Action Note

Equity Research

November 3, 2017

Pipelines, Power & Utilities

Enbridge Inc.

(ENB-T, ENB-N) C$47.03 | US$36.71

Q3/17 Below Expectations; Financing Plan Unclear

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Event

- Enbridge Q3/17 adjusted EPS (f.d.) of $0.38 was below our $0.46 estimate, recent consensus of $0.45, and Q3/16 EPS of $0.47. Available cash flow from operations (ACFFO) per share was $0.82, below the ACFFO of $0.92 in Q3/16.
- Enbridge is planning to file an application with the Ontario Energy Board (OEB) to amalgamate Enbridge Gas Distribution (EGD) and Union Gas Limited, and if approved, it would take effect in 2019, benefiting both ratepayers and shareholders.

Impact: MIXED

- **Financial Forecasts Come Down a Bit:** We have updated our financial forecasts to reflect a number of factors, including a slower ramp up in regional oil sands pipeline new projects contributions as well as slower recovery in Energy Services margins, partially offset by assumed higher earnings in the gas distribution utilities in 2019 as a result of assumed synergies from combining Enbridge Gas Distribution (EGD) and Union Gas.
- **Uncertain Financing Strategy Creating an Overhang:** We have rolled forward our target price derivation by a quarter to be now three-quarters based off our 2019 estimates. Given the uncertainty around Enbridge's financing plans, including cost-of-capital to finance its growth projects and the absence of a reiteration of the company's dividend growth policy in advance of its December investment community update, we are increasing our free-cash-flow yield target valuation a bit. The net effect is a two-dollar reduction in our target price to $62.00.
- **Long-term Plan Updates Pending at Upcoming Investor Day:** To the extent that organizational simplification and heightened financial disclosure, including around the company's financing plans, do not progress within the next half year towards being more aligned with peers, this could affect how we value the company, including potential further compression of our target multiples.

TD Investment Conclusion

We believe that Enbridge has a strong competitive position due to its geographic positioning, scale, and diversification. Enbridge will continue to be a long-term core holding for investors seeking a combination of relatively low-risk growth and yield, although the shares could underperform in the near-term until management articulates its long-term financing and organizational streamlining plans.

Recommendation:	**BUY**
Risk:	**LOW**
12-Month Target Price:	**C$62.00↓** *Prior: C$64.00*
12-Month Dividend (Est.):	**C$2.50**
12-Month Total Return:	**37.1%**

Market Data (C$)

Current Price	C$47.03
52-Week Range	$46.94 - $58.56
Mkt Cap (f.d.) ($mm)	$77,164.0
Current Dividend	$2.44
Dividend Yield	5.2%
Avg. Daily Trading Vol.	4,164,586

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	1,640.7
Float Shares (mm)	1,632.7
Net Debt/Total Cap	51.3%
BVPS (f.d.)	$30.63
ROE	16.3%

Estimates (C$)

Year	2016A	2017A	2018E	2019E
EPS (f.d.)	2.26	1.92	2.38	2.59
EPS (f.d.) (old)	–	*1.94*	*2.44*	*2.61*
Dividend	2.12	2.41	2.68	2.96
AFFO/Shr	4.04	3.64	4.32	4.78
AFFO/Shr (old)	–	–	*4.40*	*4.86*

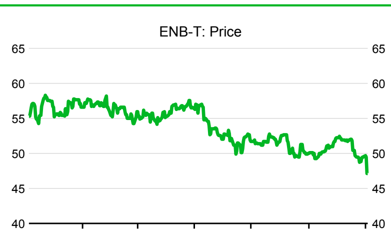
EPS (f.d.) Quarterly Estimates (C$)

Year	2016A	2017A	2018E	2019E
Q1	0.75	0.57	–	–
Q2	0.49	0.40	–	–
Q3	0.47	0.38	–	–
Q4	0.56	0.58	–	–

Valuations

Year	2016A	2017A	2018E	2019E
P/E (f.d.)	20.8x	24.5x	19.8x	18.2x

All figures in C$, unless otherwise specified



Company Profile

Enbridge Inc. (ENB-T, N) owns and operates: 1) the world's longest crude oil and liquids pipeline system; 2) Canada's largest gas distribution network in Ontario; and 3) additional oil & gas transmission, gathering, storage, and processing assets.

Details

Exhibit 1. Segmented Earnings Analysis ($mm, unless stated otherwise)

	Q3/17	Q3/16	Y/Y Change	Y/Y % Change	Comments
Canadian Mainline	$265	$206	$59	29%	-Higher Canadian residual tolls and higher throughput.
Lakehead System	287	331	(44)	-13%	-Lower Lakehead System Local Toll, increased property taxes and depreciation from an increased rate base and hydrostatic testing costs.
Regional Oil Sands System	106	105	1	1%	
Mid-Continent and Gulf Coast	133	163	(30)	-18%	-Lower contribution from Flanagan South and lost contribution resulting from the disposition of the Ozark pipeline in Q1/17.
Southern Lights Pipeline	47	44	3	7%	
Bakken System	52	48	4	8%	
Feeder Pipelines and Other	28	44	(16)	-36%	-Lost contribution from the sale of the South Prairie Region assets in Q4/16.
Express-Platte System	58	0	58	n.a.	-Incremental contribution as a result of the Spectra Acquisition in Q1/17.
Liquids Pipelines EBIT	**976**	**941**	**35**	**4%**	
Enbridge Gas Distribution (EGD)	31	30	1	3%	
Union Gas Limited (Union Gas)	42	0	42	n.a.	-Incremental contribution as a result of the Spectra Acquisition in Q1/17.
Noverco Inc.	6	2	4	n.a.	
Other Gas Distribution and Storage	2	(1)	3	n.a.	
Gas Distribution EBIT	**81**	**31**	**50**	**161%**	
US Gas Transmission	537	0	537	n.a.	-Incremental contribution as a result of the Spectra Acquisition in Q1/17.
Alliance	49	48	1	2%	
Canadian and U.S. Midstream	94	25	69	276%	-Incremental contribution as a result of the Spectra Acquisition in Q1/17 partially offset by lower contribution from US Midstream as a result of reduced producer activity due to low commodity prices.
Other	20	21	(1)	-5%	
Energy Services	(24)	(15)	(9)	60%	-Compressed basis differentials in select markets and the impact of hurricanes occuring in Q3/17.
Green Power and Transmission	20	34	(14)	-41%	-Weaker wind generation in Canada and the U.S. and higher business development costs.
Gas Pipelines, Processing, Energy Services and Green Power EBIT	**696**	**113**	**583**	**516%**	
Eliminations and Other	(15)	(84)	69	-82%	
Adjusted EBIT	**1,738**	**1,001**	**737**	**74%**	
Adjustments	257	(1,094)	1,351	-123%	
Reported EBIT	**1,995**	**(93)**	**2,088**	**-2245%**	
Interest Expense	(653)	(397)	(256)	n.a.	
Income Taxes	(327)	253	(580)	n.a.	
Non-controlling Interest	(168)	207	(375)	n.a.	
Preferred Share Dividends	(82)	(73)	(9)	n.a.	
Reported Earnings	**765**	**(103)**	**868**	**-843%**	
Operating EPS (f.d.)	**$0.38**	**$0.47**	**($0.09)**	**-19%**	
Reported EPS	$0.47	($0.11)	$0.58	-521%	

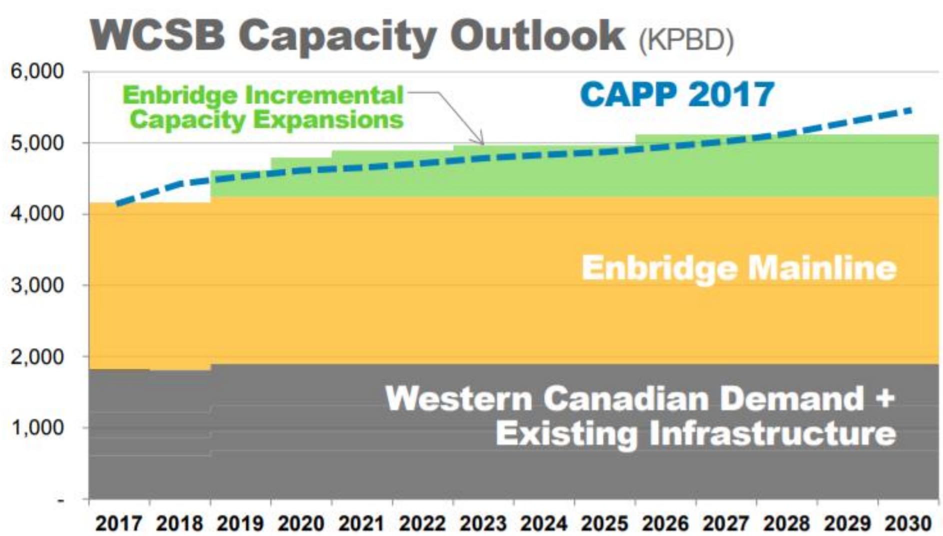
Notes:
Reported earnings have been normalized to reflect the following:
1) $362mm and ($14)mm of unrealized fair value gains/(losses) in Q3/17 and Q3/16, respectively.
2) ($6)mm and $2mm of unrealized FX gains/(losses) in Q3/17 and Q3/16, respectively.
3) ($16)mm related to make-up rights adjustments in Q3/16.
4) ($1)mm and $13mm related to leak remediation costs/(recoveries) in Q3/17 and Q3/16, respectively.
5) ($3)mm and ($27)mm of project development and transaction costs in Q3/17 and Q3/16, respectively.
6) ($76)mm and ($22)mm of employee severance, transition, and restructuring costs in Q3/17 and Q3/16, respectively.
7) $(1,000)mm related to the Sandpiper Asset Impairment in Q3/16.
8) ($4)mm related to loss on sale of non-core assets in Q3/16.
9) ($18)mm related to Alberta wildfires pipelines and facilities restart costs in Q3/16.
10) ($10)mm related to assets and investment impairment loss in Q3/16.
11) $2mm related to hydrostatic testing in Q3/16.
12) ($19)mm related to other adjustments in Q3/17.

Source: Company reports, TD Securities Inc.

Outlook

Mainline Outlook Remains Strong: The Mainline system experienced stronger crude oil throughput y/y, boosted by new projects placed into service and more favourable realized f/x hedges. The company has identified over 500 kbpd of highly efficient expansion capacity over the near term, and expects the pipeline system to have strong utilization through 2021 when CTS expires. After CTS, the company expects demand and end-market flexibility to contribute to strong netbacks for producers, and management remains confident that the Mainline will be highly competitive once new rates have been negotiated.

Exhibit 2. WCSB Capacity Outlook



Source: Company reports

Potential Impact of the Capline Reversal: On October 17, 2017, Marathon Petroleum announced that the Capline pipeline owners (majority owned by Plains All American LP) have launched a non-binding open season to gauge interest in the reversal of the pipeline, which would have an initial Southbound (Illinois-to-Louisiana) capacity of approximately 300 kbpd. Enbridge expressed interest in the potential opportunities that the Capline pipeline could present for Enbridge's Mainline system. The reversal could assist in moving Canadian crude oil to refineries on the Eastern Gulf Coast, and could potentially be fed by additional volumes from the L3R project and additional incremental expansions. With the Western Gulf being well-served by the Permian and Eagle Ford, the Capline expansion could assist in providing further destination flexibility for Canadian producers shipping on the Mainline and Express-Platte.

Exhibit 3. Potential Expansion Opportunities

Source: Company reports

Financing: YTD, the company has raised over $10 billion of new capital, including close to $4.3 billion since Q2/17. The company has also monetized $1.1 billion of assets; bringing the total capital raised in 2017 to $11.1 billion. Management will continue to explore all financing levers going forward, and will remain opportunistic regarding which funding vehicles will be used to finance its $31-billion capital program in the most efficient and cost-effective way. Balance sheet strength and credit metrics inform Enbridge's conservative approach to funding.

Exhibit 4. Funding Progress

Execution Progress

C$ Billion[1]	YTD 2017
Equity and Equivalent[2]	
ENB Common Shares (DRIP)	$0.9
Sponsored Vehicles (ATM/DRIP)	0.3
Hybrid Securities (50% equity)	1.5
Debt	
ENB Term Debt	5.4
Sponsored Vehicles	0.5
Hybrid Securities (50% debt)	1.5
Total Capital Raised	**$10.0**
Asset Monetization	1.1
Total [3]	**$11.1**

1. Before deduction of fees and commissions where applicable
2. Inclusive of funds raised through ENB and ENF DRIP, Enbridge Energy Management, L.L.C. (EEQ) PIK and SEP ATM programs.
3. USD values have been translated to CAD at rates at time of issuance

On-going Access to Capital

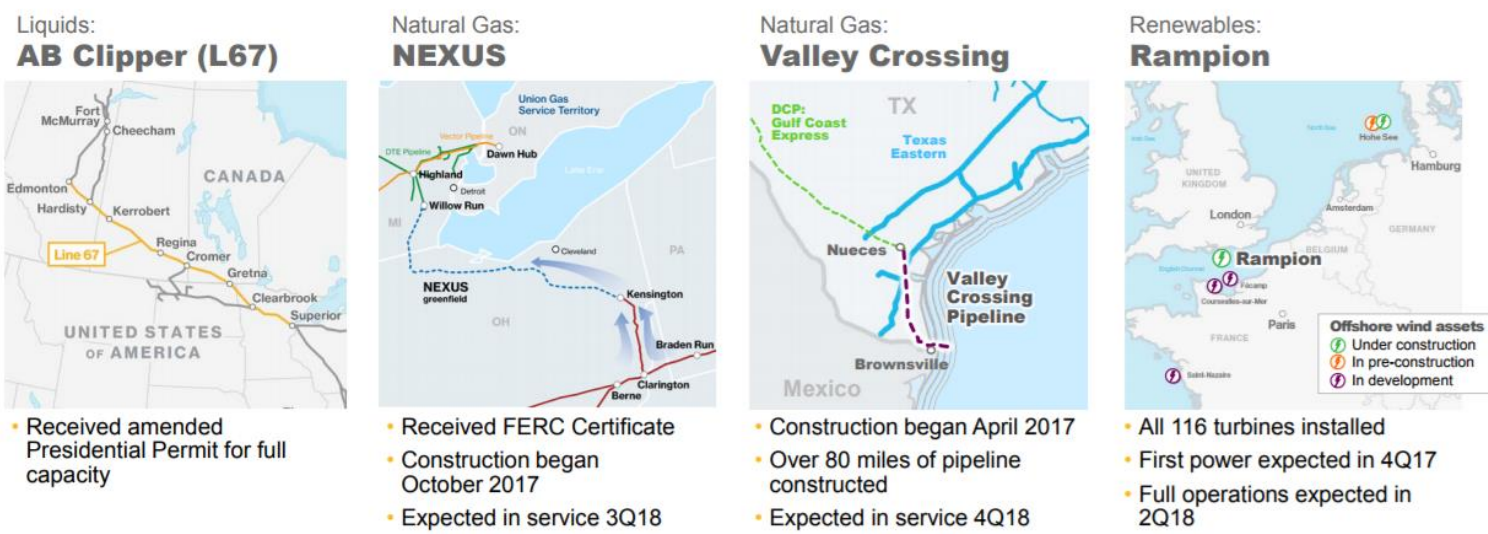
Unsecured Debt Ratings[4]	
Standard & Poors	BBB+ (stable)
Moody's	Baa2 (negative)
Fitch	BBB+ (stable)
DBRS	BBB High (stable)

Source: Company reports

Enbridge Gas Distribution-Union Gas Amalgamation: The company announced its plans to file an application with the Ontario Energy Board (OEB) for the amalgamation of Enbridge Gas Distribution (EGD) and Union Gas (Union). Once the application is submitted, the company estimates that the review will take most of 2018, with a decision planned for 2019. Although more information will be available once the application is filed, management noted some details of the amalgamation, including: a price cap revenue inflator off previous rates (no rebasing), a 10-year term, capital recovery for spending in excess of the specified threshold, a 50:50 sharing of benefits for results that are 300 basis points above the allowed ROE after five years (no sharing within the first five years), and the continuation of natural gas costs pass-through.

Project Updates: On October 16, 2017, Enbridge received a presidential permit for Line 67 (Alberta Clipper) that authorizes the company to fully utilize its capacity across the border. In addition, NEXUS received approval from FERC for construction, with a Q3/18 targeted in-service date. NEXUS is currently 60% subscribed; however, management believes that shipper interest in additional contracts will surface as construction picks up (construction commenced October 2017).

Exhibit 5. Project Execution



Source: Company reports

Q4/17 Preview: Our Q4/17E adjusted EPS (f.d.) of $0.58 is slightly above Q4/16 EPS of $0.56. Contributions from new assets placed into service and Spectra assets acquired earlier in 2017 (as well as a ramp-up in synergies from the merger) are expected to be partially offset by a higher share count and increased interest expense.

Valuation

Exhibit 6. Peer Valuation

Pipeline & Midstream Companies	Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Adj. EPS (f.d.)[2] 2016A	2017E	2018E	2019E	AFFO Per Shr (f.d.) 2016A	2017E	2018E	2019E	P/E 2016A	2017E	2018E	2019E	AFFO Yield 2016A	2017E	2018E	2019E
Enbridge Inc.	ENB	$47.03	1640.7	$77,164	$2.44	5.2%	$2.26	$1.92	$2.38	$2.59	$4.04	$3.64	$4.32	$4.78	20.8x	24.5x	19.8x	18.2x	8.6%	7.7%	9.2%	10.2%
Enbridge Income Fund Hlds[1]	ENF	$28.98	147.0	$4,259	$2.05	7.1%	$2.18	$2.29	$2.45	$2.62	$2.46	$2.53	$2.73	$2.77	13.3x	12.7x	11.8x	11.1x	8.5%	8.7%	9.4%	9.5%
Gibson Energy Inc.	GEI	$17.53	142.7	$2,501	$1.32	7.5%	($0.22)	$0.25	$0.23	$0.49	$0.97	$1.24	$1.27	$1.67	N/A	N/A	N/A	35.8x	5.5%	7.1%	7.2%	9.5%
Inter Pipeline Ltd.	IPL	$26.41	373.2	$9,856	$1.62	6.1%	$1.39	$1.40	$1.47	$1.50	$2.21	$2.29	$2.32	$2.34	19.0x	18.8x	18.0x	17.6x	8.4%	8.7%	8.8%	8.9%
Keyera Corp.	KEY	$37.59	188.0	$7,068	$1.68	4.5%	$1.21	$1.37	$1.70	$1.92	$2.56	$2.58	$3.15	$3.53	31.1x	27.4x	22.1x	19.6x	6.8%	6.9%	8.4%	9.4%
Kinder Morgan Canada Limited[3]	KML	$16.48	345.0	$5,686	$0.65	3.9%	N/A	$0.46	$0.50	$0.80	N/A	$0.91	$0.96	$1.31	N/A	35.9x	33.0x	20.7x	N/A	5.5%	5.8%	7.9%
Pembina Pipeline Corp.	PPL, PBA	$43.00	498.6	$21,441	$2.16	5.0%	$1.13	$1.38	$1.92	$2.09	$2.54	$2.92	$3.61	$3.83	37.9x	31.2x	22.4x	20.6x	5.9%	6.8%	8.4%	8.9%
TransCanada Corp.	TRP	$61.28	882.0	$54,052	$2.50	4.1%	$2.77	$2.96	$3.15	$3.28	$4.83	$3.94	$5.20	$5.79	22.1x	20.7x	19.5x	18.7x	7.9%	6.4%	8.5%	9.4%
Average						5.7%									24.0x	24.5x	20.9x	20.3x	7.4%	7.2%	8.2%	9.2%

1) Full name is Enbridge Income Fund Holdings Inc.

2) EPS (f.d) estimates are based on adjusted earnings.

3) KML dividend based on 2017 annualized estimate.

Source: Thomson, TD Securities Inc. estimates.

Justification of Target Price

Our $62.00 target price is predicated 25%/75% on our 2018/2019 financial estimates, as follows:

Exhibit 7. Target Price Derivation

(25% Weight) 1. EV / EBITDA			(25% Weight) 2. Relative Dividend Yield			(50% Weight) 3. Free Cash Flow Yield			
EBITDA ($ mln)	EV / EBITDA	Resultant Share Price	Dividend	Relative Dividend Yield	Resultant Share Price	AFFO/shr	FCF Yield	Resultant Share Price	**Blended Target Price**
13,425	14.5x	$ 58.60	$ 2.89	225%	$ 64.22	$ 4.67	7.5%	$ 62.25	$ 61.83
	(prior 14.5x)			(prior 225%)			(prior 7.0%)		

10-Year Government of Canada Bond Yield Assumption **2.00%**

Source: TD Securities Inc. estimates

Key Risks to Target Price

Key risks to target price include: 1) Higher-than-expected long-bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) reduction in the historical valuation premium to sector; 5) tougher-than-expected competition for new transmission pipeline capacity; 6) regulatory/political risk; 7) substantial delays and/or cancellations of oil sands projects; 8) WCSB risk; 9) interest rate and F/X risk; 10) access to capital markets; 11) dividend level; and 12) failure to substantially realize the Spectra merger identified synergies.

Exhibit 8. Summary Model

Ticker	ENB-T, N	**Market Cap ($mm)**	$77,164	**Debt-to-Capitalization**	51.3%
Recent Share Price	$47.03	**EV ($mm)**	$174,439	**BVPS**	30.63
Dividend	$2.44	**Shares O/S (mm)**	1,641	**Fiscal Year-End**	December
Dividend Yield	5.2%	**Float O/S (mm)**	1,633		

Company Profile: Enbridge Inc. owns and operates: 1) the world's longest crude oil and liquids pipeline system; 2) Canada's largest gas distribution network in Ontario; and 3) additional oil & gas transmission, gathering, storage and processing assets.

Key Metrics	**2016A**	**2017E**	**2018E**	**2019E**
EBITDA	6,902	10,460	12,770	13,644
Operating EPS (f.d.)	2.26	1.92	2.38	2.59
Free Cash Flow Per Share (ACFFO)	4.04	3.64	4.32	4.78
Dividend Per Share	2.12	2.41	2.68	2.96

Income Statement ($mm)	**2016A**	**2017E**	**2018E**	**2019E**
Adj. EBIT	4,662	7,151	9,081	9,674
Net Interest Expense & Other	(1,545)	(2,414)	(2,821)	(2,628)
Income Taxes	(520)	(782)	(1,064)	(1,268)
Non-Controlling Interests	(226)	(689)	(867)	(971)
Preferred Share Dividends	(293)	(336)	(390)	(462)
Operating Income	**2,078**	**2,930**	**3,939**	**4,345**
One Time Items & Weather	(302)	353	0	0
Net Income	**1,776**	**3,283**	**3,939**	**4,345**

Cash Flow Statement ($mm)	**2016A**	**2017E**	**2018E**	**2019E**
Income	2,309	3,577	4,233	4,638
Other Items Not Involving Cash	3,264	3,412	5,061	5,194
Change in Non-cash Working Capital	(362)	(4)	(4)	(4)
Cash from Operations	5,211	6,985	9,290	9,829
Capital Expenditures & Acquisitions	(5,128)	(4,126)	(3,459)	(2,508)
Other	(64)	(5,426)	(2,825)	(845)
Cash from Investing	(5,192)	(9,551)	(6,284)	(3,353)
Dividends Paid	(1,443)	(3,995)	(4,813)	(5,406)
Common Share Offering	2,260	1,098	1,327	1,483
Preferred Share Offering	737	500	1,400	1,500
Change in Debt	(149)	3,728	(1,621)	(2,628)
Contribution to NCI	(303)	536	770	(1,356)
Cash from Financing	1,102	1,866	(2,937)	(6,406)
Foreign Exchange (Losses) Gains	(19)	-	-	-
Total cash flow	**1,102**	**(700)**	**69**	**70**

Balance Sheet ($mm)	**2016A**	**2017E**	**2018E**	**2019E**
Cash and Cash Equivalents	2,117	794	864	933
Property, Plant and Equipment	64,284	97,952	101,083	101,038
Other	19,431	76,290	72,825	74,594
Total Assets	**85,832**	**175,036**	**174,771**	**176,565**
Debt	46,549	78,538	74,475	72,533
Other Liabilities	13,928	22,991	23,847	24,557
Preferred Shares	7,255	8,202	9,602	11,102
Non-Controlling Interest	3,969	13,657	14,452	15,263
Total Shareholders' Equity	14,131	51,648	52,395	53,110
Total Liabilities & Equity	**85,832**	**175,036**	**174,771**	**176,565**

Valuation	**2016A**	**2017E**	**2018E**	**2019E**
EV/EBITDA	25.3x	16.7x	13.7x	12.8x
P/E	20.8x	24.5x	19.8x	18.2x
ACFFO Yield	8.6%	7.7%	9.2%	10.2%
Dividend Yield	4.5%	5.1%	5.7%	6.3%

Ratios	**2016A**	**2017E**	**2018E**	**2019E**
Payout Ratio (EPS)	93%	125%	112%	114%
Payout Ratio (ACFFO)	52%	66%	62%	62%
Debt-to-Capitalization	65%	52%	49%	48%
Net Debt to EBITDA	6.4x	7.4x	5.8x	5.2x

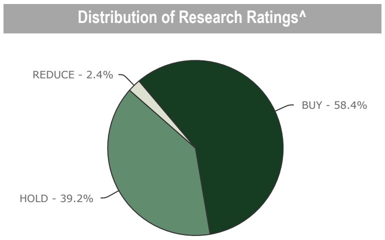
Segmented Adjusted EBIT ($mm)	**2016A**	**2017E**	**2018E**	**2019E**
Liquids Pipelines	3,958	3,977	4,595	4,833
Gas Distribution	494	833	1,007	1,072
Gas Pipelines and Processing	366	2,406	3,317	3,558
Green Power and Transmission	165	169	209	209
Energy Services	28	(25)	20	20
Eliminations and other	(349)	(209)	(68)	(18)
	4,662	7,151	9,081	9,674

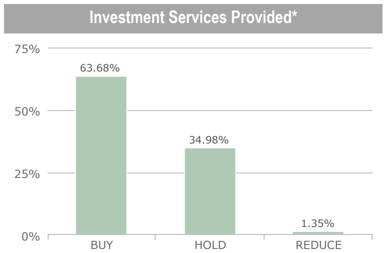
Business Mix - % EBIT pre Eliminations/Other	**2016A**	**2017E**	**2018E**	**2019E**
Liquids Pipelines	79%	54%	50%	50%
Gas Distribution	10%	11%	11%	11%
Gas Pipelines and Processing	7%	33%	36%	37%
Green Power and Transmission	3%	2%	2%	2%
Energy Services	1%	0%	0%	0%
	100%	100%	100%	100%

Available Cash Flow From Operations	**2016A**	**2017E**	**2018E**	**2019E**
Consolidated Adjusted EBIT	**4,662**	**7,151**	**9,081**	**9,674**
Depreciation and Amortization	2,240	3,309	3,690	3,969
Maintenance Capital	(671)	(1,348)	(1,423)	(1,413)
Interest Expense	(1,545)	(2,414)	(2,821)	(2,628)
Current Income Taxes	(92)	(150)	(160)	(160)
Preference Share Dividends	(293)	(336)	(390)	(462)
Distributions to redeemable NCI	(202)	(248)	(286)	(359)
Distributions to noncontrolling interests	(720)	(799)	(932)	(997)
Cash distributions in excess of equity earnings	183	200	200	200
Other non-cash adjustments	151	175	200	200
ACFFO	**3,713**	**5,541**	**7,159**	**8,025**

Source: TD Securities Inc. estimates

TD Securities Equity Research Disclosures





Definition of Research Ratings

ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (7.9% of coverage universe), Medium (38.5%), High (44.8%), Speculative (8.8%)

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