

Enterprise Products(EPD)

\$20.40 (As of 06/04/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

Enterprise Products boasts an extensive network of pipeline that spreads across nearly 50,000 miles and connects to every major U.S. shale play. This secures stable fee-based revenues for the partnership. Since its IPO in 1998, Enterprise Products has invested a hefty sum of \$26 billion in major acquisitions. The partnership has spent another \$42 billion for its organic growth projects that have been contributing to cashflow. The partnership is also well positioned to generate additional cashflow from under-construction growth capital projects worth \$7.7 billion. However, the partnership has a considerably lower liquidity profile and huge debt load. Also, the partnership's ability to pay off a portion of total long-term debt is in question since the partnership is witnessing a declining trend in times interest earned ratio.

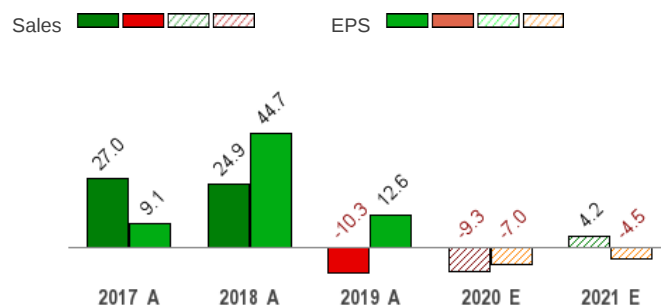
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.87 - \$10.27
20 Day Average Volume (sh)	7,417,043
Market Cap	\$44.6 B
YTD Price Change	-27.6%
Beta	1.46
Dividend / Div Yld	\$1.78 / 8.7%
Industry	Oil and Gas - Production Pipeline - MLB
Zacks Industry Rank	Top 31% (79 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.3%
Last Sales Surprise	-9.9%
EPS F1 Est- 4 week change	2.3%
Expected Report Date	07/29/2020
Earnings ESP	0.9%
P/E TTM	9.3
P/E F1	10.2
PEG F1	2.6
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,606 E	7,370 E	7,658 E	8,229 E	31,006 E
2020	7,483 A	6,834 E	7,222 E	7,606 E	29,746 E
2019	8,544 A	8,276 A	7,964 A	8,005 A	32,789 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.45 E	\$0.45 E	\$0.47 E	\$0.49 E	\$1.91 E
2020	\$0.61 A	\$0.45 E	\$0.46 E	\$0.48 E	\$2.00 E
2019	\$0.57 A	\$0.55 A	\$0.50 A	\$0.54 A	\$2.15 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/04/2020. The reports text is as of 06/05/2020.

Overview

Headquartered in Houston, TX, Enterprise Products Partners is among the leading midstream energy players in North America. With its wide base of midstream infrastructure assets, the partnership provides services to producers and consumers of commodities that include natural gas, natural gas liquids (NGL), oil and refined petrochemical products. It was formed in April 1998.

Enterprise Products has an extensive network of pipeline that spreads across 50,000 miles. The pipelines carry natural gas, NGL, crude oil and refined products. The storage assets have the capacity to store 14 billion cubic feet (Bcf) of natural gas along with 260 million barrels (MMBbls) of NGL, refined products and crude. The partnership's assets include 26 processing plants of natural gas along with 23 NGL and propylene fractionators.

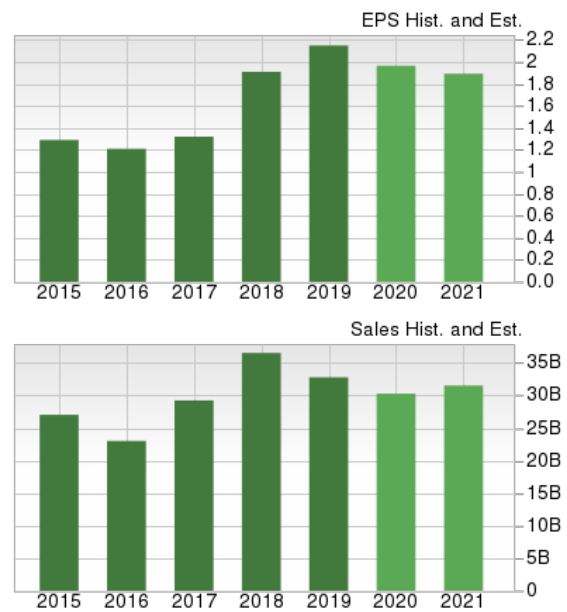
Enterprise divides its operations into four segments: NGL Pipelines & Services, Crude Oil Pipelines & Services, Natural Gas Pipelines & Services and Petrochemical & Refined Products Services.

NGL Pipelines & Services (the segment accounted for 49.1% of 2019 gross operating income): This segment incorporates 26 natural gas processing plants and around 19,200 miles of NGL pipelines. It also owns 16 NGL fractionators and LPG and ethane export terminals.

Crude Oil Pipelines & Services: (25.2%) This segment includes about 5,300 miles of crude oil pipelines, several crude oil storage and marine terminals. Through this segment, the partnership performs various crude oil marketing activities. It has 28.2 million barrels of operational storage capacity.

Natural Gas Pipelines & Services: (12.8%) It includes around 19,700 miles of natural gas pipeline systems as well as related marketing activities.

Petrochemical & Refined Products Services: (12.9%) This segment incorporates propylene production facilities, around 800 miles of pipelines. It also owns a butane isomerization complex and almost 70 miles of associated pipelines. Notably, the segment has refined products pipelines of 4,100 miles and marine transportation activities.



Reasons To Buy:

- ▲ Enterprise Products has an extensive network of pipeline that spreads over nearly 50,000 miles. The pipelines carry natural gas, NGL, crude oil and refined products. Most importantly, the partnership's midstream properties are linked to all prospective shale plays in the United States that are rich in natural gas and oil. These extensive networks of pipelines provide it with stable fee-based revenues.
- ▲ Almost 80% of the Enterprise Products' pipeline contracts with shippers have been extended for 15 to 20 years, which should help the partnership generate steady cashflow for unit holders. Notably, the integrated midstream energy firm's businesses are not limited to connecting producers and consumers of hydrocarbons. In fact, Enterprise Products is expanding its midstream operations to capitalize on the growing feedstock demand in the petrochemical plants of domestic and international markets.
- ▲ Since its IPO in 1998, Enterprise Products has invested a hefty sum of \$26 billion in major acquisitions. The partnership has spent another \$42 billion for its organic growth projects that have been contributing to cashflow. The partnership is also well positioned to generate additional cashflow from under-construction growth capital projects worth \$7.7 billion.
- ▲ The partnership is strongly committed to returning cash to shareholders. After raising distributions over more than 21 years, the partnership is well poised to continue to hike distributions in the coming years, backed by a stable business model. Also, with lower payout ratio as compared to the industry, the partnership's distribution payments seem sustainable.

Enterprise Products is well positioned to generate cashflow from growth capital projects.

Reasons To Sell:

- ▼ The partnership has lowered its 2020 growth capital budget by roughly \$1 billion to a band of \$2.5 billion to \$3 billion. The partnership has also slashed 2020 sustaining capital expenditure guidance from \$400 million to \$300 million. With lower spending on growth projects, the partnership is likely to miss the opportunity of earning incremental fee-based revenues.
- ▼ In the March quarter of 2020, Enterprise Products' outstanding total debt principal increased by \$2 billion to \$29.9 billion. In comparison, consolidated liquidity amounted to only \$7 billion, which included unrestricted cash on hand and available borrowing capacity. Hence, a considerably lower liquidity profile and huge debt load reflect balance sheet weakness. Also, the partnership's ability to pay off a portion of total long-term debt of \$27.9 billion is in question since it is witnessing a declining trend in times interest earned ratio.
- ▼ The threat to economic growth, owing to the coronavirus pandemic, might hurt demand for crude, natural gas liquids and refined petroleum products. This may lower the partnership's cash flow generation from its export facilities.
- ▼ Lower margins from Midland-to-ECHO 1 pipeline system are affecting the partnership's Crude Oil Pipelines & Services business segment.

The partnership's levered balance sheet can restrict its financial flexibility.

Last Earnings Report

Enterprise Products Q1 Earnings Beat, Capex View Cut

Enterprise Products Partners reported first-quarter 2020 adjusted earnings per limited partner unit of 61 cents, beating the Zacks Consensus Estimate of 52 cents. The bottom line also increased from 57 cents per unit in the year-ago quarter.

Revenues declined to \$7,483 million from \$8,544 million in the prior-year quarter. The top line also missed the consensus estimate of \$8,304 million.

The strong first-quarter earnings were supported by higher pipeline transportation volumes of NGL and contributions from the Permian Basin natural gas gathering system. The positives were partially offset by lower margins from Midland-to-ECHO 1 pipeline system.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	-9.90%
EPS Surprise	17.31%
Quarterly EPS	0.61
Annual EPS (TTM)	2.20

Segmental Performance

Gross operating income at **NGL Pipelines & Services** increased from \$959.2 million in the year-ago quarter to \$1,042 million on higher pipeline transportation and fractionation volumes of NGL.

Natural Gas Pipelines and Services' gross operating income increased to \$283.8 million from \$264.3 million in the year-ago quarter. Contributions from the partnership's Permian Basin natural gas gathering system aided the segment, partly offset by lower natural gas transportation volumes.

Crude Oil Pipelines & Services recorded gross operating income of \$452.9 million, which declined from \$662.3 million in the prior-year quarter owing to lower margins from Midland-to-ECHO 1 pipeline system.

Gross operating income at **Petrochemical & Refined Products Services** amounted to \$278.5 million compared with \$242.6 million a year ago backed by higher propylene production volumes.

DCF & Unit Repurchase

Quarterly distribution improved 1.7% year over year to 44.50 cents per common unit or \$1.78 per unit on an annualized basis.

Adjusted distributable cash flow was \$1,553.6 million, down 4.6% year over year, and provided coverage of 1.6x. Notably, the partnership retained \$574 million of distributable cash flow in the first quarter. It bought back around 6.4 million units for \$140 million in the first quarter.

Financials

During the quarter, the partnership's capital expenditure was \$1,079.5 million.

As of Mar 31, 2020, its outstanding total debt principal was \$29.9 billion. Enterprise Products' consolidated liquidity amounted to \$7 billion, which included unrestricted cash on hand and available borrowing capacity.

Outlook

The partnership has lowered its 2020 growth capital budget by roughly \$1 billion to a band of \$2.5 billion to \$3 billion. The partnership has also slashed 2020 sustaining capital expenditure guidance from \$400 million to \$300 million.

Moreover, Enterprise Products projects growth capital spending for 2021 and 2022 at \$2.5 billion and \$1.5 billion, respectively, considering the sanctioned projects.

Valuation

Enterprise Products shares are down 24.6% in the year-to-date period and 22.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 46.0% and 41.6%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 48.2% and 44.8%, respectively.

The S&P 500 index is down 2.1% in the year-to-date period, but up 11.5% in the past year.

The stock is currently trading at 10.54X forward 12-month earnings, which compares to 9.55X for the Zacks sub-industry, 67.63X for the Zacks sector and 22.48X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.63X and as low as 5.6X, with a 5-year median of 17.11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$22 price target reflects 9.72X F12M earnings.

The table below shows summary valuation data for EPD.

Valuation Multiples - EPD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.54	9.55	67.63	22.48
	5-Year High	22.63	22.25	67.63	22.48
	5-Year Low	5.6	5.55	11.27	15.23
	5-Year Median	17.11	14.74	18.43	17.49
EV/EBITDA TTM	Current	9.01	8.28	4.2	11.51
	5-Year High	17.31	17.7	10.43	12.86
	5-Year Low	6.68	6.7	3.02	8.26
	5-Year Median	14.51	13.39	6.5	10.81
P/S F12M	Current	1.45	0.72	0.79	3.5
	5-Year High	2.56	1.62	1.46	3.5
	5-Year Low	0.76	0.41	0.58	2.53
	5-Year Median	1.73	1.04	0.99	3.02

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Top 31% (79 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Crestwood Equity Partners LP (CEQP)	Neutral	3
Delek Logistics Partners, L.P. (DKL)	Neutral	2
Enable Midstream Partners, LP (ENBL)	Neutral	3
Energy Transfer LP (ET)	Neutral	3
Magellan Midstream Partners, L.P. (MMP)	Neutral	2
Plains All American Pipeline, L.P. (PAA)	Neutral	3
MPLX LP (MPLX)	Underperform	3
NuStar Energy L.P. (NS)	Underperform	5

Industry Comparison Industry: Oil And Gas - Production Pipeline - MLb				Industry Peers		
	EPD	X Industry	S&P 500	ET	MMP	PAA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	A	-	-	A	B	A
Market Cap	44.59 B	1.65 B	22.58 B	23.72 B	10.61 B	7.91 B
# of Analysts	8	3	14	4	4	4
Dividend Yield	8.73%	10.02%	1.87%	13.83%	8.72%	6.63%
Value Score	B	-	-	A	C	A
Cash/Price	0.05	0.05	0.06	0.01	0.01	0.02
EV/EBITDA	8.87	8.46	12.93	7.01	10.04	6.06
PEG Ratio	2.55	0.89	3.06	NA	NA	NA
Price/Book (P/B)	1.71	1.71	3.09	0.73	4.22	1.06
Price/Cash Flow (P/CF)	6.69	4.38	12.17	3.29	8.06	2.97
P/E (F1)	10.20	9.96	22.17	17.47	12.69	8.24
Price/Sales (P/S)	1.41	1.31	2.41	0.45	3.68	0.24
Earnings Yield	9.80%	8.53%	4.27%	5.67%	7.87%	-30.20%
Debt/Equity	1.07	1.44	0.76	1.57	1.69	1.32
Cash Flow (\$/share)	3.05	2.86	7.01	2.68	5.85	3.66
Growth Score	A	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	15.02%	5.73%	10.87%	5.73%	8.32%	20.22%
Proj. EPS Growth (F1/F0)	-6.92%	-7.56%	-10.79%	-62.87%	-21.95%	-230.68%
Curr. Cash Flow Growth	10.65%	10.65%	5.48%	41.31%	8.14%	27.46%
Hist. Cash Flow Growth (3-5 yrs)	10.23%	9.39%	8.55%	22.26%	7.30%	9.72%
Current Ratio	1.12	1.02	1.29	0.83	0.37	0.91
Debt/Capital	51.61%	61.11%	44.75%	61.11%	62.80%	50.17%
Net Margin	14.75%	14.24%	10.59%	3.54%	38.20%	-4.90%
Return on Equity	18.93%	18.47%	16.26%	10.30%	43.14%	19.57%
Sales/Assets	0.52	0.35	0.55	0.56	0.35	1.24
Proj. Sales Growth (F1/F0)	-9.28%	-4.60%	-2.61%	-4.16%	-5.05%	-7.60%
Momentum Score	A	-	-	A	A	D
Daily Price Chg	1.49%	2.10%	-0.08%	3.40%	2.10%	3.43%
1 Week Price Chg	2.25%	0.97%	4.60%	-0.49%	2.21%	-0.51%
4 Week Price Chg	18.33%	21.27%	12.07%	17.76%	14.50%	37.29%
12 Week Price Chg	43.06%	43.06%	25.17%	40.00%	24.08%	70.75%
52 Week Price Chg	-27.71%	-37.58%	0.34%	-37.58%	-25.27%	-52.84%
20 Day Average Volume	7,417,043	866,049	2,537,324	26,325,038	903,845	4,293,578
(F1) EPS Est 1 week change	1.78%	0.00%	0.00%	0.06%	2.78%	0.00%
(F1) EPS Est 4 week change	2.30%	0.10%	-0.08%	-3.44%	1.60%	-7.18%
(F1) EPS Est 12 week change	-8.71%	-14.89%	-16.19%	-16.83%	-15.13%	-19.96%
(Q1) EPS Est Mthly Chg	1.97%	-9.01%	0.00%	0.32%	8.64%	-21.84%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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