



## Should You Buy Enbridge Income Fund Holdings Inc. Instead of Enbridge Inc.?

### Description

There has been much news recently about **Enbridge Inc.'s** ([TSX:ENB](#))([NYSE:ENB](#)) large \$30.4 billion drop-down of assets to its **Enbridge Income Fund Holdings Inc.** (TSX:ENF) subsidiary. While the transaction is complex, it involves Enbridge Inc. essentially selling a large portion of its assets to Enbridge Income Fund. These assets include the Canadian liquids pipeline business, the regional oil sands system, renewable energy assets, and \$15 billion in capital growth projects.

In 2014 Enbridge Inc. dropped-down a further \$1.8 billion in assets to Enbridge Income Fund. These included the Southern Lights Pipeline as well as the Alliance pipeline, both of which are low-risk, high-cash flow assets secured by long-term contracts, and in Southern Lights's case, included a regulation that provides a guaranteed 10% return on equity.

Drop-downs of this sort from Enbridge Inc. have been occurring since 2011, and the end result is that Enbridge Income Fund has generated a 24.5% total shareholder return over the past five years, even outperforming Enbridge Inc. by about 1.5%. Does this mean Enbridge Income Fund is a better buy?

### How Enbridge Income Fund benefits from drop-downs

Looking at Enbridge Income Fund's total shareholder return demonstrates that the drop-down strategy has been clearly beneficial. The reason is largely because the steady stream of drop-downs is creating a low-risk, high-payout, high-yielding Canadian energy infrastructure income play.

Enbridge Income Fund currently yields 4.09%, ahead of Enbridge Inc.'s 2.75%, and this is largely a result of the drop-downs from Enbridge Inc. Enbridge Inc. is dropping down assets that have a high initial payout ratio and extremely reliable cash flows (secured by long-term contracts and regulated assets). These assets are favoured by Enbridge Income Fund investors, unlike Enbridge Inc. shareholders, who are focused on a mix of income and price growth, Enbridge Income Fund shareholders are focused largely on having a high, stable, and growing dividend.

The recent \$30 billion drop-down secures the growing part of this equation. With \$15 billion in secured growth projects being included in the drop-down package—all set to be in service before 2017—the income fund is able to boost its dividend-per-share growth from a small 1% to approximately 10%

between 2015 and 2019.

With visible dividend growth, a high yield, and a high, secure payout ratio, Enbridge Income Fund is poised for its valuation expand as a result of drop-downs.

### **Should you buy Enbridge Income Fund instead of Enbridge Inc.?**

While Enbridge Income Fund certainly benefits from these drop-downs, it can be argued that Enbridge Inc. benefits even more. By dropping down its assets, Enbridge Inc. takes back equity in Enbridge Income Fund, and after the drop-down is complete, it is estimated that Enbridge Inc. will own 90% of the fund.

This means Enbridge Inc. will still retain most of the cash flows from the assets it drops down. Even better, however, is that the fund will raise equity on behalf of Enbridge Inc. for its capital projects, so that Enbridge Inc. does not have to. Enbridge Income Fund will be raising \$600-800 million in equity per year to fund the capital growth projects, and this will amount to \$3 billion in equity that Enbridge Inc. does not have to issue.

The end result is that Enbridge Inc. is funding its capital program at an extremely low cost. Enbridge Inc. will have greater accretion due to the fact that it does not have to issue as many shares, and it will still receive growing distributions from its ownership in the fund.

Enbridge Inc. also receives a special incentive fee from the fund, which gives Enbridge Inc. 25% of the funds cash flow above a certain point, which means it benefits above and beyond simply what it owns in the fund. As a result, it seems that Enbridge Inc. is a smarter buy than Enbridge Income Fund, especially for investors looking for growth.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

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### **Date**

2025/08/16

**Date Created**

2015/06/30

**Author**

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