



Enviva Partners LP (EVA)

Updated November 12th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$66	5 Year CAGR Estimate:	3.7%	Market Cap:	\$4.0 B
Fair Value Price:	\$45	5 Year Growth Estimate:	5.5%	Ex-Dividend Date¹:	11/12/2021
% Fair Value:	146%	5 Year Valuation Multiple Estimate:	-7.3%	Dividend Payment Date:	11/26/2021
Dividend Yield:	5.1%	5 Year Price Target	\$59	Years Of Dividend Growth:	5
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	8.4%

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 \$4.0 billion.

Enviva reported third quarter results on November 3rd. In the quarter, the partnership reported net loss of (\$0.1) million, a steep decrease compared to \$1.4 million a year ago. However, adjusted net income of \$28.3 million was a 76% increase over the prior year's \$16.1 million. Adjusted EBITDA of \$62.9 million was a 15.6% increase over the third quarter of 2020. As a result, distributable cash flow attributable to Enviva Partners, LP was \$49.5 million, a 17% increase.

The partnership declared an \$0.84 per common unit distribution for the second quarter, which is 8.4% higher than the year ago quarter. This marks the 25th consecutive distribution increase since the company's IPO.

On October 15th, Enviva acquired 100% of the ownership interest in Enviva Holdings (the Simplification Transaction) and eliminated the outstanding incentive distribution rights in exchange for 16 million common units of EVA, which represents roughly \$870 million based on EVA's 20-day volume-weighted average price ending on October 13th. EVA will be converted from an MLP into a traditional corporation on December 31st.

Leadership updated 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. The company also estimates distributable cash flow of roughly \$170 million in 2021 and \$223 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	\$3.78	\$4.94
DPS	---	---	---	---	\$0.90	\$2.03	\$2.28	\$2.51	\$2.62	\$2.90	\$3.36	\$4.50
Shares²	---	---	---	---	24.2	25.5	27.3	27.5	31.8	36.8	45.0	65.0

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. The recently acquired Lucedale plant should commence operations in late fourth-quarter 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. The Simplification Transaction will also massively inflate the share count; however, it will allow for EVA to construct new fully contracted wood pellet production plants at roughly 5x adjusted EBITDA project investment multiple, compared to its historic drop-down acquisition multiple of about 7.5x.

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	17.5	12.0
Avg. Yld.	---	---	---	---	5.6%	7.4%	7.6%	8.3%	8.1%	7.3%	5.1%	7.6%

Enviva's price-to-distributable cash flow per unit is overvalued today at 17.5 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 the valuation will revert to its mean of roughly 12.0 times DCFPU, resulting in annual losses of 7.3% due to multiple compression.

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%	89%	91%

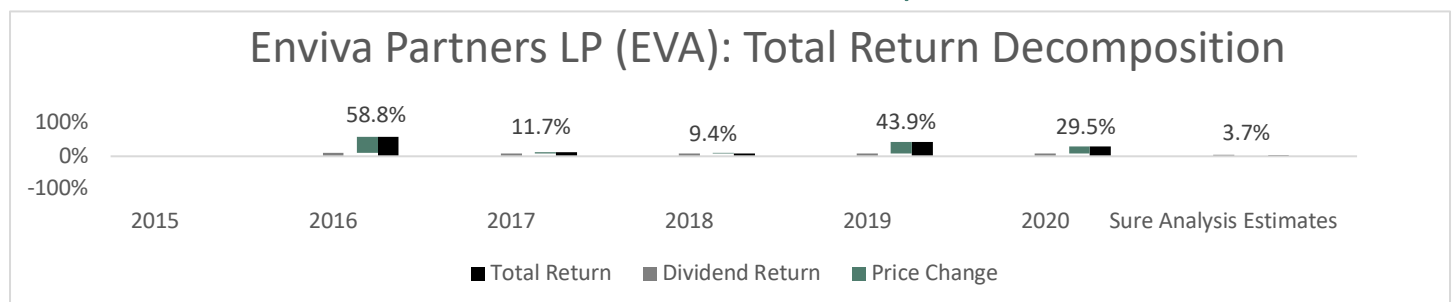
Enviva's payout ratio has remained elevated for many years on end, which is not uncommon for master limited partnerships, but the risk of a dividend cut is elevated when it is in these ranges. The expected payout ratio for 2021 is very conservative in comparison to its historical payout ratio based on 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 Coast 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 3.7% for the next five years consisting of the 5.1% dividend yield and 5.5% earnings growth, with a negative (7.3%) impact to the valuation. Shares trade at 146% of our fair value estimate, and total annual returns are weak. That said, the dividend is quite attractive, so we rate EVA a Hold.

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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