



Time to Sell Enbridge Income Fund Holdings Inc. (TSX:ENF)

Description

Last week, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) announced big news. It intends to consolidate through the buyout of all its sponsored vehicles; one of which includes **Enbridge Income Fund Holdings Inc.** (TSX:ENF).

The move was largely applauded by the market. Enbridge has long been criticized for its complicated structure, and a simplified strategy should bring about significant benefits.

The announcement is a positive for Enbridge and neutral for Enbridge Income Fund Holdings. As such, it's time to sell Enbridge Income Fund.

Why? Let me explain.

Purchase details

First, we need to understand the specific details of the proposed transaction.

As part of the consolidation, Enbridge Income Fund investors will receive 0.7029 Enbridge shares for each ENF share they own. At the time of the announcement, it valued ENF at \$29.38 per share — a 5% premium over its share price at the time.

Based on the exchange, ENF shareholders will need 1.42271 shares to receive one full share of Enbridge.

Trading above purchase price

Here is where it gets interesting.

Enbridge Income Fund is currently trading at \$28.30 per share. At this price, it would cost investors \$40.44 ($\28.30×1.42271) to get the rights to one Enbridge share upon closing of the takeover.

Enbridge is currently trading at \$40.12. This means that ENF is currently trading above Enbridge's proposed purchase price.

Don't be tricked by the \$29.38 purchase price announcement. This was based on the market valuations of the equities at the time. At today's market price, the transaction values Enbridge Income Fund at \$28.20 per share.

What does this mean? Enbridge Income Fund is fully valued. There is no upside. At this point, the only reason to keep ENF is if you believe that Enbridge will come in with a higher offer or to ride out the [higher dividend](#) until the transaction closes.

Unlikely that transaction will not close

At times, investors can be presented with [great arbitrage opportunities](#) following takeover announcements. Arbitrage exists when the market believes there is a risk that the transaction will not close. It is clear that the market believes there is no risk to of this transaction falling through.

I agree.

Shareholder approval is all but a given. Why? Enbridge is a majority shareholder in all their sponsored vehicles. This leaves regulatory risk.

Although it is a possibility that the government blocks the deal, it is unlikely. As mentioned, Enbridge is already a majority owner, and this is more of an equity roll-up as opposed to an outright purchase. As such, there should be no regulatory concerns.

No upside

There is consensus that Enbridge is getting Enbridge Income Fund on the cheap. Too bad there is little chance of a higher offer given Enbridge's status as a majority owner. As such, there is no upside to holding or buying Enbridge Income Fund.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date

2025/08/16

Date Created

2018/06/01

Author

mlitalien

default watermark

default watermark