right now. If it keeps sliding the way it has been, the company can easily reach a yield of 7% or more.

It has proven that it can sustain its payouts through harsh market conditions in 2020. So, waiting for the stock to bottom out before buying it for its attractive yield is a smart idea.

Foolish takeaway

Keep an eye on the energy sector, as the bull market fades. If the downward momentum has already started, you might see many other great energy stocks on sale as well. The Line 5 review/discussion in the White House and a definitive verdict *might* turn things around in Enbridge's favour, since the current perspective is that the U.S. government will decide against shutting down Line 5.

However, if the unexpected happens, Enbridge's stock *and* its revenue stream will take a major hit.

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Author
adamothman