



Enterprise Products Partners (EPD)

Updated December 1st, 2019 by Samuel Smith

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	14.7%	Volatility Percentile:	28.5%
Fair Value Price:	\$34	5 Year Growth Estimate:	4.0%	Momentum Percentile:	39.4%
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.6%	Growth Percentile:	27.7%
Dividend Yield:	6.7%	5 Year Price Target	\$42	Valuation Percentile:	96.8%
Dividend Risk Score:	C	Retirement Suitability Score:	A	Total Return Percentile:	97.1%

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 10/28/19, Enterprise Products reported third-quarter 2019 financial results. Despite weaker commodity prices for crude oil, natural gas liquids, and natural gas, results remained strong. Total gross operating margin for the quarter was \$2 billion, down only slightly from the year-ago quarter, while the gross operating margin for its natural gas liquids pipelines and storage business surged by 15% to a record \$593 million on the strength of NGL transportation pipeline volumes of 3.6 million bbl/day.

Distributable cash flow came in at \$1.6 billion, providing an impressive 1.7x coverage ratio and \$665 million of retained distributable cash flow. Cash flow from operations continued to show strong year-over-year growth (4%) and the distribution, despite sitting at 6.7% at current pricing, is covered conservatively with a 59% payout ratio on cash flow from operations.

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
Shares¹	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 2024. Distributions are expected to rise at the same rate.

¹ Shares in millions

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/EBITDA	2.4	3.7	10.3	10.4	13.0	13.3	10.2	11.1	10.4	7.2	7.6	10.0
Avg. Yld.	8.5%	6.2%	5.6%	4.9%	4.5%	3.9%	5.1%	6.1%	6.3%	6.3%	6.7%	5.1%

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 undervalued. In the past 10 years, units traded 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 10.0. As a result, Enterprise Products appears to be significantly undervalued today. Multiple expansion is expected to add a meaningful tailwind to Enterprise Products Partners' annual returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

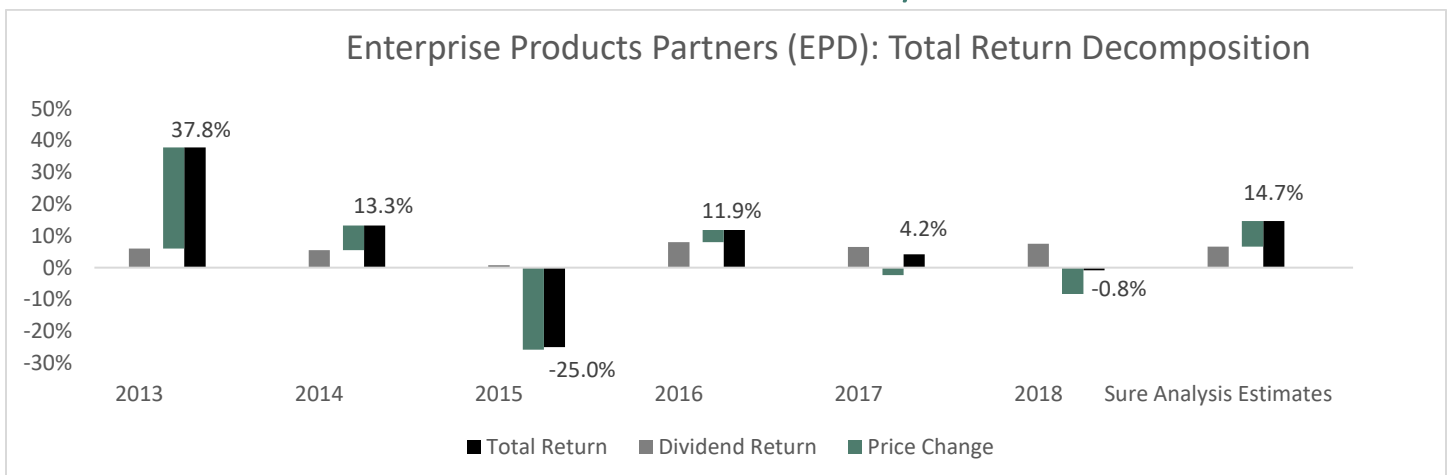
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	16.9%	20.4%	53.7%	52.9%	53.2%	52.8%	59.9%	64.9%	65.2%	51.8%	50.7%	50.7%

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 1.7x in Q1 and 1.8x in Q2, 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 enormously 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. In addition, its cash flow remained stable through the steep downturn over the past few years. Enterprise Products has a 6.7% current distribution yield, which is a highly attractive yield for income investors. We believe Enterprise Products can generate total returns of 14.7% each year, from a combination of distributions (6.7%), multiple expansion (5.6%), and EBITDA/unit growth (4%). 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	25511	33739	44313	42583	47727	47951	27028	23022	29242	36534
Gross Profit	1945	2290	2995	3215	3488	3731	3359	3379	3684	5137
Gross Margin	7.6%	6.8%	6.8%	7.6%	7.3%	7.8%	12.4%	14.7%	12.6%	14.1%
SG&A Exp.	183	205	182	170	188	215	193	160	181	208
Operating Profit	1762	2085	2813	3045	3300	3516	3167	3219	3503	4929
Op. Margin	6.9%	6.2%	6.3%	7.2%	6.9%	7.3%	11.7%	14.0%	12.0%	13.5%
Net Profit	204	321	2047	2420	2597	2787	2521	2513	2799	4172
Net Margin	0.8%	1.0%	4.6%	5.7%	5.4%	5.8%	9.3%	10.9%	9.6%	11.4%
Free Cash Flow	826	259	-537	-731	457	1269	172	1083	1565	1903
Income Tax	25	26	27	-17	58	23	-3	23	26	60

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	27686	31361	34125	35934	40139	47201	48802	52194	54418	56970
Cash & Equivalents	55	66	20	16	57	74	19	63	5	345
Acc. Receivable	3099	3837	4502	4351	5476	3823	2570	3330	4358	3659
Inventories	712	1134	1112	1088	1093	1014	1038	1771	1610	1522
Goodwill & Int.	3083	3949	3749	3654	3542	8602	9782	9609	9436	9354
Total Liabilities	17213	19460	21906	22638	24698	27509	28301	29928	31646	32678
Accounts Payable	481	675	773	765	724	774	860	398	802	1103
Long-Term Debt	12428	13564	14529	16202	17352	21364	22541	23698	24569	26178
Total Equity	1939	11374	12113	13188	15215	18063	20295	22047	22547	23854

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.8%	1.1%	6.3%	6.9%	6.8%	6.4%	5.3%	5.0%	5.3%	7.5%
Return on Equity	5.1%	4.8%	17.4%	19.1%	18.3%	16.8%	13.1%	11.9%	12.6%	18.0%
Shares Out.	1220.9	1687.4	1763.2	1797.6	1871.4	1937.3	2012.6	2117.6	2161.1	2187
Revenue/Share	61.71	61.46	26.87	24.71	25.90	25.30	13.52	11.02	13.57	16.71
FCF/Share	2.00	0.47	-0.33	-0.42	0.25	0.67	0.09	0.52	0.73	0.87

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

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