

**THE WHITMAN INVESTMENT COMPANY**

Date: 9/26/18

**12:03 Call meeting to order**

Go over agenda

Motion to approve last week’s minutes ‐ passes

Motion to approve agenda ‐ passes

**12:05 Stock Pitch: Enbridge Inc (ENB)**

Business Model: generation, transportation and distribution of energy

Core businesses: liquid pipelines and terminals, gas transmission and storage

Regulated pipeline and utility model(low-risk)

Strategic positioning between key supply basins with large, growing demand markets

Strong commercial underpinnings: long-term contracts, established customers, strong risk-adjusted returns

Organic growth opportunities: expanding and repurposing assets

Enbridge and Spectra Energy Merger:

Enbridge to buy rest of Spectra for $3.3 billion in all-stock deal

Offering 1.111 shares of Enbridge for every unit of Spectra

Previous offer was 1.01 shares per Spectra Unit

Enbridge already owns 83% of Spectra

Deal could simplify corporate structure and provide tax benefits starting in 2020

Also purchasing Enbridge Income Fund Holdings ($3.6 billion) and Enbridge Energy Management ($3.5 billion)

Regulation & Tax Policy:

MLPs would no longer be allowed to claim an income tax allowance on certain contracts, potentially resulting in decreased pipeline rates and lower distributable cash flow or DCF

DCF is the MLP equivalent of free cash flow and what funds the distributions, a tax deferred form of dividend

Under the newly changed FERC tax policy, holding certain interstate pipelines in MLP structures is highly unfavorable to unitholders and is no longer advantageous for Enbridge or the U.S. MLPs

Key Financials:

Mkt Cap: $57.1274 Bil Net Income Growth (5-yr)): 30.81%

Price/Sales: 1.62 Operating Margin: 14.51%

EV/EBITDA: 25.13 Net Margin: 5.7%

Price/Book: 1.42 Return on Equity: 7.84%

Dividend Yield: 5.95% Dividend Payout Ratio: 120.3%

Highly Leveraged:

Interest Coverage Ratio: 1.20

Debt to EBITDA: 7.34

Debt to Equity: 1.21

Moody’s downgraded the senior unsecured ratings of Enbridge Inc. (ENB) to Baa3 from Baa2

Their credit strengths are offset by high leverage, a persistently large capital investment program and material corporate and capital structure complexity

 Industry Overview: Enbridge deals primarily with natural gas & crude oil distribution

Competitors: Kinder Morgan, Andeavor Logistics, Antero Midstream, and Buckeye Partners

Enbridge has reputation for being one of the largest importers of crude oil into the U.S

Generally wide moat for new competitors

Established pipelines should help to maintain business

Long Term Contracts

Regulations and large fixed costs make new entry difficult

Existing competition fluctuates, affected by price levels, location, reliability, and capacity

Management:

President/CEO: Al Monaco

Executive Vice President/CFO: John K. Whelen

Executive Vice President, Liquids Pipelines and Major Projects: Guy Jarvis

Executive Vice President and Chief Development Officer (CDO): Vern Yu

Risks: highly leveraged, growing quickly, rising interest rates, regulation, natural disasters/oil spills

Opportunities: reputation, low risk business position, diversity in energy, acquisitions, rising energy prices, renewable energy expansion

DCF:

Low: $52.24 (51.72% Upside)

Medium: $59.05 (71.51% Upside)

High: $92.97 (179.02% Upside)

Merger Arbitrage: An Event-Driven Strategy, focused on pricing inefficiencies, and exploited through the use of equity or options strategies

Risk Outweighs the Benefit:

The deal has already been priced into the market

No reason for Enbridge to offer an additional premium to Spectra Unitholders

Premium we could receive is not worth the possibility the deal doesn’t go through

Conclusion: Revisit this investment next fall semester, wait for the acquisitions to conclude and for them to deleverage their balance sheet (below Debt-EBITDA of 5, with an interest coverage ratio of at least 3

**12:50 Motion to adjourn meeting**

Motion passes