A Quick Rundown on Enbridge’s Q2 Earnings

Description

Enbridge (TSX: ENB, NYSE: ENB) reported earnings this morning, and posted solid results, unlike midstream peer **TransCanada**, which missed expectations on revenue and earnings last week.

Analysts were expecting earnings per share of $0.39 and revenue of $5.7 billion. Enbridge booked adjusted EPS of $0.38 and revenue of $7.85 billion. There is much more to this story than analyst expectations, so let’s take a closer look.

General rundown

Enbridge is a complicated beast with many layers, which we will examine individually in a moment, but first let’s look at the year-over-year adjusted earnings performance for each of its five segments:

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Enbridge bdown

For the most part, the company is either flat or showing improvement, which is great. The exaggerated losses in the corporate division are a bit disconcerting, so let’s start the review there.

Segment performance

The **corporate segment** is where stakes from other entities, gains and losses from derivatives, and foreign currency taxes are accounted for. It posted a gain in the first quarter of this year, and a loss of $22 million this quarter. The loss was driven by “higher preference share dividends related to preference share issuances completed to pre-fund commercially secured growth projects”.

Of note: Enbridge received about $248 million from Noverco’s secondary offering of 15 million of its shares in the company. Enbridge will use that cash to pay part of its September 1, 2013 dividend, which means part of it will not qualify for the enhanced dividend tax credit.

The **liquids pipelines segment** recorded $159 million in adjusted earnings, despite a drop in throughput on its Canadian Mainline pipe due to refinery turnarounds in the Midwest. The decline was offset by an increase in earnings from the company's stake in the Seaway pipeline, and its regional oil sands system.

The **gas distribution segment** reported adjusted earnings of $25 million, down from $29 million last year. Enbridge expects this trend to continue as a result of higher operating and administrative costs.

Gas pipelines, processing, and energy services was far and away the best-performing segment this quarter, driving adjusted earnings up from $47 million last year, to $73 million this year. The bulk of that gain came from energy services, which popped $24 million compared to the second quarter of 2012. Unfortunately, this business makes money by exploiting commodity differentials, which are of course outside of the company's control. Management does not expect the favorable market conditions to persist for the remainder of the year.

The **sponsored investments segment** showed growth, adjusted earnings rose from $60 million last year to $71 million this year, but that is a bit deceiving. Enbridge received more money from its U.S. master limited partnership, Enbridge Energy Partners. But it wasn't on the strength of the MLPs performance. It was from an increased investment in the MLP and an uptick in incentive distribution rights. In May, Enbridge invested $1.2 billion in preferred units of EEP and distributions from those units pushed EEP's contribution up this quarter.

Bottom line
This wasn't a terrible quarter for Enbridge, but investors aren't walking away impressed either. The company has a long list of expansion projects aimed at driving growth, so opportunity certainly remains if management can execute its vision.

Enbridge is one of 5 companies we feature in our special **FREE** report "5 Stocks to Replace Your Canadian Index Fund". Another just got taken out a huge premium. To learn more about all 5, simply **click here now** to download the report at no charge.

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