



Enterprise Products Partners (EPD)

Updated August 23rd, 2023 by Samuel Smith

Key Metrics

Current Price:	\$26.5	5 Year CAGR Estimate:	10.2%	Market Cap:	\$57.3 B
Fair Value Price:	\$28.2	5 Year Growth Estimate:	2.8%	Ex-Dividend Date:	10/28/23 ¹
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.2%	Dividend Payment Date:	11/14/23 ²
Dividend Yield:	7.5%	5 Year Price Target	\$32	Years Of Dividend Growth:	25
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

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 August 1st, 2023, Enterprise Products released its Q2 financial results. The company reported Distributable Cash Flow (DCF) of \$1.7 billion for Q2 2023, compared to \$2.0 billion in Q2 2022. Distributions declared for Q2 2023 increased by 5.3% to \$0.50 per common unit, with a coverage ratio of 1.6 times DCF. Adjusted cash flow provided by operating activities (Adjusted CFFO) was \$1.9 billion for Q2 2023, down from \$2.1 billion in Q2 2022. The company's payout ratio, considering distributions and unit buybacks, was 57% of Adjusted CFFO and 86% of Adjusted Free Cash Flow (Adjusted FCF) for the twelve months ending June 30, 2023. Capital investments totaled \$784 million in Q2 2023, including growth and sustaining capital expenditures. Additionally, Enterprise repurchased 2.9 million common units for \$75 million during Q2 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
DCF/S	\$2.54	\$2.71	\$2.52	\$2.45	\$2.56	\$3.30	\$3.43	\$2.91	\$3.00	\$3.52	\$3.52	\$4.04
DPS	\$1.35	\$1.43	\$1.51	\$1.59	\$1.67	\$1.71	\$1.76	\$1.79	\$1.80	\$1.90	\$2.00	\$2.26
Units³	1864.1	1933.4	2019.3	2118.9	2161.1	2184.9	2189.2	2181.6	2176.4	2170.8	2171.8	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 several billion dollars' worth of major capital projects currently under construction. They expect all of these projects to come online in the coming years, boosting cash flows. 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 2028. Distributions are expected to rise at a slow rate as well as management focuses on generating free cash flow after distributions. Unit buybacks and deleveraging will likely be tailwinds for per-unit growth.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/DCF	13.0	13.3	10.2	11.1	10.4	7.2	7.0	6.5	7.4	7.2	7.5	8.0
Avg. Yld.	4.1%	4.0%	5.9%	5.8%	6.3%	7.2%	7.3%	9.5%	8.1%	7.6%	7.5%	7.0%

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 under 10x. As a result, Enterprise Products appears to be undervalued today. That being said, current growth headwinds facing the space and higher interest rates are causing us to reduce our fair value multiple to 8 times DCF. As a result, we expect the multiple to only increase slightly over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

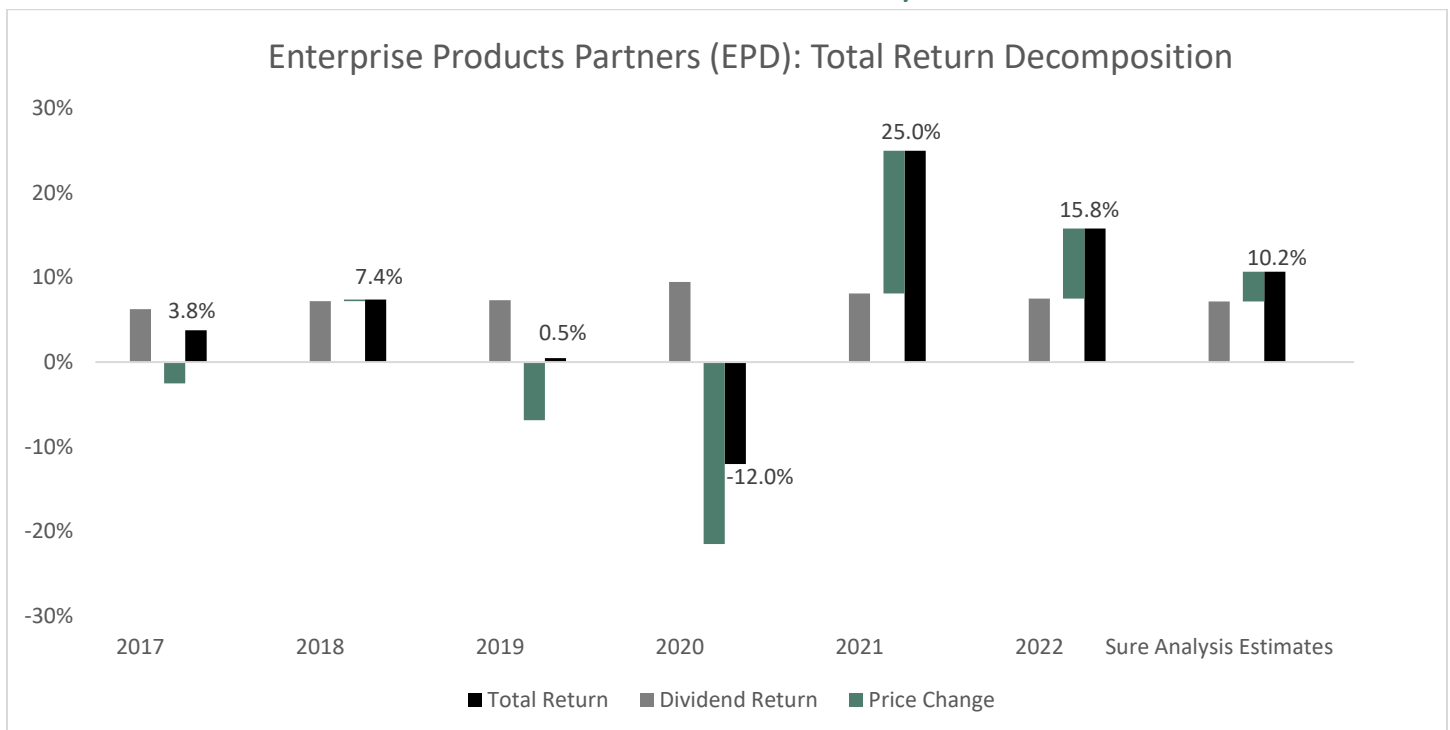
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	53.1%	52.8%	59.9%	64.9%	65.2%	51.8%	51.3%	61.5%	60.0%	54.0%	56.8%	55.9%

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 nearly 2x, 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 25 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 7.5% current distribution yield, which is a highly attractive yield for income investors. We believe Enterprise Products can generate total returns of 10.2% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	47,727	47,951	27,028	23,022	29,242	36,534	32,789	27,200	40,807	58,186
Gross Profit	3,488	3,731	3,359	3,379	3,684	5,137	5,727	4,829	5,730	6,684
Gross Margin	7.3%	7.8%	12.4%	14.7%	12.6%	14.1%	17.5%	17.8%	14.0%	11.5%
SG&A Exp.	188	215	193	160	181	208	212	220	209	241
Operating Profit	1,218	1,361	1,516	1,552	1,644	1,792	1,949	2,072	2,113	1,974
Op. Margin	3,300	3,516	3,167	3,219	3,503	4,929	5,516	4,609	5,520	6,443
Net Profit	6.9%	7.3%	11.7%	14.0%	12.0%	13.5%	16.8%	16.9%	13.5%	11.1%
Net Margin	2,597	2,787	2,521	2,513	2,799	4,172	4,591	3,776	4,638	5,490
Free Cash Flow	5.4%	5.8%	9.3%	10.9%	9.6%	11.4%	14.0%	13.9%	11.4%	9.4%
Income Tax	457	1,269	172	1,083	1,565	1,903	1,989	2,604	6,289	6,075

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	40,139	47,201	48,802	52,194	54,418	56,970	61,733	64,107	67,526	68,108
Cash & Equivalents	57	74	19	63	5	345	335	1,060	2,819	76
Acc. Receivable	5,476	3,823	2,570	3,330	4,358	3,659	4,874	4,803	6,967	6,964
Inventories	1,093	1,014	1,038	1,771	1,610	1,522	2,091	3,304	2,681	2,554
Goodwill & Int.	3,542	8,602	9,782	9,609	9,436	9,354	9,194	8,758	8,600	9,573
Total Liabilities	24,698	27,509	28,301	29,928	31,646	32,678	35,906	38,729	41,087	40,406
Accounts Payable	874	893	944	503	929	1,243	1,167	854	799	743
Long-Term Debt	17,352	21,364	22,541	23,698	24,569	26,178	27,625	29,866	29,535	28,295
Total Equity	15,215	18,063	20,295	22,047	22,547	23,854	24,764	24,304	25,329	26,623

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.8%	6.4%	5.3%	5.0%	5.3%	7.5%	7.7%	6.0%	7.0%	8.1%
Return on Equity	18.3%	16.8%	13.1%	11.9%	12.6%	18.0%	18.9%	15.4%	18.7%	21.1%
Shares Out.	1864.1	1933.4	2019.3	2118.9	2161.1	2184.9	2189.2	2181.6	2182.1	2175.6
Revenue/Share	25.90	25.30	13.52	11.02	13.57	16.71	14.89	12.35	18.52	26.46
FCF/Share	0.25	0.67	0.09	0.52	0.73	0.87	0.90	1.18	2.85	2.76

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

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