Enbridge Income Fund Holdings Inc. Shareholders: Brace Yourselves for Lower Income!

Description

As a long-time shareholder of **Enbridge Income Fund Holdings Inc.** (TSX:ENF), I have taken some time to digest the recent news.

In case you missed it, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) announced its plans to simplify its corporate structure. It intends to do so through the purchase of its sponsored vehicles through an all-stock transaction.

One of those sponsored vehicles is Enbridge Income Fund Holdings. How does it impact shareholders? Let's take a look.

Why the move?

First, it's important to understand why Enbridge decided to make this move. The company has long been criticized for its complicated structure, and the move to simplify has been a long time coming.

In December, the company announced its intentions to streamline operations. That being said, I don't think anyone guessed this massive change was coming.

Why now?

The main driver has been the recent U.S. Federal Energy Commission (FERC) policy changes. Under the new rules, there is no longer a special income tax allowance for master-limited partnerships. Likewise, the regulatory rate impact from the U.S. Tax Cuts and Jobs Act (TCJA) is also seen to have a negative impact on the sponsored vehicles.

Specific to Enbridge Income Fund, Enbridge argues that as a standalone company, ENF has lost its cost of capital advantage and is no longer an effective funding vehicle. Furthermore, this will also inhibit future dividend growth.

This is contradictory to Enbridge's initial statement on the FERC policy changes in which it stated that “reductions in the EEP tariff will create an offsetting revenue increase on the Canadian Mainline system owed by Enbridge Income Fund Holdings Inc.”

What does it mean for Enbridge Income Fund shareholders?

First, the transaction details:

Shareholders will receive will receive 0.7029 common shares of Enbridge for each Enbridge Income Fund share they own. At the time of the announcement, this amounted to a value of $29.38 per share, a 5% premium over its share price at the time.

I suppose that we can consider ourselves lucky. Enbridge Income Fund is the only sponsored vehicle that received a premium over its trading price.

The greatest impact to shareholders will be reduced income. Shareholders currently receive a juicy annual dividend of $2.26 per share. Under the new proposal, that $2.26 will be reduced to $1.88 (0.7029 * $2.26).

To illustrate, suppose you have 100 shares of Enbridge Income Fund. Your holdings currently yield $226 (100*$2.26) in annual income. Once the proposal is approved, you will hold 70.29 shares of Enbridge, and your annual income would drop to $188.38 (70.29 * $2.68).

This is a 17% hit to investors’ annual income! As a shareholder, I am disappointed with this aspect of the deal.

Dividend payout frequency is also a big factor. If you are relying on the monthly income, you will also be impacted. Enbridge pays its dividend quarterly, and you will lose out on that monthly dividend.

Decision to make

Enbridge Income Fund shareholders have a decision to make. If you rely on monthly income and the higher yield, you may want to sell and invest your money elsewhere.

Although I am disappointed in the immediate loss of income, I believe the restructure will benefit the company. Over the long term, the company expects the changes to sustain continued dividend growth.

I intend to keep my shares and will happily transition to an Enbridge shareholder.

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