



Is Enbridge Inc. Becoming Too Complex for Investors?

Description

When **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) announced that it agreed to acquire **Spectra Energy Corp.** ([NYSE:SE](#)), it put itself on the path to creating the largest energy infrastructure company in North America.

However, while the company will gain critical size and visible growth, it will become much more complex because it will add two more MLPs to its portfolio, increasing that number to four. That leads to the question of whether or not controlling that many public entities makes sense, especially given the current consolidation trend within the industry.

Four entities, but one core focus

At the moment, both Enbridge and Spectra Energy own two MLPs apiece. Enbridge controls its namesake **Enbridge Energy Partners, L.P.** (NYSE:EEP), which is a yield-focused MLP that primarily owns crude oil pipelines. Meanwhile, Enbridge Energy Partners formed its own MLP, **Midcoast Energy Partners LP** (NYSE:MEP), as the primary vehicle for owning and growing its natural gas and NGL business in the U.S.

Spectra Energy, likewise, controls a namesake MLP, **Spectra Energy Partners, LP** (NYSE:SEP), which primarily owns oil and gas gathering and transmission pipelines as well as storage facilities. In addition, Spectra Energy owns a 50% stake in DCP Midstream, which is the general partner of **DCP Midstream Partners, LP** (NYSE:DPM). Those entities are one of the largest producers of NGLs, as well as one of the biggest gas processing and gathering companies.

While each entity has a slightly different focus, at their core they all own primarily fee-based assets that process, store, or transport oil and gas. Because of that core similarity, it would seem that it doesn't make sense for Enbridge to continue operating four MLPs going forward.

Making sense of the options

While continuing to operate all four entities separately is possible, analysts expect to see a future consolidation. An analyst from *Bloomberg* said that "they do have a lot of MLPs, and it is going to

confuse the whole structure ...You can see them consolidating some of them in the long run.” The question is how much consolidating it will do.

Midcoast Energy Partners was already undergoing a strategic review of its options long before Enbridge announced its deal for Spectra. Analysts believe that the likely outcome of that review will be a re-consolidation of the company back into Enbridge Energy Partners. Meanwhile, it would make sense to eventually merge Spectra Energy Partners with Enbridge Energy Partners because it would give that combined entity greater scale while reducing the cost of capital for both companies.

Where things could get tricky is with DCP Midstream. Spectra Energy’s current joint venture partner has already said that it expects its stake in the entity to remain “status quo.” This implies that it neither plans to sell its stake to a consolidated Enbridge MLP nor plans to buy the other half of the entity. While its view could change in the future, it is possible that Enbridge will either maintain its stake in DCP Midstream or sell it to a third party.

Rival **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) is in a similar boat after acquiring Columbia Pipeline earlier this year, giving it stakes in two MLPs. Because TransCanada is farther along in the process, Enbridge could wait to see what TransCanada does before it makes a decision on its MLPs.

If TransCanada combines its entities and the market likes the decision, it could prompt Enbridge to follow its path. That said, if TransCanada makes a mess of a future consolidation, it could cause Enbridge to be much more patient as it reviews its options.

Investor takeaway

Enbridge’s merger with Spectra Energy not only grows its size but its complexity. While the company is not sure how it will address its added complexity at the moment, it is something it will need to address in the future because there’s unnecessary overlap between the four entities. That said, the overlap is actually an opportunity to create one large-scale entity that could become a leading MLP to own for the long term.

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Author

mdilallo

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