



Enterprise Products Partners (EPD)

Updated November 16th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$18	5 Year CAGR Estimate:	14.1%	Market Cap:	\$39.5B
Fair Value Price:	\$19	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	1/29/21 ¹
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.5%	Dividend Payment Date:	2/12/21 ²
Dividend Yield:	9.9%	5 Year Price Target	\$25	Years Of Dividend Growth:	21
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	0.6%

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 10/28/20, Enterprise Products reported third-quarter 2020 financial results. Distributable cash flow declined year-over-year from \$1.65B to \$1.58B, although distribution coverage remained very strong at 1.7x. As a result, the partnership retained \$669 million in distributable cash flow, which enabled it to pay for growth capital expenditures without taking on extra debt. Pipeline volumes fell year-over-year to 1.7 million bbl/day from 2.3 million bbl/day in the year-ago period. Revenue this quarter fell 13% to \$6.92B. The Midland-to-ECHO A expansion was put on hold due to weaker demand.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
DCF/S	\$5.63	\$2.25	\$2.40	\$2.54	\$2.71	\$2.52	\$2.45	\$2.56	\$3.30	\$3.43	\$2.75	\$3.60
DPS	\$1.15	\$1.21	\$1.27	\$1.35	\$1.43	\$1.51	\$1.59	\$1.67	\$1.71	\$1.76	\$1.78	\$2.00
Units³	1687.4	1763.2	1797.6	1871.4	1937.3	2012.6	2117.6	2161.1	2187	2200	2200	2000

In this report, adjusted DCF-per-unit is used instead of earnings-per-share, since DCF 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.

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 mediocre annual DCF-per-unit growth through 2025. Distributions are expected to rise at an even slower rate as management focuses on generating free cash flow after distributions. Unit buybacks will be a meaningful tailwind for per-unit growth, though.

¹ Estimate

² Estimate

³ 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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. DCF/S	3.7	10.3	10.4	13.0	13.3	10.2	11.1	10.4	7.2	7.0	6.5	7.0
Avg. Yld.	6.2%	5.6%	4.9%	4.5%	3.9%	5.1%	6.1%	6.3%	6.3%	6.7%	9.9%	7.9%

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. That being said, current headwinds facing the space are causing us to reduce our fair value multiple to 7 times EBITDA. As a result, multiple expansion is expected to add only a slight tailwind to Enterprise Products Partners' annual returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

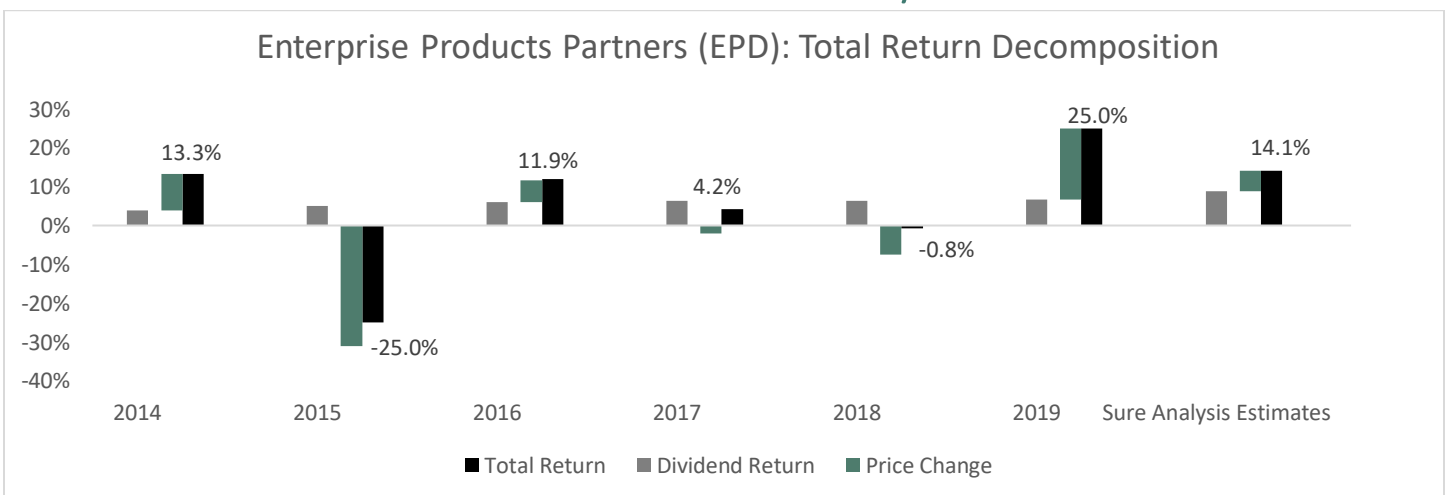
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	20.4%	53.7%	52.9%	53.2%	52.8%	59.9%	64.9%	65.2%	51.8%	50.4%	64.7%	55.6%

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 has a distribution coverage ratio of over 1.6x, 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 9.9% current distribution yield, which is a highly attractive yield for income investors. We believe Enterprise Products can generate total returns of 14.1% 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
Revenue	33,739	44,313	42,583	47,727	47,951	27,028	23,022	29,242	36,534	32,789
Gross Profit	2,290	2,995	3,215	3,488	3,731	3,359	3,379	3,684	5,137	5,727
Gross Margin	6.8%	6.8%	7.6%	7.3%	7.8%	12.4%	14.7%	12.6%	14.1%	17.5%
SG&A Exp.	205	182	170	188	215	193	160	181	208	212
Operating Profit	985	1,007	1,105	1,218	1,361	1,516	1,552	1,644	1,792	1,949
Op. Margin	2,085	2,813	3,045	3,300	3,516	3,167	3,219	3,503	4,929	5,516
Net Profit	6.2%	6.3%	7.2%	6.9%	7.3%	11.7%	14.0%	12.0%	13.5%	16.8%
Net Margin	321	2,047	2,420	2,597	2,787	2,521	2,513	2,799	4,172	4,591
Free Cash Flow	1.0%	4.6%	5.7%	5.4%	5.8%	9.3%	10.9%	9.6%	11.4%	14.0%
Income Tax	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
Total Assets	31,361	34,125	35,934	40,139	47,201	48,802	52,194	54,418	56,970	61,733
Cash & Equivalents	66	20	16	57	74	19	63	5	345	335
Acc. Receivable	3,837	4,502	4,351	5,476	3,823	2,570	3,330	4,358	3,659	4,874
Inventories	1,134	1,112	1,088	1,093	1,014	1,038	1,771	1,610	1,522	2,091
Goodwill & Int.	3,949	3,749	3,654	3,542	8,602	9,782	9,609	9,436	9,354	9,194
Total Liabilities	19,460	21,906	22,638	24,698	27,509	28,301	29,928	31,646	32,678	35,906
Accounts Payable	675	773	765	724	774	860	398	802	1,103	1,005
Long-Term Debt	13,564	14,529	16,202	17,352	21,364	22,541	23,698	24,569	26,178	27,625
Total Equity	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
Return on Assets	1.1%	6.3%	6.9%	6.8%	6.4%	5.3%	5.0%	5.3%	7.5%	7.7%
Return on Equity	4.8%	17.4%	19.1%	18.3%	16.8%	13.1%	11.9%	12.6%	18.0%	18.9%
Shares Out.	1687.4	1763.2	1797.6	1871.4	1937.3	2012.6	2117.6	2161.1	2187	2200
Revenue/Share	60.57	26.87	24.71	25.90	25.30	13.52	11.02	13.57	16.71	14.89
FCF/Share	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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