



Enbridge Inc. Just Completed a Massive Deal

Description

Enbridge Inc. ([TSX:ENB](#))([NYSE:ENB](#)) is one of the most well-known names in the business of generating, transporting, and distributing energy. The company is already the largest pipeline company in the country with over 11,000 workers across both Canada and the United States.

Enbridge is about to get a whole lot bigger.

Project Rainbow is a go

Enbridge announced this week that the company will be purchasing Houston-based **Spectra Energy Corp.** ([NYSE:SE](#)) in an all-stock mammoth deal that is set to be worth \$37 billion. As a result of the deal, the combined company will emerge as one of the largest (if not *the* largest) energy infrastructure company in North America with a combined value of over \$165 billion.

The deal, referred to as “Project Rainbow,” was under consideration by both CEOs for some time prior to this week’s announcement.

Spectra is primarily a natural gas-focused company, while Enbridge is more involved in transporting crude. Both companies stated that through the deal the emerging company will be both more stable and diverse. Enbridge CEO Al Monaco referred to the deal as an “extension of the runway” for both companies, noting the strategic importance the deal has for the future.

The deal is particularly significant as most other companies attached to the energy sector are more concerned with cutting costs and dealing with low oil prices rather than acquisitions.

For Enbridge, creating new pipelines is becoming increasingly difficult from the perspective of acquiring the necessary regulatory approvals as well as mounting construction costs.

A deal for growth

One of the less obvious objectives in terms of total volume that Enbridge has effectively completed through this deal can be traced back to the ill-fated Keystone XL Pipeline, which was rejected by the

U.S. Administration last year after being pondered for nearly a decade. That pipeline called for a connection between the heavy crude facilities in Alberta to Gulf Coast refineries.

Once both companies are integrated, Enbridge (which is what the combined company will be called) will be nearly evenly split in terms of earnings sources with 47% of EBITDA coming from gas infrastructure and 49% from liquids.

Both companies also have an ambitious backlog of projects; combined, they total \$26 billion in development-related spending, and that's only until 2019. Post-2020, that figure nearly doubles to \$48 billion.

As a result of the project backlog, Enbridge maintains that the company will see double-digit dividend growth for the next few years. This point was restated this during the Spectra deal announcement, in which Enbridge noted that the company can expect to see between 12% and 14% growth through 2019, while the Spectra deal is likely to see an additional 10-12% growth through 2024.

Enbridge currently trades at just over \$55—up over 3% on the news of the purchase. The current quarterly dividend is pegged at \$0.53 per share, which provides a yield of 3.83% given the current stock price.

In my opinion, Enbridge remains one of the best long-term investment opportunities on the market. The company continues to show strength in a difficult market and is aggressively expanding with an eye on the future of the company through the billions of dollars in projects. The company also has a strong and growing dividend, which should keep most investors happy for years to come.

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