



Enterprise Products Partners (EPD)

Updated February 1st, 2019 by Bob Ciura

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	11.0%	Volatility Percentile:	35.5%
Fair Value Price:	\$29	5 Year Growth Estimate:	4.0%	Momentum Percentile:	70.2%
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	0.7%	Growth Percentile:	22.2%
Dividend Yield:	6.3%	5 Year Price Target	\$42	Valuation Percentile:	78.7%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	81.2%

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 tremendous 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. On 1/31/19, Enterprise Products reported fourth-quarter and full-year 2018 financial results. For the fourth quarter, revenue of \$9.2 billion increased 9% from the year-ago quarter, primarily due to strong volume growth. Distributable cash flow increased 29% for the fourth quarter and 33% for the full year. In all, 2018 was a highly successful year for Enterprise Products. The partnership established 23 operational and financial records for the year. In 2018, liquid pipeline volumes increased 9%, natural gas pipeline volumes increased 12%, marine terminal volumes increased 12%, NGL fractionation volumes increased 14%, and propylene plant production volumes increased 23%.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EBITDA	\$6.51	\$5.63	\$2.25	\$2.40	\$2.54	\$2.71	\$2.52	\$2.45	\$2.56	\$3.30	\$3.43	\$4.17
DPS	\$1.10	\$1.15	\$1.21	\$1.27	\$1.35	\$1.43	\$1.51	\$1.59	\$1.67	\$1.71	\$1.74	\$2.12
Shares	1220.9	1687.4	1763.2	1797.6	1871.4	1937.3	2012.6	2117.6	2161.1	2187	2200	2300

In this report, adjusted 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, Enterprise Products has started construction of the Mentone cryogenic natural gas processing plant in Texas, which will have the capacity to process 300 million cubic feet per day of natural gas and extract more than 40,000 barrels per day of natural gas liquids. The facility is expected to begin service in the first quarter of 2020. 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. We expect 4% annual EBITDA-per-unit growth through 2023. Distributions are expected to rise at the same rate.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	2.4	3.7	10.3	10.4	13.0	13.3	10.2	11.1	10.4	7.2	8.2	10.0
Avg. Yld.	8.5%	6.2%	5.6%	4.9%	4.5%	3.9%	5.1%	6.1%	6.3%	6.3%	6.3%	5.8%

In this report, Enterprise Products units are valued on the basis of price-to-EBITDA, since EBITDA is used instead of traditional earnings-per-share. Enterprise Products appears to be slightly undervalued. In the past 10 years, units traded

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for an average price-to-EBITDA ratio of 9.2. However, the 10-year average includes the Great Recession. During a more normal operating environment, our fair value estimate is a price-to-EBITDA ratio of 8.5. As a result, Enterprise Products appears to be modestly undervalued today. Valuation changes are expected to add a touch under 1% to Enterprise Products Partners' annual returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

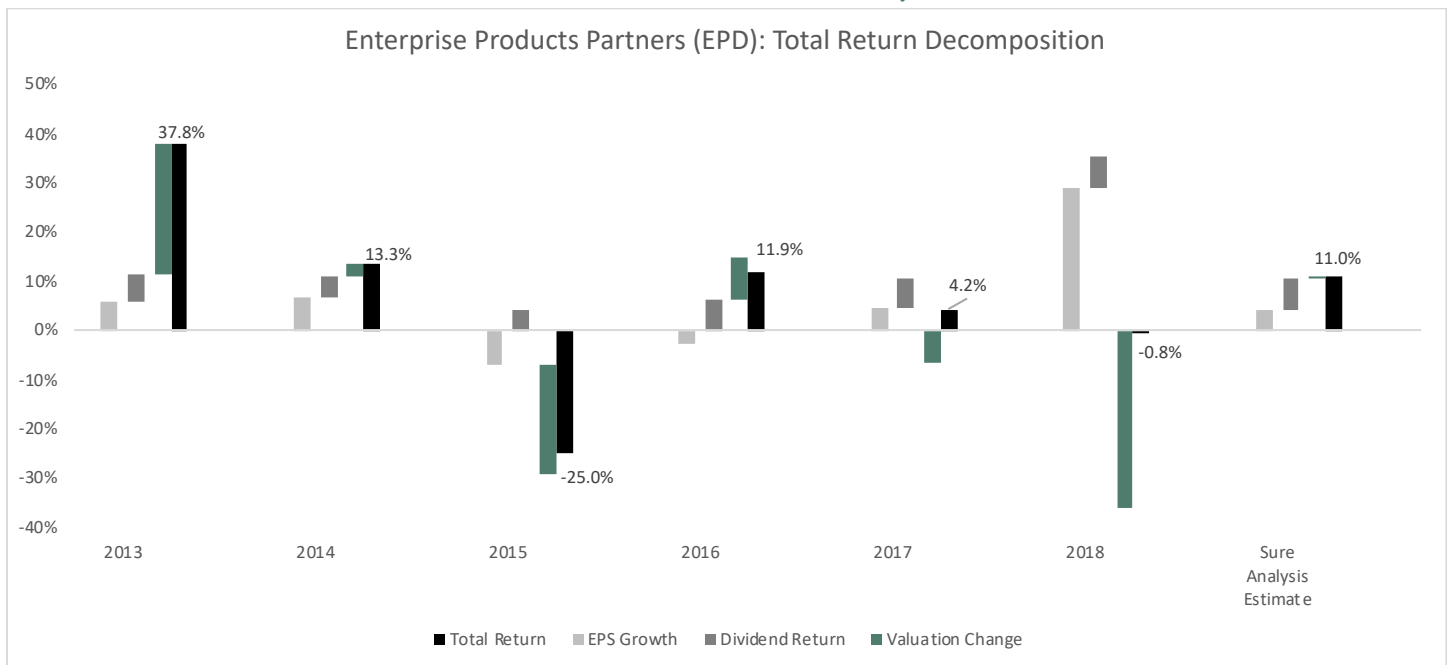
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	16.9%	20.4%	53.7%	52.9%	53.2%	52.8%	59.9%	64.9%	65.2%	51.8%	50.7%	50.7%

In terms of safety, Enterprise Products Partners is one of the strongest midstream MLPs. It 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 in 2018, leaving plenty of room for distribution increases. Enterprise Products' high-quality assets generate strong cash flow, even in recessions. As a result, Enterprise Products has been able to raise its distribution to unitholders for 58 quarters in a row. Enterprise Products has tremendous competitive advantages, primarily its vast network of assets. It would be hugely costly to build out a network of pipelines and terminals large enough to compete with Enterprise Products.

Final Thoughts & Recommendation

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 Products has a 6.3% current distribution yield, which is a highly attractive yield for income investors. We believe Enterprise Products can generate total returns of 11% each year, from a combination of distributions, valuation changes, and EBITDA growth. We have a buy rating on Enterprise Products and continue to view the partnership as one of the best MLPs in the market.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	35470	25511	33739	44313	42583	47727	47951	27028	23022	29242
Gross Profit	1851	1945	3190	2995	3215	3488	3731	3359	3379	3684
Gross Margin	5.2%	7.6%	9.5%	6.8%	7.6%	7.3%	7.8%	12.4%	14.7%	12.6%
SG&A Exp.	137	183	205	182	170	188	215	193	160	181
Operating Profit	1748	1762	2049	2813	3045	3300	3516	3167	3219	3503
Op. Margin	4.9%	6.9%	6.1%	6.3%	7.2%	6.9%	7.3%	11.7%	14.0%	12.0%
Net Profit	954	204	321	2047	2420	2597	2787	2521	2513	2799
Net Margin	2.7%	0.8%	1.0%	4.6%	5.7%	5.4%	5.8%	9.3%	10.9%	9.6%
Free Cash Flow	-978	826	259	-537	-731	457	1269	172	1042	1518
Income Tax	31	25	26	27	-17	58	23	-3	23	26

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	24212	27686	31361	34125	35934	40139	47201	48802	52194	54418
Cash & Equivalents	62	55	66	20	16	57	74	19	63	5
Acc. Receivable	2064	3099	3837	4502	4351	5476	3823	2570	3330	4358
Inventories	405	712	1134	1112	1088	1093	1014	1038	1771	1610
Goodwill & Int.	3203	3083	3949	3749	3654	3542	8602	9782	9609	9436
Total Liabilities	14916	17213	19460	21906	22638	24698	27509	28301	29928	31646
Accounts Payable	406	481	675	985	765	724	774	860	398	802
Long-Term Debt	11638	12428	13564	14529	16202	17352	21364	22541	23698	24569
Total Equity	6090	1939	11374	12113	13188	15215	18063	20295	22047	22547

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	4.7%	0.8%	1.1%	6.3%	6.9%	6.8%	6.4%	5.3%	5.0%	5.3%
Return on Equity	15.6%	5.1%	4.8%	17.4%	19.1%	18.3%	16.8%	13.1%	11.9%	12.6%
Shares Out.	882.9	1220.9	1687.4	1763.2	1797.6	1871.4	1937.3	2012.6	2117.6	2161.1
Revenue/Share	40.53	61.71	60.57	25.77	23.84	25.90	25.30	13.52	11.02	13.57
FCF/Share	-1.12	2.00	0.47	-0.31	-0.41	0.25	0.67	0.09	0.50	0.70

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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