



# Enterprise Products Partners (EPD)

Updated August 5<sup>th</sup>, 2021 by Samuel Smith

## Key Metrics

|                             |        |  |       |                                  |                       |
|-----------------------------|--------|--|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$22.4 | <b>5 Year CAGR Estimate:</b>               | 10.4% | <b>Market Cap:</b>               | \$49 B                |
| <b>Fair Value Price:</b>    | \$23.7 | <b>5 Year Growth Estimate:</b>             | 2.8%  | <b>Ex-Dividend Date:</b>         | 10/29/21 <sup>1</sup> |
| <b>% Fair Value:</b>        | 94%    | <b>5 Year Valuation Multiple Estimate:</b> | 1.0%  | <b>Dividend Payment Date:</b>    | 11/12/21              |
| <b>Dividend Yield:</b>      | 8.0%   | <b>5 Year Price Target</b>                 | \$27  | <b>Years Of Dividend Growth:</b> | 22                    |
| <b>Dividend Risk Score:</b> | B      | <b>Retirement Suitability Score:</b>       | A     | <b>Last Dividend Increase:</b>   | 1.0%                  |

## 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 7/28/21, Enterprise Products reported second-quarter results. Distributable cash flow edged higher (1.4% year-over-year growth) and covered the distribution by 1.6x during the quarter. Additionally, volumes experienced healthy 5% growth year-over-year thanks to the continued reopening of the global economy from COVID-19 restrictions. Liquids pipeline volume remained 4% below 2019 levels and natural gas pipeline volume equaled 2019 levels, demonstrating that the core business has nearly fully recovered from COVID-19 headwinds. Management expects results to continue improving moving forward as they signaled a bullish short-term outlook for the industry.

## Growth on a Per-Share Basis

| Year                     | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021          | 2026          |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>DCF/S</b>             | \$2.25 | \$2.40 | \$2.54 | \$2.71 | \$2.52 | \$2.45 | \$2.56 | \$3.30 | \$3.43 | \$2.91 | <b>\$2.96</b> | <b>\$3.40</b> |
| <b>DPS</b>               | \$1.21 | \$1.27 | \$1.35 | \$1.43 | \$1.51 | \$1.59 | \$1.67 | \$1.71 | \$1.76 | \$1.79 | <b>\$1.80</b> | <b>\$1.95</b> |
| <b>Units<sup>2</sup></b> | 1763.2 | 1797.6 | 1871.4 | 1937.3 | 2012.6 | 2117.6 | 2161.1 | 2187   | 2200   | 2190   | <b>2175</b>   | <b>2000</b>   |

In this report, 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. It has ~\$3.1B of major capital projects currently under construction. They expect all of these projects to come online no later than the end of 2023, with the majority coming online in 2021.

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. That said, the world is also moving rapidly towards renewable energy and the pipeline industry is facing political and regulatory pressures right now, limiting new growth project opportunities. As a result, we expect mediocre annual DCF-per-unit growth through 2026. Distributions are expected to rise at an even slower rate as management focuses on generating free cash flow after distributions. Unit buybacks and deleveraging will likely be meaningful tailwinds for per-unit growth, though.

## Valuation Analysis

| Year              | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now         | 2026        |
|-------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/DCF</b> | 10.3 | 10.4 | 13.0 | 13.3 | 10.2 | 11.1 | 10.4 | 7.2  | 7.0  | 6.5  | <b>7.6</b>  | <b>8.0</b>  |
| <b>Avg. Yld.</b>  | 5.2% | 5.1% | 4.1% | 4.0% | 5.9% | 5.8% | 6.3% | 7.2% | 7.3% | 9.5% | <b>8.0%</b> | <b>7.2%</b> |

In this report, Enterprise Products units are valued on the basis of price-to-DCF, since DCF is used instead of traditional earnings-per-share. In the past 10 years, units traded for an average price-to-DCF ratio of 9.9. As a result, Enterprise

<sup>1</sup> Estimate

<sup>2</sup> Shares in millions

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Products appears to be significantly undervalued today. That being said, current growth headwinds facing the space are causing us to reduce our fair value multiple to 8 times DCF. 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

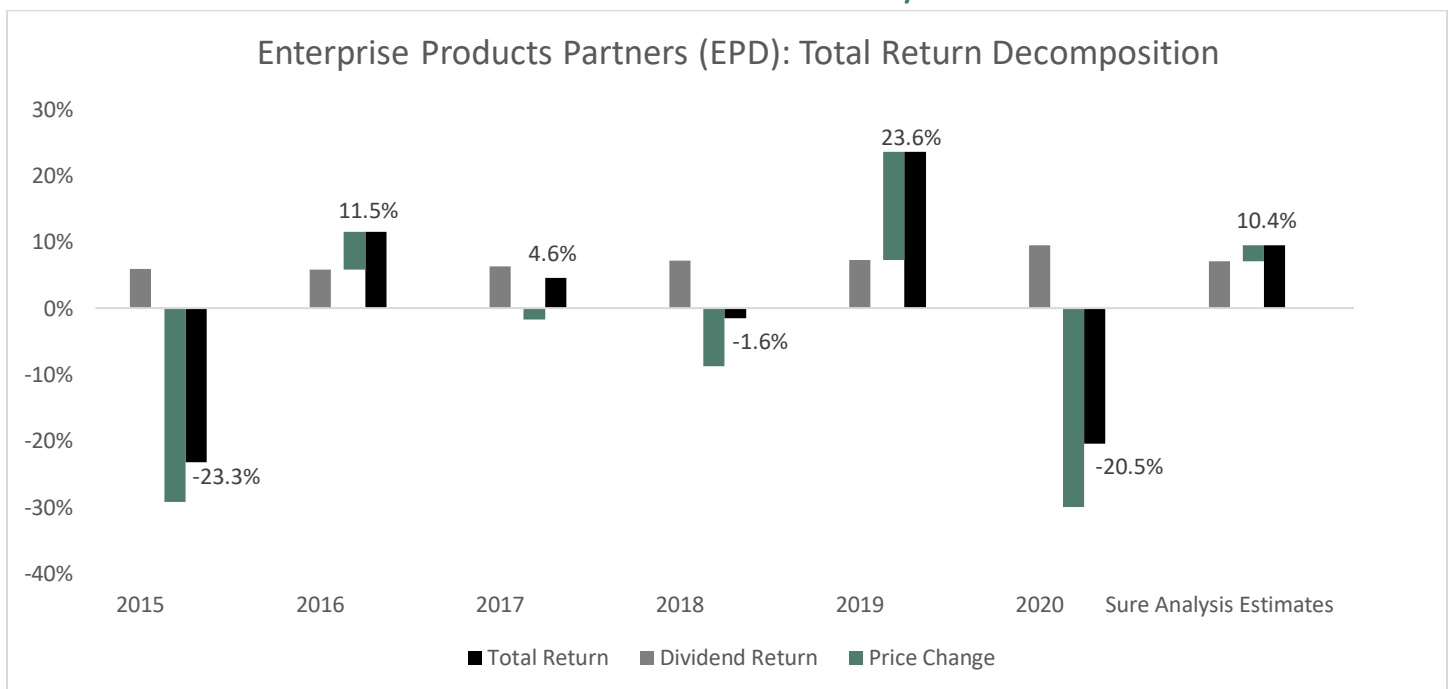
| Year   | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021         | 2026         |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 53.8% | 52.9% | 53.1% | 52.8% | 59.9% | 64.9% | 65.2% | 51.8% | 51.3% | 61.5% | <b>60.8%</b> | <b>57.4%</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 has a distribution coverage ratio of over 1.6x, leaving 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 22 years 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 has remained fairly stable through the sharp energy market volatility over the past half decade. Enterprise Products has a 8% current distribution yield, which is a highly attractive yield for income investors. We believe Enterprise Products can generate total returns of 10.4% annualized over the next half decade, 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                    | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue</b>          | 44,313 | 42,583 | 47,727 | 47,951 | 27,028 | 23,022 | 29,242 | 36,534 | 32,789 | 27,200 |
| <b>Gross Profit</b>     | 2,995  | 3,215  | 3,488  | 3,731  | 3,359  | 3,379  | 3,684  | 5,137  | 5,727  | 4,829  |
| <b>Gross Margin</b>     | 6.8%   | 7.6%   | 7.3%   | 7.8%   | 12.4%  | 14.7%  | 12.6%  | 14.1%  | 17.5%  | 17.8%  |
| <b>SG&amp;A Exp.</b>    | 182    | 170    | 188    | 215    | 193    | 160    | 181    | 208    | 212    | 220    |
| <b>Operating Profit</b> | 1,007  | 1,105  | 1,218  | 1,361  | 1,516  | 1,552  | 1,644  | 1,792  | 1,949  | 2,072  |
| <b>Op. Margin</b>       | 2,813  | 3,045  | 3,300  | 3,516  | 3,167  | 3,219  | 3,503  | 4,929  | 5,516  | 4,609  |
| <b>Net Profit</b>       | 6.3%   | 7.2%   | 6.9%   | 7.3%   | 11.7%  | 14.0%  | 12.0%  | 13.5%  | 16.8%  | 16.9%  |
| <b>Net Margin</b>       | 2,047  | 2,420  | 2,597  | 2,787  | 2,521  | 2,513  | 2,799  | 4,172  | 4,591  | 3,776  |
| <b>Free Cash Flow</b>   | 4.6%   | 5.7%   | 5.4%   | 5.8%   | 9.3%   | 10.9%  | 9.6%   | 11.4%  | 14.0%  | 13.9%  |
| <b>Income Tax</b>       | (537)  | (731)  | 457    | 1,269  | 172    | 1,083  | 1,565  | 1,903  | 1,989  | 2,604  |

## Balance Sheet Metrics

| Year                          | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>           | 34,125 | 35,934 | 40,139 | 47,201 | 48,802 | 52,194 | 54,418 | 56,970 | 61,733 | 64,107 |
| <b>Cash &amp; Equivalents</b> | 20     | 16     | 57     | 74     | 19     | 63     | 5      | 345    | 335    | 1,060  |
| <b>Acc. Receivable</b>        | 4,502  | 4,351  | 5,476  | 3,823  | 2,570  | 3,330  | 4,358  | 3,659  | 4,874  | 4,803  |
| <b>Inventories</b>            | 1,112  | 1,088  | 1,093  | 1,014  | 1,038  | 1,771  | 1,610  | 1,522  | 2,091  | 3,304  |
| <b>Goodwill &amp; Int.</b>    | 3,749  | 3,654  | 3,542  | 8,602  | 9,782  | 9,609  | 9,436  | 9,354  | 9,194  | 8,758  |
| <b>Total Liabilities</b>      | 21,906 | 22,638 | 24,698 | 27,509 | 28,301 | 29,928 | 31,646 | 32,678 | 35,906 | 38,680 |
| <b>Accounts Payable</b>       | 985    | 892    | 874    | 893    | 944    | 503    | 929    | 1,243  | 1,167  | 854    |
| <b>Long-Term Debt</b>         | 14,529 | 16,202 | 17,352 | 21,364 | 22,541 | 23,698 | 24,569 | 26,178 | 27,625 | 29,866 |
| <b>Total Equity</b>           | 12,113 | 13,188 | 15,215 | 18,063 | 20,295 | 22,047 | 22,547 | 23,854 | 24,764 | 24,353 |

## Profitability & Per Share Metrics

| Year                    | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018  | 2019  | 2020  |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|-------|-------|-------|
| <b>Return on Assets</b> | 6.3%   | 6.9%   | 6.8%   | 6.4%   | 5.3%   | 5.0%   | 5.3%   | 7.5%  | 7.7%  | 6.0%  |
| <b>Return on Equity</b> | 17.4%  | 19.1%  | 18.3%  | 16.8%  | 13.1%  | 11.9%  | 12.6%  | 18.0% | 18.9% | 15.4% |
| <b>Shares Out.</b>      | 1763.2 | 1797.6 | 1871.4 | 1937.3 | 2012.6 | 2117.6 | 2161.1 | 2187  | 2200  | 2190  |
| <b>Revenue/Share</b>    | 26.87  | 24.71  | 25.90  | 25.30  | 13.52  | 11.02  | 13.57  | 16.71 | 14.89 | 12.35 |
| <b>FCF/Share</b>        | (0.33) | (0.42) | 0.25   | 0.67   | 0.09   | 0.52   | 0.73   | 0.87  | 0.90  | 1.18  |

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

### Disclaimer

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