



# Enviva Partners LP (EVA)

Updated May 20<sup>th</sup>, 2022 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$73	<b>5 Year CAGR Estimate:</b>	0.5%	<b>Market Cap:</b>	\$4.9 B
<b>Fair Value Price:</b>	\$41	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date<sup>1</sup>:</b>	08/12/2022
<b>% Fair Value:</b>	177%	<b>5 Year Valuation Multiple Estimate:</b>	-10.8%	<b>Dividend Payment Date:</b>	08/29/2022
<b>Dividend Yield:</b>	4.9%	<b>5 Year Price Target</b>	\$54	<b>Years Of Dividend Growth:</b>	6
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Sell

## 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 \$4.9 billion.

On October 15<sup>th</sup>, 2021, 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 13<sup>th</sup>. EVA was converted from an MLP into a traditional corporation on December 31<sup>st</sup>, 2021.

Enviva reported first quarter 2022 results on May 4<sup>th</sup>. Adjusted EBITDA of \$36.6 million was an improvement over \$21.7 million in Q1 2021. Distributable cash flow also saw a nice improvement, from \$5.2 million (recast) in Q1 2021 to \$25.3 million in 2022. On a non-recast basis, Enviva generated \$30.4 million in DCF for Q1 2021.

The partnership's last declared dividend was \$0.905 per common unit distribution, which is 15.3% higher than the year ago quarter. This marks the company's 6<sup>th</sup> consecutive year of dividend increases.

Leadership revised their previously provided full-year 2022 financial guidance and are anticipating distribution per unit of \$3.62 for 2022, further demonstrating the company's dedication to the distribution. The company also estimates distributable cash flow of roughly \$185 million (down from a \$223 million prior estimate).

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>DCFPU</b>	-	-	-	\$2.37	\$2.30	\$2.36	\$2.11	\$2.74	\$3.85	\$2.89	<b>\$2.76</b>	<b>\$3.61</b>
<b>DPS</b>	-	-	-	\$0.90	\$2.03	\$2.28	\$2.51	\$2.62	\$3.00	\$3.30	<b>\$3.62</b>	<b>\$4.62</b>
<b>Shares<sup>2</sup></b>	-	-	-	24.2	25.5	27.3	27.5	31.8	36.8	58.0	<b>67.0</b>	<b>85.0</b>

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 4.7% and 11.2% on average, respectively. We estimate that EVA can continue growing DCF at a pace of 5.5% in the intermediate term.

The partnership will grow distributable cash flow through increasing production capacity, and acquisitions. The recently acquired Lucedale plant has commenced operations in the fourth quarter of 2021 and is ramping up to full capacity by

<sup>1</sup> Estimate

<sup>2</sup> In millions

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end of 2022. Enviva announced a plan to accelerate its organic growth expansions. As a result, the company expects to double its production capacity over the next 5 years from 6.2 million MTPY to about 13 million MTPY. This will be accomplished by building and commissioning two plants at the same time. Enviva's policy is to finance acquisitions and growth initiatives with 50% equity and 50% debt, which has led to an 18% annual increase in the number of outstanding units on average per year since 2016. The Simplification Transaction has massively inflated 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	-	-	-	6.9	10.1	12.0	13.8	11.5	9.8	19.0	26.6	15.0
Avg. Yld.	-	-	-	5.6%	7.4%	7.6%	8.3%	8.1%	7.3%	5.7%	4.9%	8.5%

Enviva's price-to-distributable cash flow per unit is overvalued today at 26.6 times DCFPU. Over the last seven and three years, EVA has traded at 11.9 times and 13.5 times price-to-DCFPU on average, respectively. We believe the valuation will revert to its mean of roughly 15.0 times DCFPU, resulting in annual losses of 10.8% due to multiple compression.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	-	-	-	-	88%	97%	119%	96%	78%	114%	131%	128%

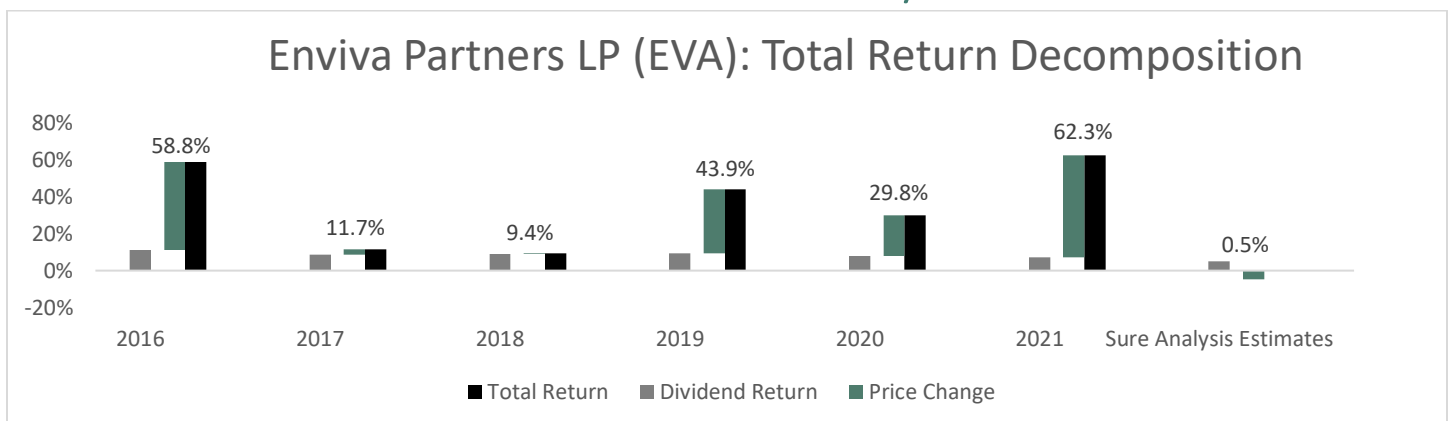
Enviva's payout ratio has remained elevated for many years on end, which is not uncommon for master limited partnerships, but the risk of a dividend cut is elevated when it is in these ranges. Even after converting to a corporation, Enviva is paying out a major portion in distributions relative to its earned distributable free cash flow per unit.

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 fairly consistently. We estimate total annual returns of 0.5% for the next five years consisting of the 4.9% dividend yield and 5.5% earnings growth, with a negative (10.8%) impact to the valuation. Shares trade at 177% of our fair value estimate, and total annual returns are weak. Shares of EVA earn a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	103	180	290	457	464	543	574	684	875	1042
Gross Profit	4	15	20	60	77	79	69	81	69	78
Gross Margin	4.0%	8.5%	6.9%	13.0%	16.5%	14.5%	12.1%	11.8%	7.9%	7.5%
SG&A Exp.	22	16	14	24	33	30	28	36	130	175
D&A Exp.	8	12	19	31	28	40	41	52	82	93
Operating Profit	(18)	(1)	6	36	44	49	42	45	-60	-97
Operating Margin	-17.5%	-0.5%	2.0%	7.8%	9.4%	9.0%	7.3%	6.5%	-6.9%	-9.3%
Net Profit	(34)	(5)	(3)	20	19	18	7	(6)	-86	-122
Net Margin	-33.1%	-3.0%	-1.1%	4.5%	4.1%	3.2%	1.2%	-0.9%	-9.9%	-11.7%
Free Cash Flow	(110)	(132)	13	(34)	(57)	58	57	(57)	(207)	(299)
Income Tax		0	0	3			-	-	0	-17

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	274	400	384	658	801	760	749	995	1,726	1,924
Cash & Equivalents	12	4	1	2	0	1	2	9	66	17
Accounts Receivable	10	26	22	39	78	79	55	72	124	97
Inventories	11	19	18	24	30	24	31	33	45	58
Goodwill & Int. Ass.	6	6	6	89	87	86	86	86	100	104
Total Liabilities	58	129	110	262	425	550	602	762	1,316	1,653
Accounts Payable	7	8	4	14	10	8	16	19	22	30
Long-Term Debt	40	101	94	208	351	401	433	603	948	1,272
Shareholder's Equity	213	268	271	395	339	210	147	281	-79	318
LTD/E Ratio						(10.6)			(12.0)	(4.0)

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets		-1.6%	-0.8%	3.9%	2.6%	2.2%	0.9%	-0.7%	1.1%	-6.7%
Return on Equity		-2.3%	-1.2%	6.1%	5.3%	6.4%	3.9%	-2.7%	4.5%	-101.9%
ROIC		-7.4%	-3.2%	13.4%	6.4%	4.7%	1.7%	-1.2%	1.9%	-8.4%
Shares Out.				24.2	25.5	27.3	27.5	31.8	36.8	58.0
Revenue/Share	4.34	7.56	12.19	18.93	18.23	19.93	20.90	21.53	23.77	40.64
FCF/Share	(4.62)	(5.56)	0.54	(1.42)	(2.24)	2.14	2.07	(1.81)	0.52	-11.66

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

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