



# Enterprise Products Partners (EPD)

Updated March 3<sup>rd</sup>, 2020 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$24	<b>5 Year CAGR Estimate:</b>	17.4%	<b>Market Cap:</b>	\$52.6B
<b>Fair Value Price:</b>	\$36	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	4/30/20 <sup>1</sup>
<b>% Fair Value:</b>	67%	<b>5 Year Valuation Multiple Estimate:</b>	8.3%	<b>Dividend Payment Date:</b>	5/12/20 <sup>2</sup>
<b>Dividend Yield:</b>	7.5%	<b>5 Year Price Target</b>	\$43	<b>Years Of Dividend Growth:</b>	22
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	2.3%

## 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 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 1/30/20, Enterprise Products reported fourth-quarter 2019 financial results that continued to break records across the board. 2019 saw \$5.4 billion in new assets coming online and strong NGL marketing volumes, which contributed to the strong results. Q4 adjusted EBITDA increased by ~5% year-over-year while distributable cash flow was flat.

Moving forward, growth capital expenditures are expected to fall from \$4.3 billion in 2019 to \$3.5 billion this year and \$2.5 billion next year. This, combined with its very strong balance sheet and distribution coverage ratio, will give it plenty of free cash flow to repurchase its undervalued units and further boost per-unit distributable cash flow growth.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EBITDA</b>	\$5.63	\$2.25	\$2.40	\$2.54	\$2.71	\$2.52	\$2.45	\$2.56	\$3.30	\$3.43	<b>\$3.57</b>	<b>\$4.34</b>
<b>DPS</b>	\$1.15	\$1.21	\$1.27	\$1.35	\$1.43	\$1.51	\$1.59	\$1.67	\$1.71	\$1.76	<b>\$1.80</b>	<b>\$2.19</b>
<b>Units<sup>3</sup></b>	1687.4	1763.2	1797.6	1871.4	1937.3	2012.6	2117.6	2161.1	2187	2200	<b>2200</b>	<b>2000</b>

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. The company's total crude oil, NGL, petrochemical, and refined products are approaching 2 million barrels per day. We expect 4% annual EBITDA-per-unit growth through 2025. Distributions are expected to rise at the same rate.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg. P/EBITDA</b>	3.7	10.3	10.4	13.0	13.3	10.2	11.1	10.4	7.2	7.0	<b>6.7</b>	<b>10.0</b>
<b>Avg. Yld.</b>	6.2%	5.6%	4.9%	4.5%	3.9%	5.1%	6.1%	6.3%	6.3%	6.7%	<b>7.5%</b>	<b>5.0%</b>

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> Shares in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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 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

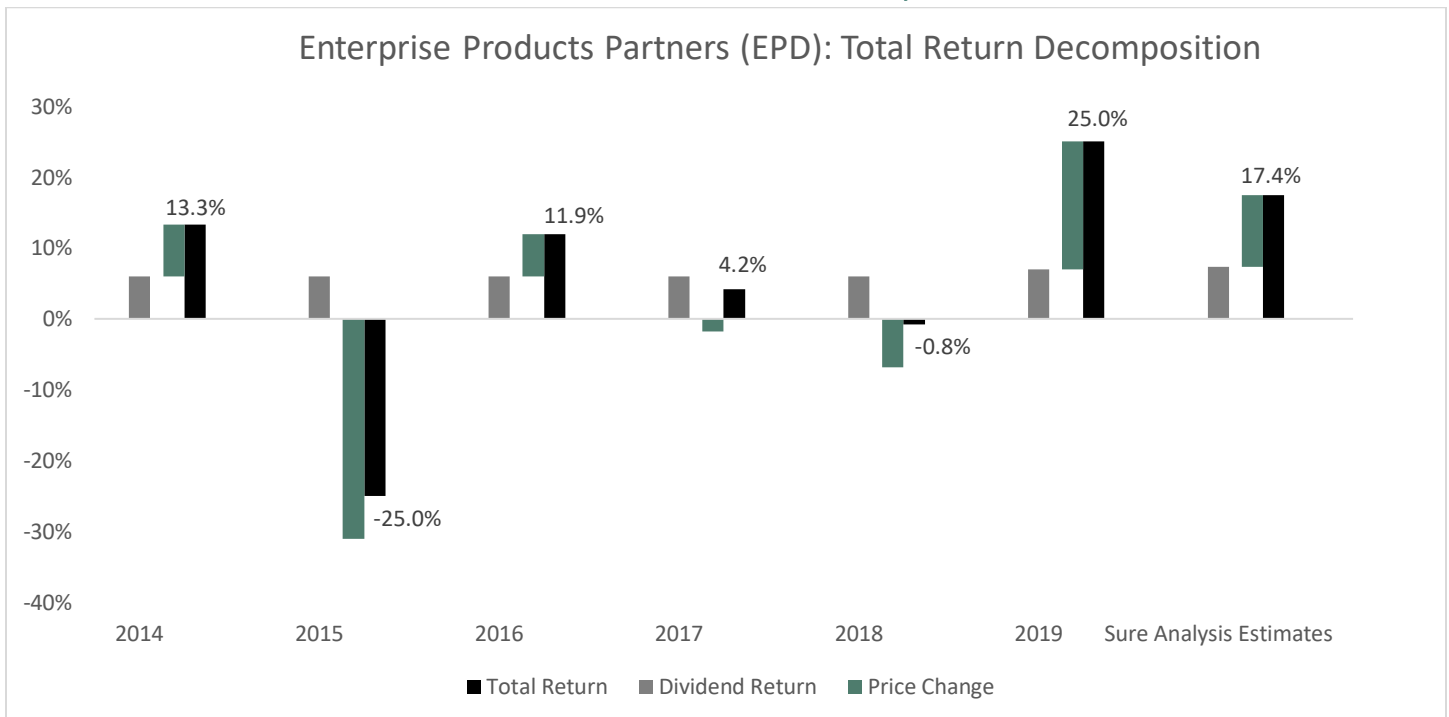
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>Payout</b>	20.4%	53.7%	52.9%	53.2%	52.8%	59.9%	64.9%	65.2%	51.8%	50.4%	<b>50.4%</b>	<b>50.5%</b>

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 over 1.7x, leaving plenty of room for distribution increases and unit repurchases. 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 more than 60 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 7.5% current distribution yield, which is a highly attractive yield for income investors. We believe Enterprise Products can generate total returns of 17.4% each year, and therefore have a buy rating as we 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	33,739	44,313	42,583	47,727	47,951	27,028	23,022	29,242	36,534	32,789
<b>Gross Profit</b>	2,290	2,995	3,215	3,488	3,731	3,359	3,379	3,684	5,137	5,727
<b>Gross Margin</b>	6.8%	6.8%	7.6%	7.3%	7.8%	12.4%	14.7%	12.6%	14.1%	17.5%
<b>SG&amp;A Exp.</b>	205	182	170	188	215	193	160	181	208	212
<b>Operating Profit</b>	985	1,007	1,105	1,218	1,361	1,516	1,552	1,644	1,792	1,949
<b>Op. Margin</b>	2,085	2,813	3,045	3,300	3,516	3,167	3,219	3,503	4,929	5,516
<b>Net Profit</b>	6.2%	6.3%	7.2%	6.9%	7.3%	11.7%	14.0%	12.0%	13.5%	16.8%
<b>Net Margin</b>	321	2,047	2,420	2,597	2,787	2,521	2,513	2,799	4,172	4,591
<b>Free Cash Flow</b>	1.0%	4.6%	5.7%	5.4%	5.8%	9.3%	10.9%	9.6%	11.4%	14.0%
<b>Income Tax</b>	259	(537)	(731)	457	1,269	172	1,083	1,565	1,903	1,989

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	31,361	34,125	35,934	40,139	47,201	48,802	52,194	54,418	56,970	61,733
<b>Cash &amp; Equivalents</b>	66	20	16	57	74	19	63	5	345	335
<b>Acc. Receivable</b>	3,837	4,502	4,351	5,476	3,823	2,570	3,330	4,358	3,659	4,874
<b>Inventories</b>	1,134	1,112	1,088	1,093	1,014	1,038	1,771	1,610	1,522	2,091
<b>Goodwill &amp; Int.</b>	3,949	3,749	3,654	3,542	8,602	9,782	9,609	9,436	9,354	9,194
<b>Total Liabilities</b>	19,460	21,906	22,638	24,698	27,509	28,301	29,928	31,646	32,678	35,906
<b>Accounts Payable</b>	675	773	765	724	774	860	398	802	1,103	1,005
<b>Long-Term Debt</b>	13,564	14,529	16,202	17,352	21,364	22,541	23,698	24,569	26,178	27,625
<b>Total Equity</b>	11,374	12,113	13,188	15,215	18,063	20,295	22,047	22,547	23,854	24,764

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	1.1%	6.3%	6.9%	6.8%	6.4%	5.3%	5.0%	5.3%	7.5%	7.7%
<b>Return on Equity</b>	4.8%	17.4%	19.1%	18.3%	16.8%	13.1%	11.9%	12.6%	18.0%	18.9%
<b>Shares Out.</b>	1687.4	1763.2	1797.6	1871.4	1937.3	2012.6	2117.6	2161.1	2187	2200
<b>Revenue/Share</b>	60.57	26.87	24.71	25.90	25.30	13.52	11.02	13.57	16.71	14.89
<b>FCF/Share</b>	0.47	(0.33)	(0.42)	0.25	0.67	0.09	0.52	0.73	0.87	0.90

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

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