



Ignore the Short Sellers: Get Ready for Enbridge Inc. (TSX:ENB) to Unlock Further Value

Description

Pipeline and midstream services provider **Enbridge Inc.'s** ([TSX:ENB](#))([NYSE:ENB](#)) share price continues to languish, having plunged by almost 20% since the start of 2018. Enbridge loaded up on debt and equity when it acquired Spectra Energy for \$37 billion last year to create the largest energy infrastructure company in North America. The weakness of its stock can be attributed to a slew of poor results, rising interest expenses, and the expectation of further interest rate hikes, which have sent jitters through the market over Enbridge's outlook.

Nonetheless, the company has not been sitting idly by. Management remains focused on resolving the current issues, reducing the degree of risk in Enbridge's operations, and unlocking value for investors. This — along with Enbridge appearing to be oversold — has created an opportunity for investors seeking exposure to [higher oil](#).

Now what?

The latest initiative announced by Enbridge aimed at boosting its share price is the planned restructuring of its operations to simplify its corporate and capital structure. The plan centres on the company buying its listed vehicles **Enbridge Energy Partners L.P.**, **Enbridge Energy Management L.L.C.**, **Spectra Energy Partners L.P.**, and **Enbridge Income Fund Holdings Inc.** and placing all of the core liquids as well as gas pipeline assets under the umbrella of a single listed entity.

This plan has arisen because recent U.S. income tax decisions have challenged the standalone viability of Enbridge Energy Partners, Enbridge Energy Management and Spectra Energy. This is because the Federal Energy Regulatory Commission (FERC) ruled that master-limited partnerships (MLPs) can no longer receive a credit for income taxes they don't pay. That decision has effectively eliminated the benefit of creating and operating such entities. It has also caused Enbridge Income Fund to lose its cost-of-capital advantage, meaning that it is no longer an effective funding vehicle.

By [completing the roll-up](#) of these listed vehicles, it will simplify Enbridge's corporate structure, reduce costs, improve the company's credit profile, enhance trading liquidity, and bolster the sustainability of

dividends. These are all positive outcomes for shareholders, which should go some way to making Enbridge a more transparent and easily understood entity, eliminating much of the uncertainty that has been making it a popular bet among short sellers.

In a bid to strengthen its balance sheet, further reduce costs, and unlock synergies, Enbridge is focused on divesting non-core assets. This includes the \$1.75 billion sale of a 49% interest in North American onshore renewable power assets and its interests in two German offshore wind projects to the Canada Pension Plan Investment Board. Enbridge has also entered a US\$1.1 billion transaction to divest its U.S. midstream business, the proceeds of which will be used to bolster its balance sheet and fund its considerable portfolio of growth projects.

These deals will go a long way to assisting the company to meet its planned \$3 billion of assets sales during 2018. They will also reduce its sizable pile of long-term debt totaling \$61 billion, which will help to boost market confidence in Enbridge.

While that amount of debt appears daunting, it shouldn't be forgotten that Enbridge has considerable liquidity, finishing the first quarter 2018 with a total of \$11 billion available from existing credit facilities across its sponsored vehicles. It also has a well-laddered debt profile, meaning that the repayments associated with its considerable debt are manageable as they fall due.

So what?

The market's significant lack of confidence in Enbridge appears overbaked, and recent moves by the company to simplify its capital structure as well as strengthen its balance sheet bodes well for its future performance. Not only will they reduce costs, but they will leave Enbridge well positioned to continue expanding earnings by investing in its substantial portfolio of growth assets with 13 projects expected to be completed between now and 2020.

The latest dip in Enbridge's shares has created an opportunity for investors to [gain exposure](#) to North America's premier energy infrastructure provider. While they wait for the improvements currently underway to boost its share price, they will be rewarded by Enbridge's regularly growing and sustainable dividend, which yields a very tasty 6%.

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