



Enterprise Products Partners (EPD)

Updated November 6th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$22.3	5 Year CAGR Estimate:	10.5%	Market Cap:	\$49.8 B
Fair Value Price:	\$24.1	5 Year Growth Estimate:	2.6%	Ex-Dividend Date:	01/28/22 ¹
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	02/12/22 ²
Dividend Yield:	8.1%	5 Year Price Target	\$27	Years Of Dividend Growth:	22
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	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 11/02/21, Enterprise Products reported third-quarter results. Distributable cash flow stood at \$1.61 billion, down 2% year-over-year. Q3 net income totaled to \$1.15 billion, up from \$1.05 billion in the year-ago period. Q3 revenue grew by a whopping 55% to \$10.83 billion from \$6.92 billion year-over-year. Meanwhile, liquid pipeline volume recovered to near pre-COVID levels at 6.3 million barrels per day from 6 million barrels per day in the year-ago quarter. Crude oil pipeline transportation volume increased to 2.05 million barrels per day from 1.74 million barrels per day in the year-ago period. Gross operating margin stood at \$2.1 billion, up from \$2.0 billion year-over-year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCF/S	\$2.25	\$2.40	\$2.54	\$2.71	\$2.52	\$2.45	\$2.56	\$3.30	\$3.43	\$2.91	\$3.01	\$3.42
DPS	\$1.21	\$1.27	\$1.35	\$1.43	\$1.51	\$1.59	\$1.67	\$1.71	\$1.76	\$1.79	\$1.80	\$1.95
Units³	1755.5	1789.8	1864.1	1933.4	2019.3	2118.9	2161.1	2184.9	2189.2	2181.6	2185.4	2000

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
Avg. P/DCF	10.3	10.4	13.0	13.3	10.2	11.1	10.4	7.2	7.0	6.5	7.4	8.0
Avg. Yld.	5.2%	5.1%	4.1%	4.0%	5.9%	5.8%	6.3%	7.2%	7.3%	9.5%	8.1%	7.1%

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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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 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

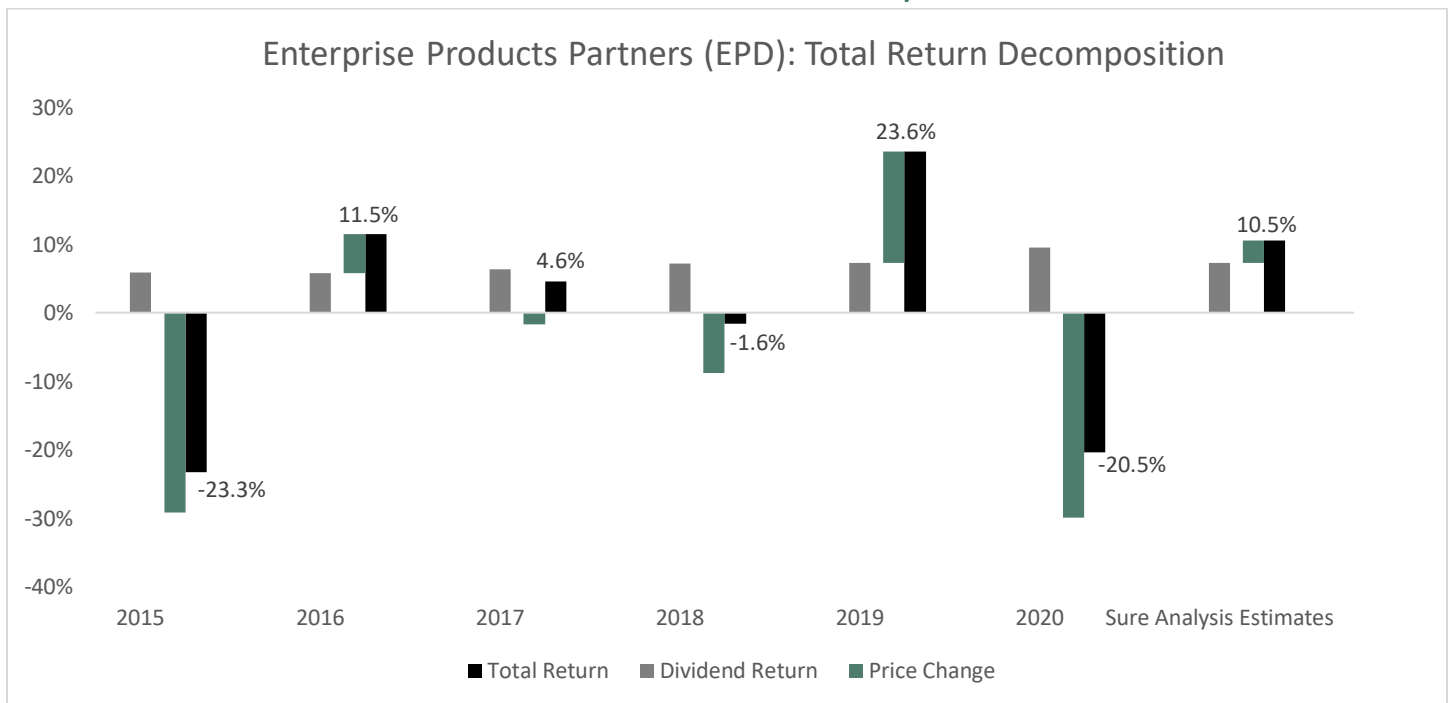
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	53.8%	52.9%	53.1%	52.8%	59.9%	64.9%	65.2%	51.8%	51.3%	61.5%	59.8%	57.4%

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 an 8.1% current distribution yield, which is a highly attractive yield for income investors. We believe Enterprise Products can generate total returns of 10.5% 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
Revenue	44,313	42,583	47,727	47,951	27,028	23,022	29,242	36,534	32,789	27,200
Gross Profit	2,995	3,215	3,488	3,731	3,359	3,379	3,684	5,137	5,727	4,829
Gross Margin	6.8%	7.6%	7.3%	7.8%	12.4%	14.7%	12.6%	14.1%	17.5%	17.8%
SG&A Exp.	182	170	188	215	193	160	181	208	212	220
Operating Profit	1,007	1,105	1,218	1,361	1,516	1,552	1,644	1,792	1,949	2,072
Op. Margin	2,813	3,045	3,300	3,516	3,167	3,219	3,503	4,929	5,516	4,609
Net Profit	6.3%	7.2%	6.9%	7.3%	11.7%	14.0%	12.0%	13.5%	16.8%	16.9%
Net Margin	2,047	2,420	2,597	2,787	2,521	2,513	2,799	4,172	4,591	3,776
Free Cash Flow	4.6%	5.7%	5.4%	5.8%	9.3%	10.9%	9.6%	11.4%	14.0%	13.9%
Income Tax	(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
Total Assets	34,125	35,934	40,139	47,201	48,802	52,194	54,418	56,970	61,733	64,107
Cash & Equivalents	20	16	57	74	19	63	5	345	335	1,060
Acc. Receivable	4,502	4,351	5,476	3,823	2,570	3,330	4,358	3,659	4,874	4,803
Inventories	1,112	1,088	1,093	1,014	1,038	1,771	1,610	1,522	2,091	3,304
Goodwill & Int.	3,749	3,654	3,542	8,602	9,782	9,609	9,436	9,354	9,194	8,758
Total Liabilities	21,906	22,638	24,698	27,509	28,301	29,928	31,646	32,678	35,906	38,680
Accounts Payable	985	892	874	893	944	503	929	1,243	1,167	854
Long-Term Debt	14,529	16,202	17,352	21,364	22,541	23,698	24,569	26,178	27,625	29,866
Total Equity	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
Return on Assets	6.3%	6.9%	6.8%	6.4%	5.3%	5.0%	5.3%	7.5%	7.7%	6.0%
Return on Equity	17.4%	19.1%	18.3%	16.8%	13.1%	11.9%	12.6%	18.0%	18.9%	15.4%
Shares Out.	1763.2	1797.6	1871.4	1937.3	2012.6	2117.6	2161.1	2187	2200	2190
Revenue/Share	26.87	24.71	25.90	25.30	13.52	11.02	13.57	16.71	14.89	12.35
FCF/Share	(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.

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