



How to Make Sense of All the Investment Options at Enbridge Inc.

Description

The end of 2014 brought with it a crash in oil prices that continues to this day. Despite the falling price, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) remains in a solid financial position. We can see this when we look into Enbridge's 2014 annual report, which saw increases in revenues, profits, and dividend payouts.

Included in its annual report was the announcement that it would be transferring some of its Canadian assets to its subsidiary **Enbridge Income Fund Holdings Inc.** (TSX:ENF). Enbridge has also left discussion open to transfer all of its U.S. operations and assets to **Enbridge Energy Partners L.P.** (NYSE:EELP). Is this just clever bookkeeping or a great way for investors to double up on their investment in Enbridge?

2014 in review

Before we can take a deeper look into Enbridge's subsidiaries, we need to take a quick look at the fiscal health of the main company. Enbridge, despite the collapse of oil prices, managed to increase revenues in Q4 to \$8.7 billion from \$8.2 billion, and Q4 earnings increased to \$88 million from a loss of \$267 million last year. The biggest earnings gain Enbridge saw in the quarter was in its "gas pipeline, processing, and energy services" segment, which had earnings of \$185 million in the quarter up from a loss of \$325 in Q4 2013.

Revenues in 2014 totaled \$37.6 billion up from \$32.69 billion in 2013, while earnings rose to \$1.1 billion from \$446 million in 2013. The opening of the Flanagan South pipeline, which carries 600,000 barrels per day from Flanagan, Illinois to Cushing, Oklahoma, was a huge boost for the company's revenues.

Over the year, Enbridge initiated service on 15 new and expanded capital projects, with a total price tag of \$10 billion. Despite the current price of oil, Enbridge is projecting to spend another \$9 billion in capital projects in 2015.

Transferring assets

One of the biggest pieces of news from the 2014 annual report was that Enbridge would be

transferring the majority of its Canadian Liquids Pipelines business (which includes common carrier and contract crude oil, natural gas, liquid, and refined products), and select renewable energy projects to its Enbridge Income Fund. This will instantly add \$17 billion worth of carrying value to the fund and will give investors the opportunity to “chip in” and benefit from Enbridge’s aggressive expansion plans over the coming years.

The Enbridge Income Fund is nothing new, but its value and appeal to investors has just skyrocketed. Previously, the fund had been one part of an obscure section of the financial report called “Sponsored Earnings,” and in 2014 the fund only generated \$125 million in earnings. This financial segment should now become one of the first things you look at when you study Enbridge’s financial reports.

Southern shifting

Along with the news to shift the bulk of its Canadian Liquids Pipelines business to the Enbridge Income Fund, the company also revealed that it is entertaining the possibility of shifting the remainder of its U.S.-based assets to Enbridge Energy Partners (EEP). In 2014, EEP posted earnings of \$197 million up from \$165, a number which will rise substantially in the next couple of years as several major projects are completed. These major projects include the Sandpiper project, the Lakehead System Mainland expansion, and the Eastern Access project.

The Sandpiper project is valued at US\$2.6 billion and is estimated to be completed in 2017. The Lakehead System Mainland expansion is valued at US\$2.3 billion and is estimated to be completed in 2016, and will transfer product from Neche, North Dakota and Superior, Wisconsin to Flanagan, Illinois. The Eastern Access project, valued at US\$2.7 billion, is a series of small projects designed to increase access to refineries in eastern Canada and the midwestern U.S. These expansions and new pipelines will further cement Enbridge’s claim as one of the top pipeline companies in the world.

Stock strategies

Through these three stocks, investors have a way to double up on their energy holdings, especially when Enbridge begins to transfer its assets into its spinoff companies. Investors should be paying close attention over the coming quarter to Enbridge Income Fund, which should see some positive traction. The chart below will give you a breakdown of the three stocks and their prices and dividend payouts.

| | Thursday Price | 52-Week Range | Price Target | Annual Dividend |
|-------------------------------|----------------|-----------------------|--------------|-----------------|
| Enbridge Inc. | \$57.61 | \$46.42 – \$65.13 | \$73.00 | \$1.86 / 3.2% |
| Enbridge Income Fund | \$39.24 | \$25.17 – \$44.93 | \$46.00 | \$1.54 / 3.9% |
| Enbridge Energy Partners L.P. | US\$38.31 | US\$26.00 – US\$41.68 | US\$40.30 | US\$2.28 / 5.9% |

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