



Enterprise Products Partners (EPD)

Updated August 1st, 2018 by Bob Ciura

Key Metrics

Current Price: \$29	5 Year CAGR Estimate: 10.1%	Volatility Percentile: 54.8%
Fair Value Price: \$29	5 Year Growth Estimate: 4.0%	Momentum Percentile: 59.8%
% Fair Value: 99%	5 Year Valuation Multiple Estimate: 0.2%	Valuation Percentile: 61.8%
Dividend Yield: 5.9%	5 Year Price Target: \$36	Total Return Percentile: 66.3%

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 8/1/18, Enterprise Products reported second-quarter financial results. Revenue of \$8.47 billion increased 28% from the same quarter last year, and 27.6% over the first half of 2018. Distributable cash flow—a non-GAAP metric which describes cash flow available to be distributed to investors—rose 36% last quarter, to \$1.43 billion. The NGL Pipelines & Services division generated 20% operating profit growth for the quarter, to a record \$914 million, due mostly to higher volumes and improved fees. Elsewhere, the Petrochemical & Refined Products Services segment reported 50% operating profit growth, and also reached a record for this segment.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.85	\$6.51	\$5.63	\$2.25	\$2.40	\$2.54	\$2.71	\$2.52	\$2.45	\$2.56	\$2.64	\$3.21
DPS	\$1.04	\$1.10	\$1.15	\$1.21	\$1.27	\$1.35	\$1.43	\$1.51	\$1.59	\$1.67	\$1.71	\$2.08

In this report, EBITDA-per-unit is used instead of earnings-per-share, since EBITDA is a more accurate measure of cash flow for an MLP. Enterprise has positive growth potential moving forward, thanks to new projects, and exports. For example, the Midland-to-Houston system in the Permian Basin is a 416-mile pipeline that provides a direct route from the Midland to the Texas Gulf Coast. It was placed into full service in April 2018, and has maximum capacity of 575,000 barrels per day. Enterprise Products is also developing the Shin Oak NGL Pipeline, which is scheduled to be placed into service next year. The Shin Oak NGL Pipeline is expected to have total capacity of 600,000 barrels per day.

Exports are also a key growth catalyst. Demand for liquefied petroleum gas and liquefied natural gas, or LPG and LNG respectively, is growing at a high rate across the world, particularly in Asia. Enterprise Products states that between 2012-2017, Chinese and Indian LPG demand grew at 17% and 8% per year, respectively. The company's total crude oil, NGL, petrochemical, and refined products exports currently exceed 1.6 million barrels per day. Due to the company's strong second-quarter report and positive outlook, we are increasing our expectations to 4% 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
Avg. P/E	3.6	2.4	3.7	10.3	10.4	13.0	13.3	10.2	11.1	10.4	11.1	11.2
Avg. Yld.	7.5%	8.5%	6.2%	5.6%	4.9%	4.5%	3.9%	5.1%	6.1%	6.3%	5.9%	5.8%

Enterprise Products appears to be slightly undervalued. In the past 10 years, units traded for an average price-to-EBITDA ratio of 8.8. However, the 10-year average includes three years during the Great Recession, in which the valuation was

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severely compressed. Taking the average from 2011-2017, a more normal operating environment, leads to the fair value estimate. We expect Enterprise Products to trade for a price-to-EBITDA ratio of 11.2. As a result, the stock is undervalued, but only slightly. Valuation changes are expected to add 0.2% to annual returns over the next five years. Investors should expect distributions and EBITDA growth, to contribute the bulk of Enterprise Products' returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

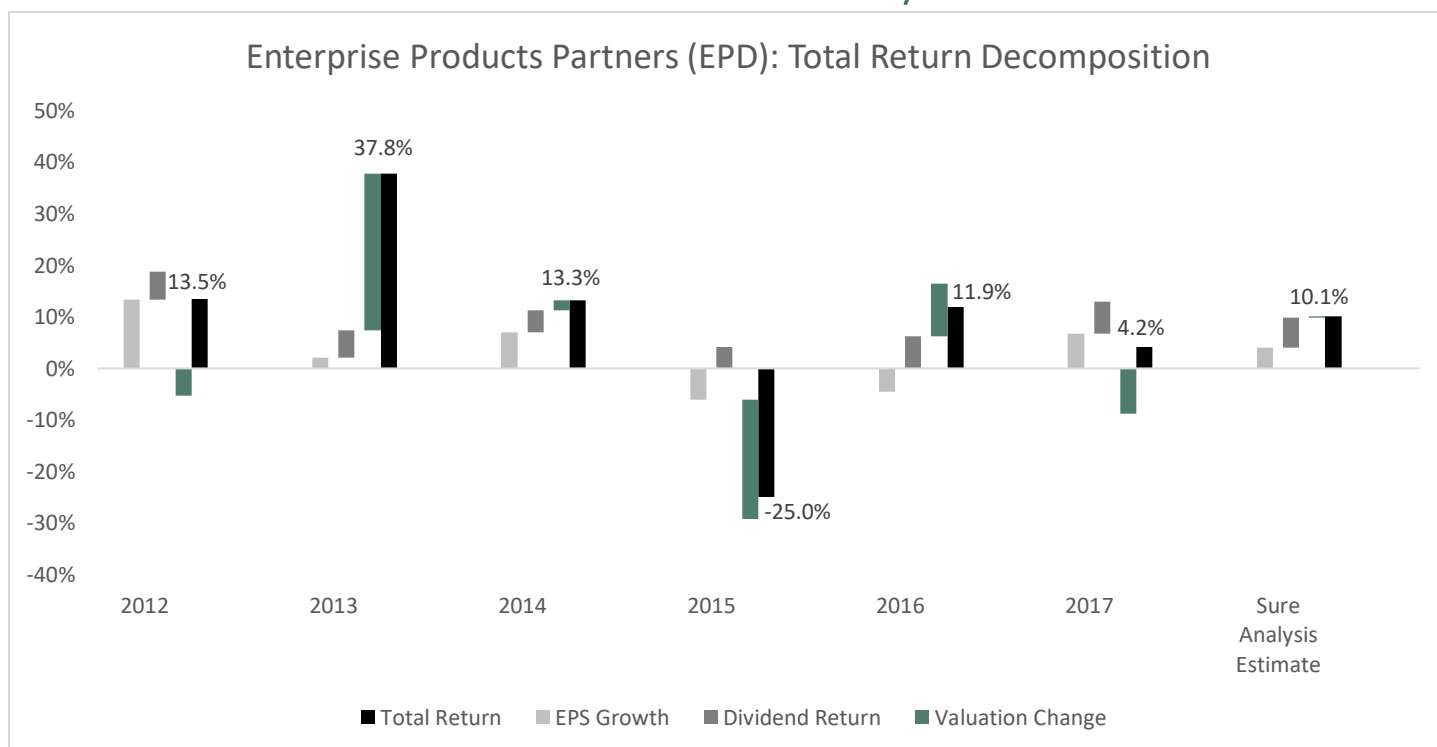
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	7.6%	7.0%	10.2%	8.8%	8.9%	8.7%	7.9%	6.9%	6.5%	6.8%	6.8%	6.8%
Debt/A	61.6%	62.2%	62.1%	64.2%	63.0%	61.5%	58.3%	58.0%	57.3%	58.1%	58.1%	58.1%
Int. Cov.	3.3	2.7	2.9	3.8	4.1	4.3	4.1	3.6	3.6	3.9	3.9	3.9
Payout	36.5%	16.9%	20.4%	53.7%	52.9%	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 credit ratings 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 1.5x over the first half of 2018, meaning the company generated 50% more cash flow than it needed to pay distributions in that time. Enterprise Products' competitive advantages allow the company to generate high cash flow, even in recessions. As a result, Enterprise Products has been able to raise its distribution to unitholders for 56 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 5.9% current distribution yield, and the ability to raise distributions each year. We believe Enterprise Products can generate total returns of 10.1% each year. The company pays a secure distribution and can increase its distribution regularly. Because of its high yield and steady growth, these qualities make it an attractive buy for income investors.

Total Return Breakdown by Year



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