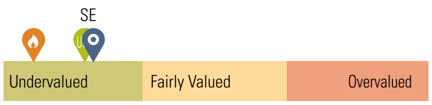
Spectra Energy Corp SE (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★★ 26 May 2015	35.19 USD 26 May 2015	46.00 USD	0.77	4.00 26 May 2015	23.62 26 May 2015	Oil & Gas Midstream	Exemplary

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Wide	Wide
Valuation	★★★★★	Undervalued
Uncertainty	Low	High
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.88	0.92	0.80	0.86
Price/Earnings	26.1	19.3	15.0	21.5
Forward P/E	25.9	—	13.4	15.7
Price/Cash Flow	10.5	10.4	5.0	13.2
Price/Free Cash Flow	93.7	133.5	13.5	22.2
Dividend Yield %	4.00	3.77	3.79	2.05

Source: Morningstar

Bulls Say

- Spectra Energy is an 800-pound gorilla of the natural gas midstream business. Its size, market knowledge, and customer relationships give it an edge when developing new projects.
- The drop-down of UST to Spectra Energy Partners accelerated value recognition and will allow Spectra to fund future growth more efficiently.
- Access to developing shale plays--particularly the Marcellus, Horn River, and Montney--provides Spectra with compelling, visible growth opportunities.

Bears Say

- Higher costs of capital may change the types of projects Spectra can pursue, although so far the company has retained access to favorably priced capital.
- The flip side to outsize cash flows from DCP Midstream in recent years is weak cash flows--and skittish shareholders--when commodity prices are falling.
- Because of its size, Spectra has to spend a lot in order to move the needle. While Spectra has another $20 billion in identified projects, at some point it may become more difficult to put capital to work on attractive projects, and returns may begin to slip.

Management Meeting: Spectra's Growth Pipeline Protects Its Marcellus Market Share

Jason Stevens, Analyst, 12 March 2015

Investment Thesis

Spectra is a pure play on natural gas demand and infrastructure. Its operations stretch across all links in the natural gas value chain, with the exception of riskier exploration and production. With positions in gathering, processing, transportation, storage, and distribution, Spectra collects a large portion of the economic rents paid to move gas to end users.

About a third of Spectra's earnings, depending on commodity prices, come from gathering and processing natural gas. The bulk of gathering-processing cash flows come from Spectra's 50% ownership of DCP Midstream, a joint venture with Phillips 66. While there is significant commodity exposure here, Spectra explicitly discounts earnings from this JV when planning dividends, instead using cash from the JV to offset capital spending needs when DCP Midstream benefits from attractive processing margins. We think the inclusion of this business in Spectra's financials creates the appearance of greater cash flow volatility than the company's core assets warrant.

In our eyes, Spectra's most attractive business is its U.S. transmission segment, long-haul pipelines, and storage facilities that move about 12% of gas consumed in North America. Nearly half of the company's earnings stem from stable, long-term contracts for firm capacity across this system. Canadian distribution subsidiary Union Gas makes up the balance of Spectra's earnings and supplies natural gas to 1.3 million customers in Ontario. Earnings fluctuate somewhat with the weather, as the primary uses for natural gas are winter heating and, increasingly, summer cooling.

Growth opportunities for Spectra remain compelling, thanks to its large, diverse, and well-positioned asset base. Pipelines and fee-based processing opportunities in the U.S. and Canada offer low-risk, bite-size, bolt-on growth opportunities backed by firm contracts. Overall, Spectra and DCP are currently executing on $7.5 billion in approved projects that will enter service through 2019. More than $20 billion in additional identified projects will ensure longer-term growth prospects.

Jason Stevens, Analyst, 19 May 2015

Analyst Note

We are reaffirming our fair value estimates and wide moat ratings for Spectra Energy and Spectra Energy Partners after meeting with senior management at the American Gas Association Financial Forum in Palm Desert, California. Spectra Energy's management reaffirmed its five-year growth plan, which should help it keep a leading market share of takeaway capacity in the Eastern United States and a prime foothold in high-demand population centers like New York City, Boston, and the East Coast. This supports our wide moat rating.

Spectra management told us it doesn't expect to merge with Spectra Energy Partners anytime soon. Spectra Energy owns 80% of SEP, making a merger less tax-advantaged than the recent deals involving Williams and Kinder Morgan. In addition, SEP is relatively young, so it doesn't have the incentive distribution rights burden that Williams and Kinder faced. Management still has plans for some $6 billion of investment at SEP, giving it plenty of growth opportunities.

We are awaiting an announcement from management by October regarding its plan to create a financial structure that would increase investors' comfort with the variable cash profile of DCP Midstream and DCP Midstream Partners.

Management thinks liquids takeaway capacity from the Marcellus is an area of possible growth investment. Natural gas liquids increasingly are acting as a constraint on dry gas production. Spectra is in a good position to leverage its existing infrastructure to handle liquids as well as dry gas. However, under current NGL pricing it may be difficult to attain shipper commitments for additional projects at this time, in our view.

Economic Moat

Jason Stevens, Analyst, 12 March 2015

We think Spectra Energy has a wide economic moat. As one of the largest natural gas transportation and distribution companies in North America, Spectra can bring its impressive scale and experience to bear across multiple markets. Its core strategy is to own and operate natural gas assets with local monopolies, effectively

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Kinder Morgan, Inc. KMI	USD	91,258	15,776	27.76	51.02
Enbridge Inc ENB	USD	41,721	28,372	6.97	133.33
Williams Companies Inc WMB	USD	39,148	7,604	18.10	18.94

maximizing switching costs and yielding consistently attractive returns on invested capital. We think each of Spectra's various businesses has a moat, though we believe that Union Gas only deserves a narrow moat, given its limited ability to increase regulated returns. We're particularly interested in Spectra's pipeline assets, which consist of long-haul interstate pipelines that run from the Gulf Coast to Midwest, Northeast, and Florida markets and from northeastern British Columbia to Vancouver. Spectra's strong positions in the Marcellus, Horn River, and Montney shale plays provide particularly attractive long-term growth opportunities. As Spectra continues to devote most of its growth capital to a variety of internal pipeline and storage projects, we think it can achieve economies of scale by flowing incremental volumes through its existing system, connecting North America's major natural gas resource plays with its prominent demand centers.

Valuation

Jason Stevens, Analyst, 12 March 2015

Our fair value estimate for Spectra Energy is $46 per share, up modestly from $44 per share. This implies an enterprise value/EBITDA ratio of 17 times and a forward yield of 3%.

We expect 2015 adjusted EBITDA of $2.8 billion and 2016 adjusted EBITDA of $3.0 billion. Spectra Energy Partners is the largest source of growth for Spectra, accounting for 70% of planned EBITDA growth through 2017. Spectra has explicitly zeroed out contributions from commodity-sensitive DCP Midstream; should oil prices recover, any excess cash generation from this business will be used to help fund growth capital expenditures. We think Spectra is on track to increase dividends per share to $1.76 in 2017, from $1.48 this year, though dividend coverage is dropping to only 1 times, much tighter than we're accustomed to seeing from this company. We expect capex of $2.5 billion-$3.0 billion through 2019.

We discount cash flows using a 7.5% cost of equity assumption, which results in a 7.0% weighted average cost of capital. We check our discounted cash flow valuation with a dividend discount model, which values Spectra at $43.

Risk

Jason Stevens, Analyst, 12 March 2015

While roughly 88% of cash flows are fee-based, low commodity prices destroy margins for the remaining 12%, and a sustained low-price environment could stunt growth across the board by keeping producer drilling at bay. Through DCP, Spectra is exposed to the spread in natural gas liquids and natural gas prices; as natural gas prices increase, while NGL prices decline, processing margins at DCP deteriorate, reducing cash available for distribution to Spectra. We worry somewhat about access to capital in the event of a market collapse and note that rising interest rates could raise costs of refinancing debt and send investors into other yield vehicles. Other risks include changes to regulatory safety requirements, environmental exposures, leaks, spills, or fires.

Management

Jason Stevens, Analyst, 12 March 2015

Spectra Energy runs a tight ship and is managed by longtime industry hands. Greg Ebel is chairman, president, and CEO and has held a number of leadership roles in the company. Spectra's board is packed with independent directors; only Ebel is employed by Spectra. Compensation seems reasonable for a company of this size, and the management team's incentive plans stress long-term returns. Overall, we think Spectra Energy is a company with exemplary management that looks out for the interests of its owners. The decision to accelerate drop-downs to Spectra Energy Partners is a good example of this. While the company had outlined a plan to shift $2 billion in assets to SEP through drop-downs in early 2013, the U.S. Transmission drop-down moved Spectra toward an energy infrastructure holding company structure, something that has worked out well for firms such as Williams and Kinder Morgan. We think this decision will result in more rapid dividend growth for Spectra and underscores the value of its midstream franchise.

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Analyst Notes Archive

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Jason Stevens, Analyst, 19 May 2015

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Spectra and SEP Report 1Q Earnings

Jason Stevens, Analyst, 07 May 2015

Spectra Energy and Spectra Energy Partners reported first-quarter earnings in line with expectations. We are maintaining our fair value estimates and wide moat ratings for both firms.

SEP's EBITDA increased 8% to $445 million compared with $413 million in the first quarter of 2014. Total distributable cash flow for the quarter increased over 9% to $354 million versus $324 million last year, a 1.5 times coverage on the distribution. Results reflect SEP's tollbooth business model, which lacks commodity and volume exposure. SEP's core U.S. transmission business reported EBITDA of $398 million for the quarter, up 6.4% from $374 million last year. The liquids segment posted $64 million in EBITDA, up 10% from $58 million a year ago. The increases were due to projects recently placed into service and higher volumes on the Sand Hill pipeline.

SE's results were affected by a weaker Canadian dollar and lower commodity prices. EBITDA for the quarter came in at $788 million, down 22% from $1,005 million last year. The decline was seen in the distribution, western Canadian, and field services segments and was offset somewhat by increased earnings at SEP. The distribution segment was hurt by the weaker Canadian dollar while the western Canadian segment was hurt by lower propane prices as well as the weaker exchange rate. In the field services segment, earnings were hurt by lower commodity prices and lower gains at DPM, partially offset by earnings from asset growth and savings from operating efficiencies. While field services is seeing weakness due to lower commodity prices, as a reminder, cash distributions from the DCP joint venture cannot drop below zero. SE's DCF was $578 million, down 8.4% from last year's $631 million. While lower than last year, the coverage ratio was still a very healthy 2.3 times. Management indicated it is still on track to achieve its published 2015 guidance for coverage of 1.2 times.

Revisiting Estimates for Spectra Energy in a Lower Commodity Price Environment

Jason Stevens, Analyst, 12 March 2015

Our fair value estimates for Spectra Energy and Spectra Energy Partners (SEP) have increased modestly to $46 per share from $44 for Spectra Energy and to $63 from $62 for SEP, despite of our review of long-term midcycle oil and gas price assumptions. Our long-term oil price expectation has decreased from $100 to $75 Brent, and our long-term U.S. gas price forecast is now $4 versus $5.40 per thousand cubic feet. As a result of the recent commodity price pullback, we expect significant services price cuts and reduced activity, likely throughout 2016. Over the longer term, however, we now see North America as the leading source of oil supply growth over the coming years,

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at the expense of oil sands and deep-water offshore projects. Despite lower current prices and our reduced long-term midcycle price assumptions, we forecast rising oil and gas production levels in the U.S. as upstream producers benefit from improved drilling economics. Rising production will require additional infrastructure spending, providing a clear path for continued midstream growth over the coming years.

For Spectra, the obvious casualty of lower commodity prices is its gathering and processing business. As a 50% owner of DCP Midstream, Spectra has received $1.8 billion in cash distributions since 2007, averaging $230 million a year. Given current commodity prices, processing margins are no longer robust and Spectra has explicitly zeroed out contributions from this business through 2017. Accounting for this reduced our fair value estimate by approximately $3 per share, but a slight reduction in our cost of equity assumption offset this decrease. Our expectations for fee-based cash flow growth at SEP led to the slight fair value increase for both firms, as SEP will account for 70% of Spectra's EBITDA growth through 2017. We continue to see both firms as solid, wide-moat franchises trading at appealing discounts to our fair value estimates.

Access Northeast Pipeline Project One Step Closer to Reality With National Grid Sign-On

Travis Miller, Analyst, 18 February 2015

We are reaffirming our fair value estimates and moat and moat trend ratings for National Grid, Eversource Energy, and Spectra Energy after National Grid announced that it will join the proposed Access Northeast pipeline project as a co-developer. With the project completion date not until the end of 2018 and remaining uncertainties, we continue to exclude the project from our near-term financial forecasts. However, it is a project that has wide-moat characteristics and supports our moat ratings.

We think National Grid's partnership could be the move that gets the project over a key initial hurdle. We expect the $3 billion project to be value-accretive for all three participants, but it likely is not a big enough investment for any of the companies relative to their sizes to have material impacts on our fair value estimates.

The project's open season through May is another key gating factor that will determine the economics of the pipeline. We're particularly interested in whether power generators participate. The Northeast transmission grid operator has estimated that the region will need 1.1 billion cubic feet per day of incremental gas supply by 2020, but generators typically are hesitant to pay for firm supply without assurance they will run. We think capacity contracts could support firm gas supply, particularly for new-build projects we estimate could draw about 156 million cubic feet of gas demand per day. It's also possible Repsol will show interest in firm capacity to supply a potential liquefied natural gas export facility.

If the open season is successful and the project moves forward, the next step will be securing all of the local, state, and federal permits. If the project can secure Federal Energy Regulatory Commission approval in 2016-17, we expect that we will have enough firm cost and revenue projections to include it in our forecasts and valuations.

Spectra and SEP Meet Expectations in 4Q; Cash Flow Will Remain Steady Despite Oil Price Collapse

Jason Stevens, Analyst, 03 February 2015

Spectra Energy and Spectra Energy Partners delivered another strong quarter, on par with expectations. We are maintaining our fair value estimates and wide moat ratings for both firms at this time.

Spectra Energy Partners' core U.S. Transmission business reported EBITDA of $369 million for the quarter, up 15% from $322 million last year and just above our estimate of $360 million. The liquids segment posted $71 million in EBITDA, up from $41 million a year ago. Total distributable cash flow for the quarter came in at $245 million, or $0.84 per unit, providing 1.42 times coverage of the declared $0.58875 per unit distribution.

Spectra Energy posted quarterly net income of $316 million, or $0.47 per share, up from last year's $236 million, in part thanks to lower taxes due to shifting the U.S. Transmission assets into Spectra Energy Partners. EBITDA for the quarter came in at $810 million, putting full-year EBITDA at $3.1 billion, in line with our estimates. While Field Services is seeing weakness due to lower commodity prices, recall that what matters to Spectra (as 50% owner) is cash distributions received, not subsidiary earnings. And cash distributions from the DCP joint venture cannot drop below zero. Thus while Spectra is likely to record some commodity-related volatility in its 2015 consolidated financials, the actual downside for Spectra's cash flow here is limited, and its dividend growth remains on track.

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Spectra is hosting an analyst day on Feb. 5 and will elaborate on its 2015 plans, but at this juncture we think new projects entering service will support another solid year for both firms.

OPEC Inaction Tanks Oil Prices and Energy Stocks, but Midstream Cash Flows Remain Robust

Jason Stevens, Analyst, 01 December 2014

Midstream stocks are selling off in the aftermath of OPEC's Thanksgiving Day decision to maintain existing production quotas, dashing the market's hope that OPEC would step in and remove excess crude oil supply from the market. By our estimates, oil markets are oversupplied by roughly 1 million barrels a day, which may increase into early 2015 absent a production response. We think that the market's reaction is overdone, particularly if you consider that 1 million to 2 million barrels a day of excess supply is equivalent to 1.1% to 2.2% of daily consumption, and depletion alone removes roughly 4% of total production each year. Moreover, the supply surge from U.S. shale oil has been well anticipated by markets, leaving us to wonder what has changed fundamentally in the market's awareness that has dropped the energy sector as a whole by 20% since September 1. We suggest investors pay attention to oil demand, as any further weakness could spark another leg down in oil markets. That said, over the medium term we'd expect lower crude prices to stimulate demand, supporting our expectation of higher prices in the future.

We think the market reaction among midstream firms in particular has been overdone. While some U.S. MLPs do have modest direct crude oil or natural gas liquids price exposure, the vast majority of cash flows are linked to long-term, fee-based contracts, supporting relatively stable cash flows despite market tumult. Moreover, midstream firms create value by building new assets. Despite low oil prices, we continue to see robust project pipelines from firms in our coverage.

We view the current pullback in stock prices as a good opportunity to buy quality franchises at a discount. Wide moat MLPs such as ONEOK Partners, Williams Partners, and Enterprise Products Partners look compelling currently, as do large-cap midstream corporations Spectra Energy, Williams, and Enbridge.

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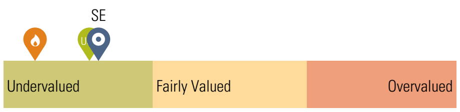
Spectra Energy Corp SE

Last Close	Quantitative Fair Value Estimate	Market Cap (Mil)	Sector	Industry	Country of Domicile
35.19	40.17	24,234.9	Energy	Oil & Gas Midstream	USA United States

Spectra Energy Corp. through its subsidiaries and equity affiliates owns and operates a portfolio of complementary natural gas-related energy assets. It also own and operate a crude oil pipeline system.

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Wide	100	100	100
Valuation	Undervalued	60	36	49
Quantitative Uncertainty	High	93	97	89
Financial Health	Moderate	60	68	60



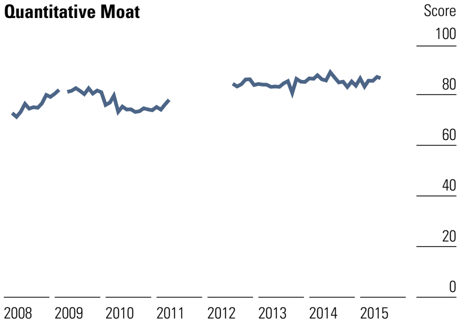
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.88	0.92	0.80	0.86
Price/Earnings	26.1	19.3	15.0	21.5
Forward P/E	25.9	—	13.4	15.7
Price/Cash Flow	10.5	10.4	5.0	13.2
Price/Free Cash Flow	93.7	133.5	13.5	22.2
Dividend Yield %	4.00	3.77	3.79	2.05
Price/Book	3.1	2.4	1.1	2.6
Price/Sales	4.3	3.8	1.2	2.0

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	11.5	13.0	9.5	12.4
Return on Assets %	2.8	3.6	4.5	5.1
Revenue/Employee (K)	604.6	864.7	1,404.6	303.6

Quantitative Moat



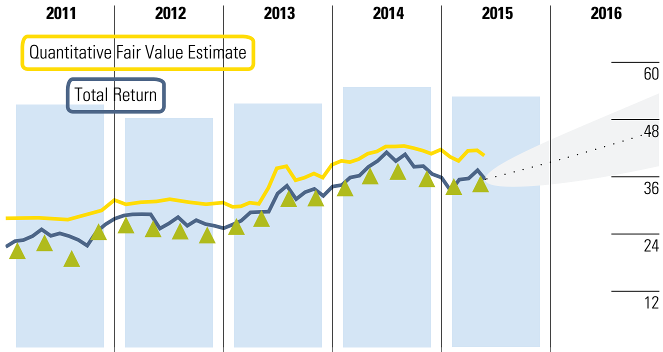
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.5	0.5	0.6
Solvency Score	686.8	—	579.9	551.1
Assets/Equity	4.2	3.7	1.6	1.7
Long-Term Debt/Equity	1.6	1.4	0.4	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	7.0	3.3	5.3	-12.5
Operating Income %	15.5	3.0	5.5	-4.5
Earnings %	4.1	-3.1	4.2	2.4
Dividends %	12.7	9.1	6.6	—
Book Value %	-4.1	-0.6	2.0	—
Stock Total Return %	-10.4	10.6	16.2	—

Price Versus Quantitative Fair Value

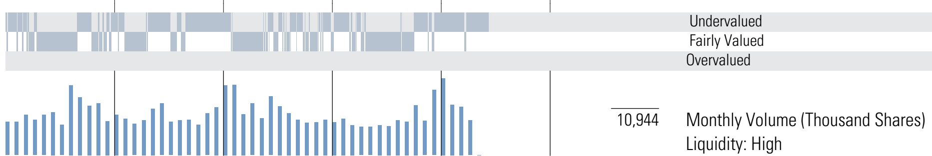


Sales/Share
Forecast Range
Forcasted Price
Dividend
Split

Momentum: Negative
Standard Deviation: 16.78

32.43 52-Wk 43.12
19.09 5-Yr 43.12

2011	2012	2013	2014	2015	2016	
27.3	-7.2	34.6	5.8	-1.0		Total Return %
25.7	-23.5	1.4	-7.1	-4.5		+/– Market (Morningstar US Index)
3.45	4.18	3.43	3.79	4.00		Dividend Yield %
17.4	19.2	23.0	22.5	26.1		Price/Earnings
3.8	3.5	4.3	4.1	4.3		Price/Revenue

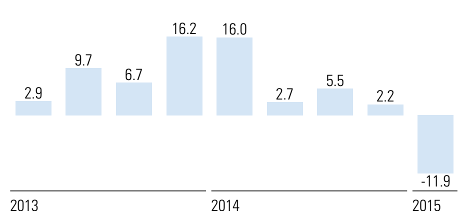


2010	2011	2012	2013	2014	TTM	**Financials** (Fiscal Year in Mil)
4,945	5,351	5,075	5,518	5,903	5,683	Revenue
8.6	8.2	-5.2	8.7	7.0	-3.7	% Change
1,674	1,763	1,575	1,666	1,924	1,826	Operating Income
13.5	5.3	-10.7	5.8	15.5	-5.1	% Change
1,049	1,184	940	1,038	1,082	930	Net Income
1,408	2,186	1,938	2,030	2,221	2,301	Operating Cash Flow
-1,346	-1,915	-2,025	-1,947	-2,028	-2,042	Capital Spending
62	271	-87	83	193	259	Free Cash Flow
1.3	5.1	-1.7	1.5	3.3	4.6	% Sales
1.61	1.81	1.43	1.55	1.61	1.38	EPS
22.0	12.4	-21.0	8.4	3.9	-14.1	% Change
0.10	0.42	-0.13	0.12	0.29	0.39	Free Cash Flow/Share
1.00	1.06	1.15	1.22	1.38	1.41	Dividends/Share
12.03	12.39	13.43	12.68	12.16	11.48	Book Value/Share
651,000	668,000	670,000	671,000	671,327	671,327	Shares Outstanding (K)
						Profitability
14.1	14.9	11.0	11.9	13.0	11.5	Return on Equity %
4.1	4.3	3.2	3.2	3.2	2.8	Return on Assets %
21.2	22.1	18.5	18.8	18.3	16.4	Net Margin %
0.19	0.20	0.17	0.17	0.17	0.17	Asset Turnover
3.4	3.5	3.4	3.9	4.2	4.3	Financial Leverage
78.7	78.7	79.6	79.4	79.4	80.2	Gross Margin %
33.9	33.0	31.0	30.2	32.6	32.1	Operating Margin %
10,169	10,146	10,653	12,488	12,769	13,178	Long-Term Debt
7,809	8,065	8,972	8,494	8,160	7,707	Total Equity
0.3	0.3	0.3	0.3	0.3	0.3	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2015	1,623.0	—	—	—	—
2014	1,843.0	1,253.0	1,207.0	1,600.0	5,903.0
2013	1,589.0	1,220.0	1,144.0	1,565.0	5,518.0
2012	1,544.0	1,112.0	1,072.0	1,347.0	5,075.0
Earnings Per Share					
2015	0.40	—	—	—	—
2014	0.62	0.22	0.30	0.47	1.61
2013	0.51	0.30	0.39	0.35	1.55
2012	0.51	0.33	0.27	0.32	1.43

Revenue Growth Year On Year %

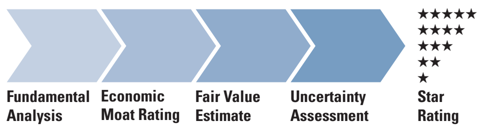


MORNINGSTAR

Morningstar Equity Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.



Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

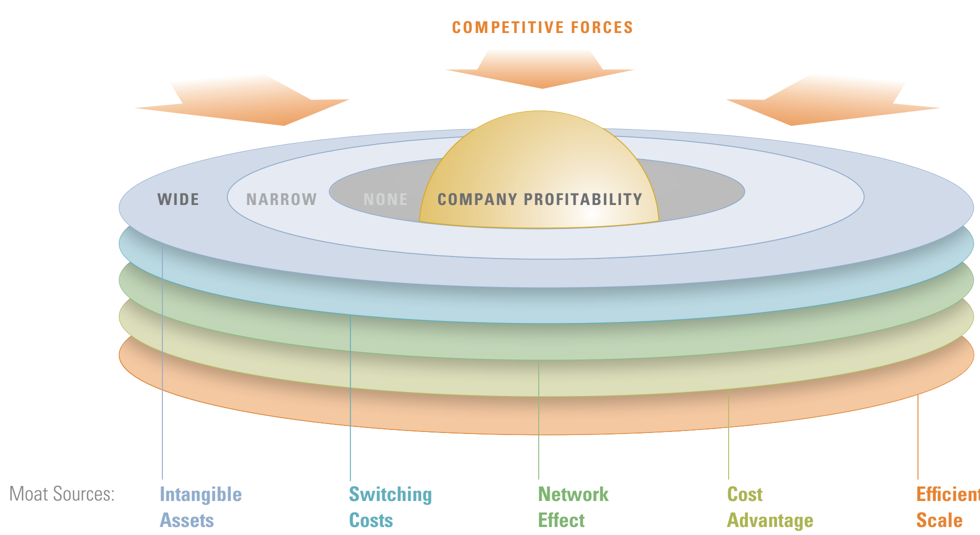
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

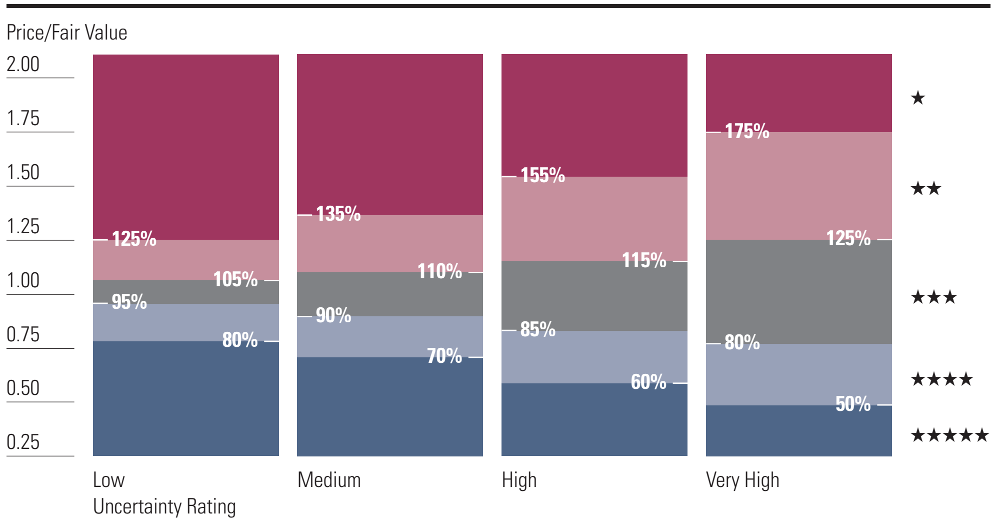
Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Understanding Differences Between Analyst and Quantitative Valuations

If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



Spectra Energy Corp SE (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★★ 26 May 2015	35.19 USD 26 May 2015	46.00 USD	0.77	4.00 26 May 2015	23.62 26 May 2015	Oil & Gas Midstream	Exemplary

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Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from http://global.morningstar.com/equitydisclosures.

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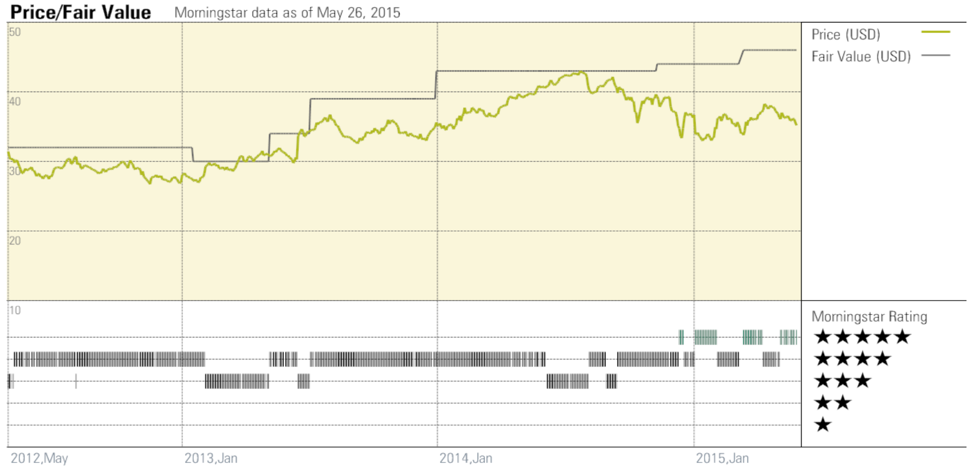
Price/Fair Value Morningstar data as of May 26, 2015



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