Enbridge Is Leading the Canadian Large Caps Lower?

Description

Now there's a headline you don't see everyday! **Enbridge** (TSX:ENB,NYSE:ENB) was profiled here earlier in the week as a stock that was bumping up against its all-time high. Clearly Enbridge management read our piece as last night after the close the company announced an equity offering for 10,850,000 shares at a price of $46.11, a tad below the closing price of $46.40. The company cited growth plans that are going more quickly than expected as the reason for raising the cash.

Background

There are two primary ways that an equity issue like this happens. One is known as a "marketed deal" and the other a "bought deal".

In a marketed deal, the company spends a period of time "marketing", primarily to institutional investors, in an attempt to drum up enough investor interest to sell the desired number of shares. The key is that the onus is on the company to sell the deal.

With a bought deal, a broker (or more likely several brokers) will step in and buy the entire block of stock up front, at a set price. It is then up to the broker to go out and sell the deal to the investing masses. Brokers do this when they are highly confident that they will have no problem moving the stock at least at the price that they paid for it. Because the onus of selling the deal under this scenario shifts to the broker (the company has its money) it's not a service offered to all would-be issuers.

Ouch!

The Enbridge issuance was a bought deal. Many of Canada's brokers were involved but the leads were the **Royal Bank** (TSX:RY,NYSE:RY) and **Bank of Nova Scotia** (TSX:BNS,NYSE:BNS), scooping 31% each. Last night the respective sales forces would have been in full flight, telling their clients to lineup to buy the Enbridge deal Friday morning at $46.11 per share.

What the brokers probably weren't counting on was the market moving non-farm payrolls figure in the U.S. coming in so low, causing North American markets to swoon and investors that were in-line to buy the Enbridge deal to scatter.

The original deal was scrapped and a new pitch came out at $45.25, 1.9% lower than the first crack at it and 2.5% below where Enbridge closed yesterday.

The brokers have eaten a loss of about $9.3 million on this deal – chicken feed in the big picture of the banks that many of them are a part of, but a tough way to end the week nevertheless.

Foolish Takeaway

Enbridge shares are down on the day because of this equity offering. Nothing has fundamentally gone wrong with the company. In fact, it's very likely that they require this equity injection because so much is going right. The outlook for pipeline growth in North America is very positive and you can bet Enbridge is going to take this $500 million and put it to good use.

If you think Enbridge is a great dividend stock, you need to **click here** to receive our special report titled "**13 High-Yielding Stocks to Buy Today**". This report is absolutely FREE and will have you rolling in dividend cheques before you know it. You are just **one click** away from dividend nirvana!

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