



Enterprise Products Partners (EPD)

Updated August 20th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$29.1	5 Year CAGR Estimate:	10.9%	Market Cap:	\$63.9 B
Fair Value Price:	\$28.6	5 Year Growth Estimate:	5.2%	Ex-Dividend Date:	10/30/24 ¹
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Dividend Payment Date:	11/14/24 ²
Dividend Yield:	7.2%	5 Year Price Target	\$37	Years Of Dividend Growth:	26
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.

Enterprise Products Partners L.P. (EPD) reported second-quarter 2024 earnings with an EPS of \$0.64, missing estimates by \$0.03, and revenue of \$13.48 billion, which fell short by \$787.40 million despite a 26.59% year-over-year increase. Net income attributable to common unitholders was \$1.4 billion, a 12% increase compared to \$1.3 billion in the second quarter of 2023. Distributable Cash Flow (DCF) rose to \$1.8 billion, up from \$1.7 billion in the same period last year, providing 1.6 times coverage of the declared distribution. Enterprise increased its quarterly distribution by 5% to \$0.525 per unit and repurchased approximately \$40 million of its common units.

The company's Adjusted Cash Flow from Operations (CFFO) was \$2.1 billion, up from \$1.9 billion in the second quarter of 2023, with an annualized Adjusted CFFO of \$8.4 billion. Total capital investments for the quarter amounted to \$1.3 billion, including \$1.0 billion for growth projects and \$245 million for sustaining capital expenditures. The expected range for organic growth capital investments is \$3.5 billion to \$3.75 billion for 2024 and \$3.25 billion to \$3.75 billion for 2025. At the end of the second quarter, total debt stood at \$30.6 billion, with consolidated liquidity of approximately \$3.4 billion.

Operational highlights included handling a near-record 12.6 million barrels per day (BPD) of equivalent pipeline volumes and 2.2 million BPD of marine terminal volumes. The NGL Pipelines & Services segment saw a 19% increase in gross operating margin due to new processing plants and improved processing margins. The Natural Gas Pipelines & Services segment reported a 23% increase in gross operating margin driven by higher transportation revenues and marketing margins. Despite a challenging market, Enterprise's investments in the Permian Basin and strategic infrastructure supported robust financial and operational performance. The company also completed a major turnaround at its PDH 1 plant and began planned maintenance on PDH 2, expecting improved reliability and utilization rates moving forward.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCF/S	\$2.71	\$2.52	\$2.45	\$2.56	\$3.30	\$3.43	\$2.91	\$3.00	\$3.52	\$3.46	\$3.57	\$4.60
DPS	\$1.43	\$1.51	\$1.59	\$1.67	\$1.71	\$1.76	\$1.79	\$1.80	\$1.90	\$2.01	\$2.10	\$2.60
Units³	1933.4	2019.3	2118.9	2161.1	2184.9	2189.2	2181.6	2176.4	2170.8	2168.2	2170.3	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

¹ Estimate

² Estimate

³ Shares in millions

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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 mid-single-digit annualized DCF-per-unit growth through 2029. Unit buybacks and deleveraging will likely be tailwinds for growth.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/DCF	13.0	13.3	10.2	11.1	10.4	7.2	7.0	6.5	7.4	8.0	8.2	8.0
Avg. Yld.	4.1%	4.5%	6.4%	5.9%	5.0%	7.1%	8.8%	9.2%	7.3%	7.3%	7.2%	7.1%

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 largely fairly valued 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 remain roughly flat over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

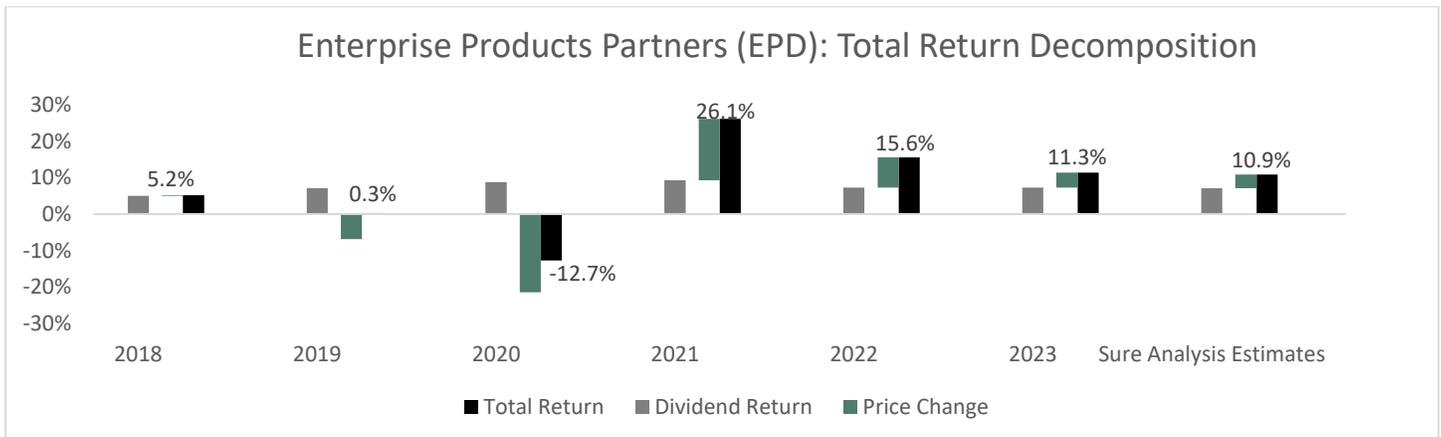
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	53%	60%	65%	65%	52%	51%	62%	60%	54%	58%	58.8%	56.5%

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 26 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 7.2% current distribution yield, which is a highly attractive yield for income investors. We believe Enterprise Products can generate total returns of 10.9% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	47,951	27,028	23,022	29,242	36,534	32,789	27,200	40,807	58,186	49,715
Gross Profit	3,731	3,359	3,379	3,684	5,137	5,727	4,829	5,730	6,684	6,698
Gross Margin	7.8%	12.4%	14.7%	12.6%	14.1%	17.5%	17.8%	14.0%	11.5%	13.5%
SG&A Exp.	215	193	160	181	208	212	220	209	241	231
Operating Profit	1,361	1,516	1,552	1,644	1,792	1,949	2,072	2,113	1,974	2,072
Op. Margin	3,516	3,167	3,219	3,503	4,929	5,516	4,609	5,520	6,443	6,467
Net Profit	7.3%	11.7%	14.0%	12.0%	13.5%	16.8%	16.9%	13.5%	11.1%	13.0%
Net Margin	2,787	2,521	2,513	2,799	4,172	4,591	3,776	4,638	5,490	5,532
Free Cash Flow	5.8%	9.3%	10.9%	9.6%	11.4%	14.0%	13.9%	11.4%	9.4%	11.1%
Income Tax	1,269	172	1,083	1,565	1,903	1,989	2,604	6,289	6,075	4,303

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	47,201	48,802	52,194	54,418	56,970	61,733	64,107	67,526	68,108	70,982
Cash & Equivalents	74	19	63	5	345	335	1,060	2,819	76	180
Acc. Receivable	3,823	2,570	3,330	4,358	3,659	4,874	4,803	6,967	6,964	7,765
Inventories	1,014	1,038	1,771	1,610	1,522	2,091	3,304	2,681	2,554	3,352
Goodwill & Int.	8,602	9,782	9,609	9,436	9,354	9,194	8,758	8,600	9,573	9,378
Total Liabilities	27,509	28,301	29,928	31,646	32,678	35,906	38,729	41,087	40,406	42,223
Accounts Payable	893	944	503	929	1,243	1,167	854	799	743	1,195
Long-Term Debt	21,364	22,541	23,698	24,569	26,178	27,625	29,866	29,535	28,295	28,748
Total Equity	18,063	20,295	22,047	22,547	23,854	24,764	24,304	25,329	26,623	27,673

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.4%	5.3%	5.0%	5.3%	7.5%	7.7%	6.0%	7.0%	8.1%	8.0%
Return on Equity	16.8%	13.1%	11.9%	12.6%	18.0%	18.9%	15.4%	18.7%	21.1%	19.6%
Shares Out.	1933.4	2019.3	2118.9	2161.1	2184.9	2189.2	2181.6	2176.4	2170.8	2168.2
Revenue/Share	25.30	13.52	11.02	13.57	16.71	14.89	12.35	18.52	26.46	22.66
FCF/Share	0.67	0.09	0.52	0.73	0.87	0.90	1.18	2.85	2.76	1.96

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

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