



Is Enbridge Inc. Still Worth Buying?

Description

Anytime there is acquisition news, investors either get really excited or really disappointed. In the case of the announcement that **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) would be merging with **Spectra Energy Corp.** ([NYSE:SE](#)), investors were very excited. Since September 1, the stock has increased from \$51.79 to as high as \$59.10 before cooling off just a bit.

But now that the news is out that this acquisition is going to go down, what should investors do? Should investors consider buying shares of Enbridge, or is it better to avoid the stock? Personally, I believe Enbridge is a buy.

This deal will result in two of the largest energy infrastructure companies in North America merging, resulting in a company with an enterprise value of nearly \$165 billion. This would make it the largest energy infrastructure company. Although there are certainly trade-offs to being very large, one being that growth will slow, it opens up many avenues for synergy that will allow costs to be cut. Management is projecting that the annual run-rate synergies will be \$540 million, which is quite significant.

And although growth might slow some, management doesn't expect growth to die. Between the two companies, there is \$74 billion in projects currently in the works or planned for upcoming years. In the natural gas world, where Spectra operates, management believes that there will be 3-5% CAGR between now and 2025, which is exposure that Enbridge has never had before.

But what about investors? What's in it for them?

In the short term, Spectra investors are the winners here because they are receiving Enbridge shares at a premium. But in the long term, for those who stay on board, management believes it will be able to kick off significant income to its investors. Management projects the dividend should grow by 15% next year and then, because of this acquisition, grow by anywhere from 10% to 12% from 2018 through 2024. The yield is currently 3.67%, so you can imagine that the increase in earnings will be significant.

There are, of course, serious risks associated with this deal, so don't think Enbridge and Spectra are out of the woods yet.

First and foremost, shareholders from both companies will need to vote on it. Like I said, in the short term, Spectra investors win, so they're likely to vote. But whether or not Enbridge shareholders will sign on remains to be seen. From there, the acquisition has to gain regulatory approvals, such as Hart-Scott-Rodino Antitrust Improvements Act, Canada Competition Act, and the Committee on Foreign Investment in the United States. Should these different regulatory approvals not occur, the deal would basically be dead.

But even if that were to happen, I still believe that investors should consider Enbridge. It is a well-integrated, diverse business with a predictable business model that is akin to a toll booth for oil. And if the deal goes through, 96% of its cash flow will continue to come from predictable revenue sources, helping the firm to continue increasing the dividend for years to come. There's a long road ahead, but I say it's a pretty nice buy.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:ENB (Enbridge Inc.)
2. NYSE:SE (Sea Limited)
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