Enbridge

Energy
TSX: ENB | NYSE: ENB
Market Perform | Hold

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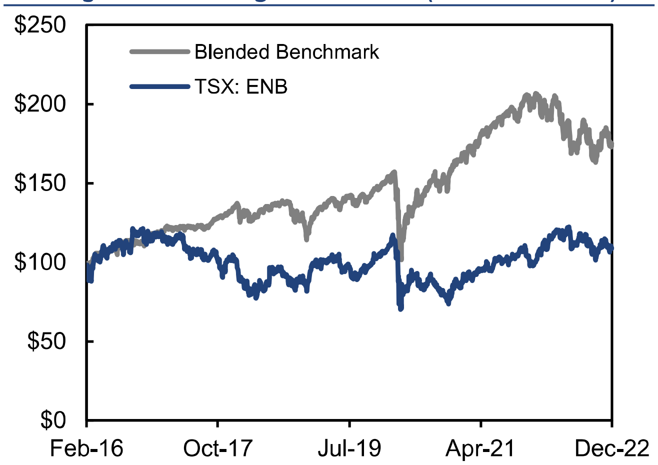
Return on Investment	
Current Share Price	$52.92
Intrinsic Value	$53.00
Dividend Yield	6.7%
Implied Discount	0%
Conviction Rating	2

Market Profile	
52-Week Range	$49.26 - $59.55
Market Capitalization	$107,153
Net Debt, PF, & NCI	$90,613
Enterprise Value	$197,766
Beta (5-Year Monthly)	0.91

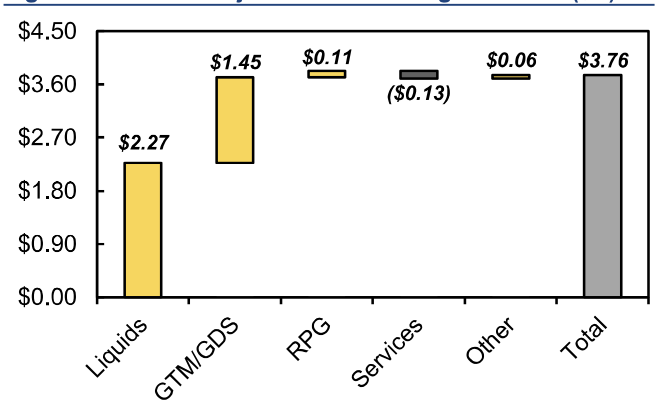
Metrics	2022E	2023E	2024E
Revenue ($mm)	$49,962	$52,036	$53,597
EBITDA ($mm)	$15,712	$16,232	$16,559
Dividend per Share ($/share)	$3.44	$3.55	$3.66
EV/EBITDA	12.6x	12.2x	11.9x

Holding Period Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: Q3 2022 Adjusted EBITDA Segmentation ($B)



Source: Company Filings

Investment Thesis Summary

The CPMT remains convicted on ENB due to its low-risk business model offering a utility-like cash flow profile, in addition to its capital allocation strategy which prioritizes balance sheet strength and a sustainable and growing dividend. ENB's existing liquids and gas assets offers steady base cashflows while renewable investments, smaller-scale hydrogen, renewable natural gas (RNG), and carbon capture, utilization, and storage (CCUS) investments offer growth and a portfolio-wide low-carbon strategy.

Business Description

Enbridge (TSX: ENB) is a North American energy infrastructure company with core operations consisting of five segments: Liquids Pipelines, Gas Transmission and Midstream (GTM), Gas Distribution and Storage (GDS), Renewable Power Generation (RPG), and Energy Services. ENB owns and operates the world's longest and most complex crude oil and liquids transportation system, moving ~30% of the crude oil produced in North America and ~65% of U.S. bound Canadian exports. The Company also transports ~20% of natural gas consumption in the U.S. through its natural gas pipeline network. Notably, ENB also has a diversified portfolio of renewable energy projects with a total net generation capacity of 2,315 MW, making it one of the largest renewable energy companies in Canada.

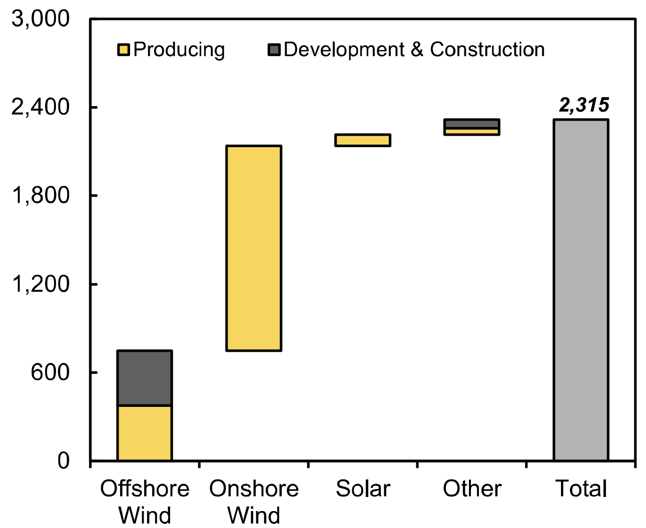
Industry Overview and Competitive Landscape

Within the energy infrastructure industry, ENB's peer group consists of pipeline and midstream companies based in Canada (TSX: ALA, GEI, KEY, PPL, TWM, TRP) and in the U.S. (NASDAQ: PAA; NYSE: EPD, KMI, MMP, TRGP, WMB). In 2020, rapid declines in fuel consumption due to COVID-19 caused large cuts to refinery and crude oil production, resulting in significant decreases in transport volumes and asset utilization rates for midstream operators. Throughout 2021 and 2022, strong but volatile commodity prices were prevalent due to the COVID-19 recovery and ongoing Russia-Ukraine conflicts which led to increased demand and asset utilization of energy infrastructure globally. Two notable risks the industry faces in future growth are high interest rates and inflation. The current inflationary environment has impacted the capital budgeting process, but both new and expansionary projects from companies are still being announced. Government regulation, such as the Inflation Reduction Act in the U.S., has propelled project growth, specifically within the energy transition sector. This push has provided infrastructure companies with both an opportunity and a challenge. From an opportunity standpoint, the increased demand for natural gas, carbon capture, and renewable-related infrastructure is a tailwind for the industry. Challenges posed by the energy transition include the future use of existing infrastructure, as long-term oil demand is expected to slow and existing refineries may look to convert into renewable refineries.

Mandate Fit

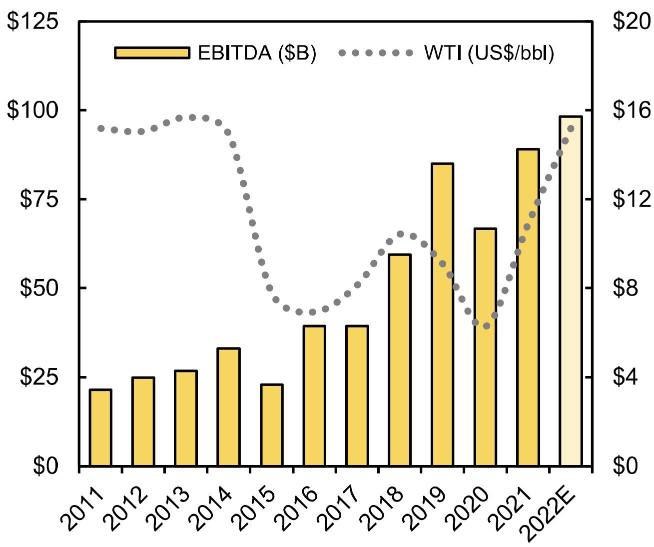
Quality Management: The CPMT favours management's focus on divesting lower quality assets to secure utility-like return projects across North America. The Company has also been committed to returning capital to shareholders through consistent (cont.)

Figure 2: Renewables Net Capacity Breakdown (MW)



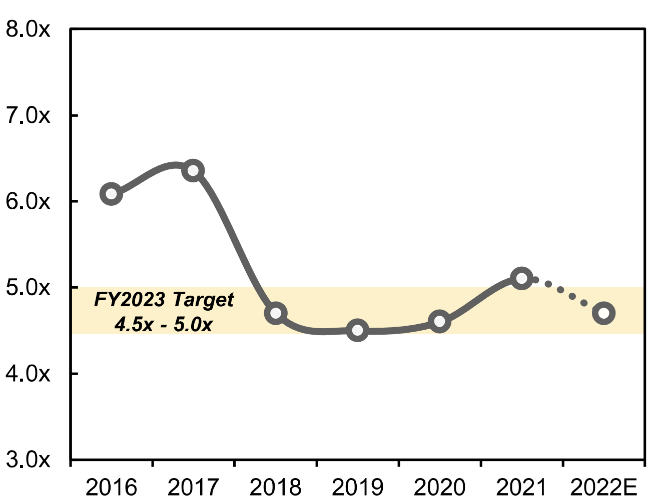
Source: Company Filings

Figure 3: LHS Average WTI vs RHS EBITDA



Source: Company Filings, CPMT Estimates, EIA

Figure 4: LTM Debt/EBITDA



Source: Company Filings

dividend increases, while also building $17B in its secured capital program. This program enables up to $6B per year of organic growth capital, from 2022 to 2024. Management has outlined two major ESG targets: (1) net zero carbon by 2050 on Scope 1 and 2 emissions, and (2) reduce its carbon emissions by 35% by 2030 from 2018 levels. In addition, ENB is transitioning Greg Ebel (current Board Chair) to CEO following the retirement of Al Monaco. Furthermore, management has remained committed to its strategic plan of balancing growth for conventional and lower-carbon platforms while supporting energy transition initiatives.

Competitive Advantage: ENB stands out among Midstream operators with a low-risk profile and a premier portfolio of North American assets. Its Mainline system controls over 70% of Canada's takeaway capacity and is an integral connectivity platform for the Canadian heavy oil supply with both USGC and captive Midwest refiners. While the Mainline is a common carrier pipeline, meaning no firm contract commitment, it has historically been highly utilized (~90%). ENB's other assets such as regional oil sands and North American natural gas pipelines also retain long-term contracts, typically ranging from 10-30 years, with 95% of the capacity held by investment-grade counterparties, ensuring secured cashflows.

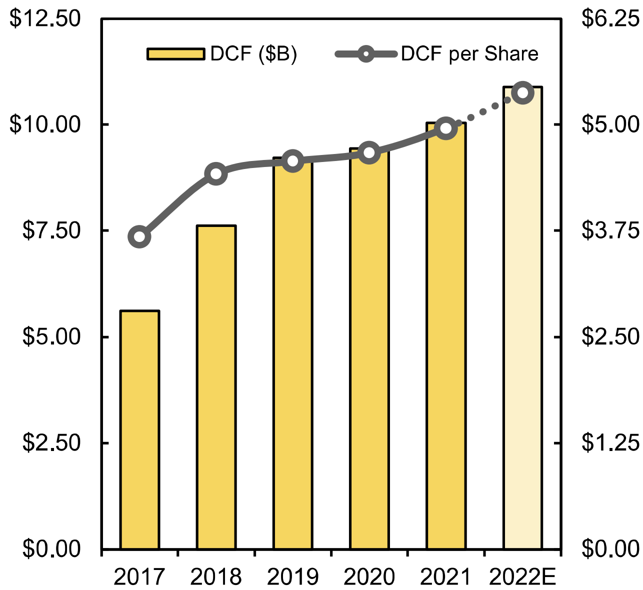
Strong Balance Sheet: ENB has a strong balance sheet, exhibited by its LTM Debt/EBITDA ratio of 4.9x, which has contributed to its ability to generate stable and growing FCF. ENB has a credit rating of BBB+ from Standard & Poor's and Baa1 from Moody's. The Company has adequate liquidity with $7.1B available out of approximately $23.2B committed under its revolving credit facilities. Futhermore, ENB has a proven track record of balance sheet-protective capital reallocation strategies, having recycled $2.8B of capital since 2021.

Growing Free Cash Flow: ENB has experienced strong growth in its FCF this year, due to strong operational performance, achieving returns in-line with pre-pandemic levels. In the LTM, the Company's FCF was approximately $4.4B, representing an increase of 106% YoY. Distributable cash flow (DCF) per share is expected to be in the range of $5.20 to $5.50 for FY2022 and ENB guidance suggests that it will increase to the range of $5.25 to $5.65 for FY2023. In December 2022, ENB also announced a ~3% increase in its quarterly dividend, resulting in a dividend per share of $0.89. Over the past 28 years, ENB's dividend has grown at a CAGR of 10%. ENB has also been successful in acquiring complementary assets such as Tri Global Energy in late 2022, which has helped to diversify its revenue streams and increase its scale.

Strategic Outlook

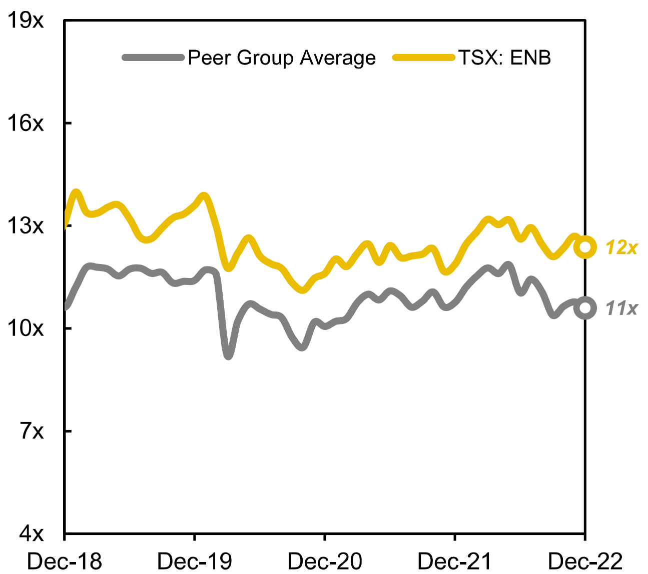
The Company has been focused on strengthening its core business operations through the investment in system modernization throughout each operating segments to boost productivity. In addition, ENB looks to shift the contracting of the Mainline system. The Company is looking to move away from its current uncontracted monthly nomination system to long-term contracts in order to lock in capacity. Overall, ENB plans to invest ~$3 - 4B annually across its existing portfolio, with total spending in 2023 expected to be $6B. Spending will also be focused on new opportunities in renewable natural gas, hydrogen, CCUS, and wind projects. The Company has also been lowering costs through increased supply chain efficiencies and power optimization efforts. Furthermore, ENB is seeking to move forward with a dual-pronged strategy that focuses on conventional and low-carbon growth opportunities. Conventional growth has been showcased through the Company's (cont.)

Figure 5: LHS DCF vs RHS DCF per Share



Source: Company Filings, Street Research

Figure 6: NTM EV/EBITDA vs Peers



Source: S&P Capital IQ

USGC build-out with a 2 mmbbl expansion at EIEC and increased interest in the Gray Oak pipeline (now 59%) and Cactus II pipeline. Furthermore, ENB's Woodfibre LNG investment, T-South, and USGC export expansion highlight key initiatives toward the Company's committed low-carbon strategy.

Valuation

The CPMT valued ENB through applying a 13.0x EV/EBITDA multiple to 2023E EBITDA of $16.2B. Using a WACC of 6.3%, the resulting intrinsic value was $53. ENB's dividend yield of 6.7% remains at the upper-end of peers and is a compelling feature of the holding as it has the highest dividend yield in the CPMT portfolio. ENB has historically traded at a premium to peers, which the Fund believes is warranted given ENB's track record of project execution, M&A integration, and stable contracted cash flows.

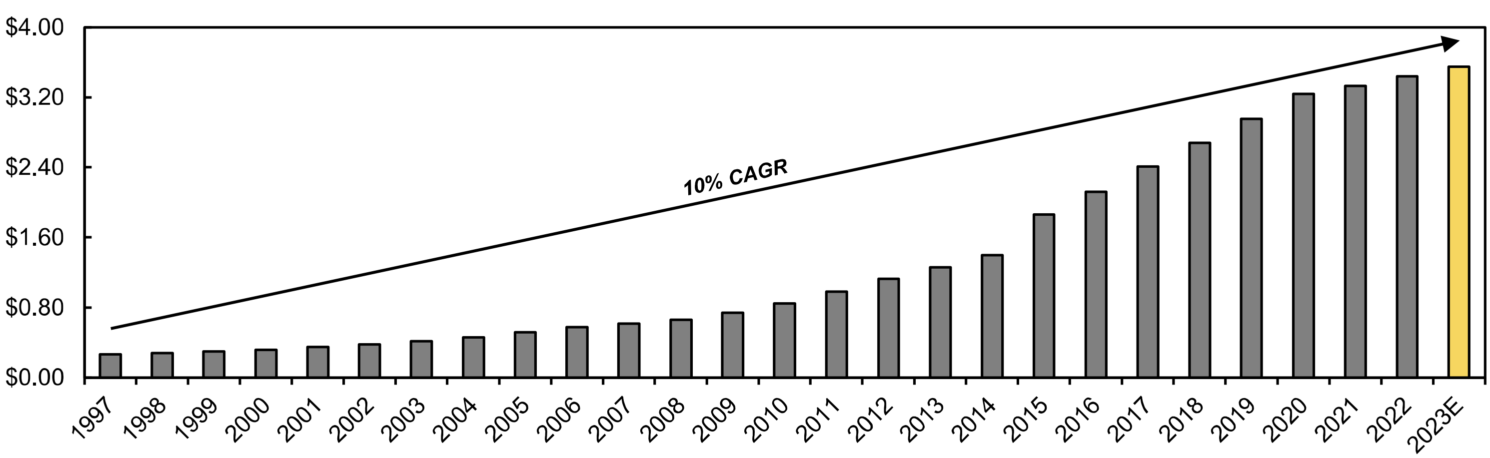
Revised Investment Thesis

The CPMT remains convicted on ENB due to its highly contracted oligopolistic core assets (98% of EBITDA is cost-of-service/contracted) and prudent capital allocation. Balance sheet strength is prioritized through capital recycling and an excess ~$2B of annual investable capacity (5 - $6B total) allocated toward debt reduction, additional organic growth, and share repurchases. This highly flexible capital allocation plan was rounded out by $7B in dividends paid in 2022, which has grown at a 10% CAGR over the past 28 years. Overall, ENB presents itself as a sustainable investment opportunity offering exposure to higher-growth energy verticals. Despite trading at fair value, the CPMT is comfortable returning the Company's cost of equity (~8%) given the Fund's favourable view towards its low-risk, consistent cash flow generation, strong balance sheet, and flexible approach to capital allocation.

The CPMT will monitor major investment progress, particularly the $6.3B in B.C. Gas Transmission developments offering exposure to Asian LNG demand through favourable West Coast economics, and the Wabamun Carbon Hub boasting 4 $MtCO_2$ of carbon capture and storage capacity.

ENB is currently undergoing contract negotiations to switch the Mainline system to a new structure of either (1) an incentive toll framework, or (2) cost of service. The Company is pushing towards an incentive tolling agreement, offering toll stability to shippers while exposing ENB to incremental upside. However, a transition to a cost-of-service agreement will still generate sufficient returns and offer volume-related downside protection. In either case, the Fund is comfortable with the outcome.

Figure 7: Dividend per Share



Source: Company Filings, S&P Capital IQ