



## Enbridge Inc. Takes the 1st Step Towards Sorting Out its MLPs

### Description

Once **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) closes its acquisition of **Spectra Energy Corp.** ([NYSE:SE](#)), it will become North America's largest energy infrastructure company. With that larger size comes a significant increase in the complexity of its corporate structure because both Enbridge and Spectra Energy own several MLPs. However, Enbridge took the first step towards reducing this complexity by agreeing to privatize one of its MLPs while announcing several actions to strengthen another.

### Details on the deals

Last week Enbridge announced a series of measures designed to improve its namesake MLP **Enbridge Energy Partners, L.P.** (NYSE:EELP). First, it agreed to acquire **Midcoast Energy Partners LP** (NYSE:MEP), which Enbridge Energy Partners set up to own a stake in its natural gas gathering and processing business. That business, however, has come under tremendous pressure due to weaker commodity prices, which have impacted cash flow generation at both MLPs.

Enbridge is hoping to alleviate some of that pressure by taking Midcoast private, which will reduce costs, simplify its corporate structure, and allow Enbridge Energy Partners to keep more of the cash flow generated by the gathering and processing assets.

In addition, Enbridge agreed to acquire a 99% interest in the U.S. portion of its Line 3 Replacement program from Enbridge Energy Partners for US\$450 million. That deal will provide its MLP with relief from capital costs during the construction period. Further, Enbridge Energy Partners will use a portion of that cash to acquire an additional 15% interest in the recently completed Eastern Access project. The MLP will pay US\$360 million for the stake, which should generate an incremental US\$50 million of EBITDA per year.

### Still much work to do

The goal of these transactions is to strengthen the cash flow-generating ability of Enbridge Energy Partners, so the MLP can once again become a thriving standalone entity. That said, it is not there yet.

Even with these transactions, Enbridge Energy Partners sees its distributable cash flow slipping from a range of US\$860-920 million last year down to a range of US\$750-800 million in 2017. Driving the decline is the continued weakness of the company's natural gas gathering and processing business as well as a drop in drilling activity in the Bakken shale region, which is impacting the company's assets in the area.

The decrease in distributable cash flow is a concern because it puts the MLP's current distribution on an unsustainable level. That sustainability is something Enbridge plans to address as it continues to work through its strategic options. Among the options it is considering is a reduction in the distribution level, the acquisition of the MLP's gathering and processing business, or a restructuring of the general partner incentive distribution rights. Enbridge hopes to have a final solution by the end of the second quarter.

One solution Enbridge has decided against is acquiring Enbridge Energy Partners or merging it with another entity. That implies it will not combine its namesake MLP with either of Spectra Energy's MLPs, **Spectra Energy Partners, LP** (NYSE:SEP) or **DCP Midstream LP** ([NYSE:DCP](#)). This decision means Enbridge still needs to determine what it will do with those entities once it completes its acquisition of Spectra.

It is growing more likely that all three companies will remain separate publicly traded entities. However, Enbridge could shuffle assets around to refocus each MLP on its core strength. For example, Enbridge could offer to transfer the gas gathering and processing assets to DCP Midstream because that MLP is already the largest gas processor in the U.S.

Meanwhile, it could move more of its American oil pipeline related assets to Enbridge Energy Partners, which is its primary area of focus. Such a realignment could be what the company announces after it completes its acquisition of Spectra Energy and its strategic review of Enbridge Energy Partners.

### Investor takeaway

Enbridge's complexity has increased as it has expanded its energy infrastructure empire because it has used MLPs and other entities to fund that growth. That strategy has started to backfire because its MLPs have struggled during the energy market downturn, forcing the company to reevaluate its strategy, especially since it is about to add two more to its portfolio.

What the company must do is unveil a clearly defined strategy to ensure the long-term sustainability of each MLP, so Enbridge can use them as vehicles to drive its ambitious growth plan.

### CATEGORY

1. Energy Stocks
2. Investing

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

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

## **PARTNER-FEEDS**

1. Msn
2. Yahoo CA

## **Category**

1. Energy Stocks
2. Investing

## **Tags**

1. Editor's Choice

## **Date**

2025/08/16

## **Date Created**

2017/02/01

## **Author**

mdilallo

default watermark

default watermark