



Enterprise Products Partners (EPD)

Updated May 7th, 2018 by Bob Ciura

Key Metrics

Current Price: \$27	5 Year CAGR Estimate: 14.4%	Quality Percentile: N/A
Fair Value Price: \$35	5 Year Growth Estimate: 3.0%	Momentum Percentile: N/A
% Fair Value: 78%	5 Year Valuation Multiple Estimate: 5.0%	Total Return Percentile: N/A
Dividend Yield: 6.4%	5 Year Price Target: \$27	Valuation Percentile: N/A

Overview & Current Events

Enterprise Products Partners was founded in 1968. It is structured as a Master Limited Partnership, or MLP, and operates as an oil and gas storage and transportation company. Enterprise Products has a massive asset base, which consists of nearly 50,000 miles of natural gas, natural gas liquids, crude oil, and refined products pipelines. It also has storage capacity of more than 250 million barrels. These assets collect fees based on materials transported and stored in its system.

On 4/30/18, Enterprise Products reported strong first-quarter earnings. Revenue of \$9.3 billion rose 27% from the same quarter a year ago, and distributable cash flow increased 23%, to a record \$1.4 billion. Enterprise Products had very strong distribution coverage of 1.5x for the quarter. The company set a record for liquid and natural gas pipelines volumes, which averaged 6.2 million barrels per day, and 13 trillion Btu per day, respectively. Growth was primarily due to increases in crude oil, natural gas liquids and natural gas from the Permian Basin, Rocky Mountains, and Haynesville Shale regions. In addition, NGL fractionation volumes increased 3.1% to 824,000 barrels per day.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EBITDA/S	\$2.85	\$6.51	\$5.63	\$2.25	\$2.40	\$2.54	\$2.71	\$2.52	\$2.45	\$2.56	\$2.64	\$3.06
DPS	\$1.04	\$1.10	\$1.15	\$1.21	\$1.27	\$1.35	\$1.43	\$1.51	\$1.59	\$1.67	\$1.71	\$1.99

In this example, EBITDA-per-unit is used as a proxy for earnings-per-share to measure cash flows. Since MLPs typically have high charges for depreciation, EBITDA is a more accurate gauge of profitability than traditional earnings-per-share. Enterprise has positive growth potential moving forward, thanks to new pipeline projects, as well as exports. The company has \$5.5 billion of growth projects under construction. Capital investment will be focused on the Permian Basin, where the company is developing a 416-mile pipeline that provides a direct route from the Midland region to the Texas Gulf Coast. It was placed into full service in April 2018, and it is currently moving over 500,000 barrels per day. Enterprise Products expects to reach 525,000 barrels per day by 2020.

Another attractive area of growth for the company is exports, particularly for liquefied petroleum gas, or LPG. Demand for LPG is growing at a high rate across many international markets, particularly from China and India. A large portion of this demand is consumer-oriented and relatively inelastic. From 2012-2017, demand from China and India grew at 17% and 8% a year, respectively. Commodity prices are back on the rise, but still remain well below their 2014 peaks. As a result, it is prudent to assume low-single-digit EBITDA growth for the company moving forward. Expectations are for 3% annual EBITDA-per-unit growth through 2023. Distributions are expected to rise at the same rate.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
P/EBITDA	3.6	2.4	3.7	10.3	10.4	13.0	13.3	10.2	11.1	10.4	6.9	8.8
Avg. Yld.	7.5%	8.5%	6.2%	5.6%	4.9%	4.5%	3.9%	5.1%	6.1%	6.3%	6.4%	6.3%

Enterprise Products appears to be slightly undervalued. The stock consistently traded for a higher valuation over the majority of the past decade. But with oil and gas prices still significantly below their 2014 peaks, and the prospect of

rising interest rates, it is unlikely the stock will return to such a high valuation. As a result, we believe a 2023 price-to-EBITDA ratio of 8.8 is a reasonable estimate of fair value for Enterprise Products, a slight expansion from current levels. Going forward, investor returns will be made up of changes in the valuation multiple, EBITDA growth, and distributions. Assuming 3% annual EBITDA growth, a slightly higher valuation, and a 6.4% distribution yield, annual returns would exceed 14%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	7.6%	7.0%	10.2%	8.8%	8.9%	8.7%	7.9%	6.9%	6.5%	6.8%	6.8%	6.8%
Debt/A	61.6%	62.2%	62.1%	64.2%	63.0%	61.5%	58.3%	58.0%	57.3%	58.1%	58.1%	58.1%
Int. Cov.	3.3	2.7	2.9	3.8	4.1	4.3	4.1	3.6	3.6	3.9	3.9	3.9
Payout	36.5%	16.9%	20.4%	53.7%	52.9%	53.2%	52.8%	59.9%	64.9%	65.2%	64.8%	65.0%
Std. Dev.	29.8%	24.9%	18.7%	15.8%	17.5%	15.5%	17.0%	21.6%	22.5%	14.4%	18.1%	18.1%

In terms of safety, Enterprise Products Partners is one of the strongest midstream MLPs. The company has an investment-grade credit rating of BBB+ from Standard & Poor's and Baa1 from Moody's, which are higher ratings than most MLPs. It also had a distribution coverage ratio of 1.2x in 2017, meaning the company generated 20% more cash flow than it needed to pay distributions. Enterprise Products' competitive advantages include a strong balance sheet, and its high-quality assets. These competitive advantages make Enterprise Products resistant to recessions. Its focus on fee-based assets reduces its exposure to commodity prices. As a result, Enterprise Products has been able to raise its distribution to unitholders for 55 quarters in a row.

Final Thoughts & Recommendation

MLPs have been out of favor for an extended period, ever since the downturn in the oil and gas industry began in 2014. But Enterprise Products has an excellent network of assets, and durable competitive advantages. Its cash flow remained stable, through the steep downturn over the past few years. Enterprise has a 6.4% current distribution yield, and the ability to raise distributions each year. With a high distribution yield and long-term growth potential, we believe Enterprise Products can generate total returns of 14.4% each year.

Total Return Breakdown by Year

