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Enbridge Deal a Boon for Bay Street Bankers

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After eight forgettable months, Bay Street is having a September to remember.

The slump in stock sales ended late Tuesday, as investment banks staged a successful $4-billion equity offering for Enbridge Inc., pocketing $130-million in fees.

On Wednesday, the banks did three more deals. They raised $500-million to help fund insurer Intact Financial Corp.'s planned $884-million acquisition of a British business. In addition, Peyto Exploration & Development Corp. sold $125-million of stock as part of a $636-million purchase of Alberta oilfields. And medical equipment supplier Savaria Corp. sold $55-million of stock to pay down debt.

The trio of transactions meant another $27-million in fees for the banks.

The successful Enbridge deal – overnight, institutional investors snapped up shares in the company to back a US$9.4-billion purchase – and the three subsequent equity offerings have dealmakers predicting an upturn in acquisitions and stock sales through the rest of the year.

On Tuesday night and early Wednesday, the banks received commitments for all the Enbridge shares to investors around the world, with North American and European institutions buying the bulk of the stock, according to a source working on the transaction. The Globe and Mail is not identifying the source because the individual is not authorized to comment on the deal. The offering is expected to close by Friday, Sept. 8.

"The overall level of M&A activity is returning to what we all considered normal, prepandemic, versus the frothy levels we experienced during COVID," and the drought that marked most of this year, said Colin Walker, managing partner at investment bank Crosbie & Co.

He said corporate leaders have rebounded from the deal-stopping shock of interest-rate hikes earlier this year, and the subsequent failure of Silicon Valley Bank.

"While some investors are still hunkered down, others see the market on the cusp of an uptick in earnings," said Mr. Walker. "In this environment, it's no surprise to see a strong appetite for new financings from blue-chip companies like Enbridge."

On Tuesday and Wednesday, the four stock sales came close to matching the $5.8-billion raised in all the equity offerings from Toronto Stock Exchange-listed companies over the first seven months of the year, according to data from TMX Group. Prior to this week, equity underwriting activity was down 54 per cent from the same period a year ago.

Enbridge raised cash to help pay for its purchase of three U.S. natural gas pipeline companies from Dominion Energy Inc., based in Richmond, Va. The company sold 89.5 million shares for $44.70 each to a syndicate of 16 investment banks led by RBC Capital Markets, a division of Royal Bank of Canada, and Morgan Stanley.

Enbridge's stock offering ranks among the largest equity sales ever done by a Canadian company.

RBC, Morgan Stanley and the rest of the banks will earn a 3.25-per-cent fee for the stock sale, or $130-million, by far the largest payday on an equity offering this year in Canada, according to a prospectus filed with regulators.

The two lead banks will split approximately 40 per cent of the commission. RBC and Morgan Stanley stand to earn millions more in fees for advising on Enbridge's acquisition and lending to the utility.

Early Wednesday in a news conference, Enbridge chief executive officer Greg Ebel said: "The equity sale is going well, and we are pleased with the initial response."

Mr. Ebel said the acquisitions better balance Enbridge's business between renewable power, oil and natural-gas pipelines and will make an immediate positive contribution to the company's financial results.

Enbridge paid a relatively low price for the natural-gas businesses, which Dominion is selling as part of a pivot into electric power. In a report early Wednesday, analysts Justin Jenkins and J.R. Weston at Raymond James Financial Inc. said: "While the purchase price and business mix screen as attractive to us, we'd expect some consternation from investors revolving around the size and timing – particularly issuing equity at a multiyear low."

Enbridge and the banks priced Tuesday's stock offering at a significant 7.2-per-cent discount to where the utility's stock closed on Tuesday. The company positioned expansion of its natural gas pipeline network as part of the economy's larger transition to energy sources with lower carbon emissions than oil or coal.

"The whole idea of what the energy transition will look like has matured in recent years, with a recognition that gas will play a critical role," Mr. Walker said.

Enbridge structured the share sale as a two-step syndication. In the first step, the utility sold its stock to RBC, Morgan Stanley and five Canadian investment banks – BMO Capital Markets, CIBC Capital Markets, National Bank Financial Markets, Scotiabank and TD Securities. Each of these dealers will receive about 8 per cent of the fees.

In the second step of the offering, nine more dealers signed on to sell Enbridge shares. The list included global platforms such as Barclays PLC and JPMorgan Chase & Co. and regional Canadian dealers such as Calgary-based ATB Capital Markets Inc. and Montreal-based Desjardins Securities Inc.

Previous equity sales of this size include TC Energy’s record $4.4-billion share sale in 2016 – which was followed by another $3.5-billion share sale later that year – and Barrick Gold Corp.’s US$4-billion share sale in 2009, which was used to eliminate the bullion producer’s fixed-price gold contracts.