



Enviva Partners LP (EVA)

Updated August 12th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$54	5 Year CAGR Estimate:	11.1%	Market Cap:	\$2.4 B
Fair Value Price:	\$54	5 Year Growth Estimate:	5.5%	Ex-Dividend Date¹:	08/12/2021
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date:	08/27/2021
Dividend Yield:	6.0%	5 Year Price Target	\$71	Years Of Dividend Growth:	4
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	6.5%

Overview & Current Events

Enviva Partners, LP is a master limited partnership which aggregates wood fiber and processes it into transportable wood pellets. Enviva is the world's largest utility-grade wood pellet producer. The majority of wood pellets sold are through long-term, take-or-pay off-take contracts with customers in the United Kingdom, Europe, and Japan. Enviva owns and operates ten plants with total production capacity of roughly 6.2 million metric tons per year in Virginia, North Carolina, and four other states. The partnership also exports wood pellets through their marine terminals at the Port of Chesapeake, Virginia and the Port of Wilmington, North Carolina, as well as third-party marine terminals in six other states. The company trades on the NYSE under the ticker EVA and is headquartered in Bethesda, Maryland. EVA has a market capitalization of \$2.4 billion.

Enviva reported second quarter results on July 28th. In the quarter, the partnership reported net income of \$2.6 million, a steep 69% decrease compared to \$8.5 million a year ago. However, adjusted net income of \$9.8 million was a 12.7% increase over the prior year's \$8.7 million. Adjusted EBITDA of \$48.9 million was a 30.7% increase over the second quarter of 2020. As a result, distributable cash flow attributable to Enviva Partners, LP was \$32.9 million, a 27% increase. The partnership declared an \$0.815 per common unit distribution for the second quarter, which is 6.5% higher than the year ago quarter. This marks the 24th consecutive distribution increase since the company's IPO.

During the quarter, the partnership completed the transaction to purchase from Enviva Holdings, LP a wood pellet production in Lucedale, Mississippi, a deep water marine terminal in Pascagoula, Mississippi, and three long-term, take-or-pay off-take contracts with Japanese counterparties.

Leadership reaffirms previously provided full-year 2021 and 2022 financial guidance and are anticipating distribution per unit of \$3.30 for 2021 and \$3.62 in 2022, further demonstrating the company's dedication to the distribution. These distribution increases are estimated to be backed with greater than 1.2 times distribution coverage based on estimated distributable cash flow of roughly \$190 million in 2021 and \$252 million in 2022.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCFPU	---	---	---	---	\$2.37	\$2.30	\$2.36	\$2.11	\$2.74	\$3.12	\$4.58	\$5.98
DPS	---	---	---	---	\$0.90	\$2.03	\$2.28	\$2.51	\$2.62	\$2.90	\$3.26	\$4.79
Shares²	---	---	---	---	24.2	25.5	27.3	27.5	31.8	36.8	41.5	45.0

Enviva Partners, LP measures their performance primarily through distributable cash flow per common unit. EVA does not have a lengthy history on the public market; thus, we can only make estimations based on short historical data. Over the past five and three years, EVA has managed to grow their DCFPU by 5.7% and 9.7% on average, respectively. We estimate that EVA can continue growing DCF at a pace of 5.5% in the near term.

¹ Estimate

² In millions

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The partnership will grow distributable cash flow through increasing production capacity, and acquisitions, which are likely to be drop-downs from their “sponsor” Enviva Holdings. The recently acquired Lucedale plant should commence operations in the second half of 2021. The Lucedale acquisitions includes an option to expand production capacity by roughly 300,000 metric ton per year for \$60 million in estimated capex. If EVA executes on the expansion, they expect to generate incremental annual adjusted EBITDA of approximately \$15 million. Enviva’s policy is to finance acquisitions and growth initiatives with 50% equity and 50% debt, which has led to a 10.2% annual increase in the number of outstanding units on average per year.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	6.9	10.1	12.0	13.8	11.5	12.1	11.8	11.8
Avg. Yld.	---	---	---	---	5.6%	7.4%	7.6%	8.3%	8.1%	7.3%	6.0%	6.8%

Enviva’s price-to-distributable cash flow per unit is about fairly valued today at 11.8 times DCFPU. Over the last six and three years, EVA has traded at 11.1 times and 12.5 times price-to-DCFPU on average, respectively. We believe there is room to expand the valuation if the company can come through on their strong 2022 guidance, but we remain conservative.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	38%	88%	97%	119%	96%	93%	71%	80%

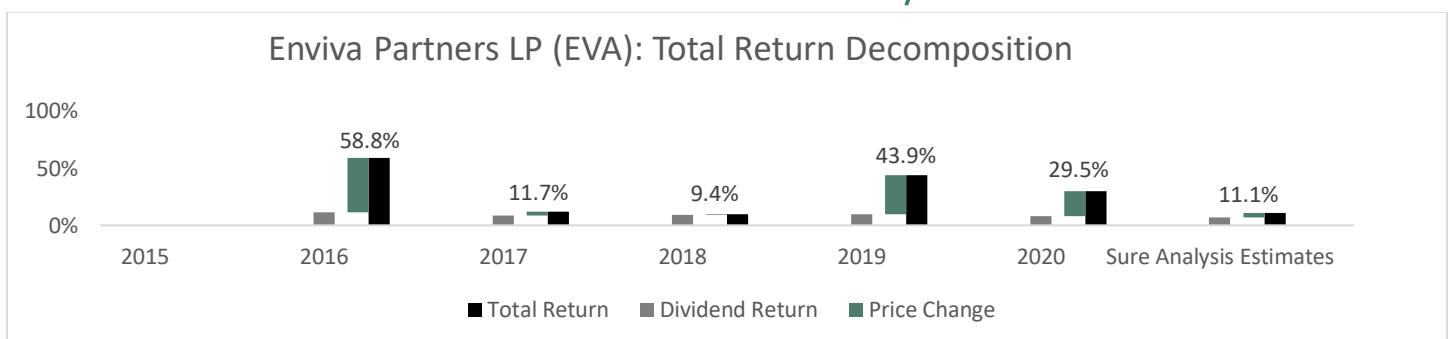
Enviva’s payout ratio has remained elevated for many years on end, which is not uncommon for master limited partnerships, but the risk of a dividend cut is elevated when it is in these ranges. The expected payout ratio for 2021 is very conservative in comparison to its historical payout ratio based on the company’s guidance, and we estimate they will grow the dividend faster than DCFPU in the near term.

The company’s diverse supply base and facility sites enable the partnership to benefit from more reliable and lower cost deliveries than competitors in the region or industry. The Chesapeake terminal has a three to four day European shipping advantage compared to other Southern or Gulf Cost ports.

Final Thoughts & Recommendation

Enviva has a short history of boosting earnings and the distribution, however it has done so quite consistently. We estimate total annual returns of 11.1% for the next five years consisting of the 6.0% dividend yield and 5.5% earnings growth, with no change in valuation. While shares trade at 100% of our fair value estimate, we rate EVA a Buy given the strong double digit total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue		103	180	290	457	464	543	574	684	875
Gross Profit		4	15	20	60	77	79	69	81	107
Gross Margin		4.0%	8.5%	6.9%	13.0%	16.5%	14.5%	12.1%	11.8%	12.2%
SG&A Exp.		22	16	14	24	33	30	28	36	45
D&A Exp.		8	12	19	31	28	40	41	52	77
Operating Profit		(18)	(1)	6	36	44	49	42	45	62
Operating Margin		-17.5%	-0.5%	2.0%	7.8%	9.4%	9.0%	7.3%	6.5%	7.1%
Net Profit		(34)	(5)	(3)	20	19	18	7	(6)	14
Net Margin		-33.1%	-3.0%	-1.1%	4.5%	4.1%	3.2%	1.2%	-0.9%	1.6%
Free Cash Flow		(110)	(132)	13	(34)	(57)	58	57	(57)	19
Income Tax			0	0	3			-	-	0

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets		274	400	384	658	801	760	749	995	1,430
Cash & Equivalents		12	4	1	2	0	1	2	9	10
Accounts Receivable		10	26	22	39	78	79	55	72	124
Inventories		11	19	18	24	30	24	31	33	42
Goodwill & Int. Ass.		6	6	6	89	87	86	86	86	100
Total Liabilities		58	129	110	262	425	550	602	762	1,154
Accounts Payable		7	8	4	14	10	8	16	19	15
Long-Term Debt		40	101	94	208	351	401	433	603	926
Shareholder's Equity		213	268	271	395	339	210	147	281	324
D/E Ratio							(10.6)			

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets			-1.6%	-0.8%	3.9%	2.6%	2.2%	0.9%	-0.7%	1.1%
Return on Equity			-2.3%	-1.2%	6.1%	5.3%	6.4%	3.9%	-2.7%	4.5%
ROIC			-7.4%	-3.2%	13.4%	6.4%	4.7%	1.7%	-1.2%	1.9%
Shares Out.					24.2	25.5	27.3	27.5	31.8	36.8
Revenue/Share		4.34	7.56	12.19	18.93	18.23	19.93	20.90	21.53	23.77
FCF/Share		(4.62)	(5.56)	0.54	(1.42)	(2.24)	2.14	2.07	(1.81)	0.52

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

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