Enterprise Products(EPD)

$23.67 (As of 03/05/20)

Price Target (6-12 Months): **$26.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/24/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: C | Momentum: C	

Summary

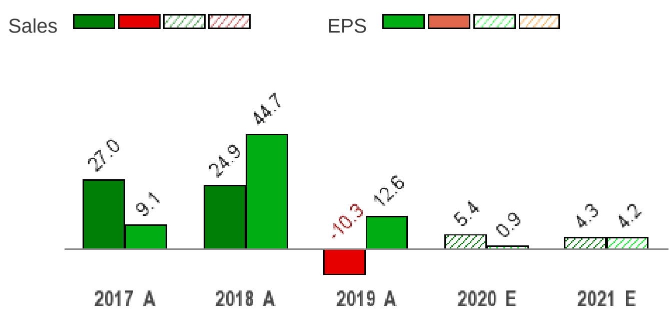
Enterprise Products boasts an extensive network of pipeline that spreads across nearly 50,000 miles and connects to every major U.S. shale play. This secures stable fee-based revenues for the partnership. Notably, it is well positioned to generate incremental cash flow from $3.1 billion worth of growth projects that are expected to come online in 2020. Its Midland & ECHO storage expansions will increase Permian footprint. However, its balance sheet is more levered than the sector. Its debt to capitalization ratio of more than 50% is much higher than the Zacks Oils-Energy sector's average of 31%. Moreover, the stock's distribution yield is much lower than the industry it belongs to. Also, the global market is likely to generate lower refined products' demand hurting exports. As such, the stock warrants a cautious stance.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$30.87 - $21.95**
20 Day Average Volume (sh)	**7,602,290**
Market Cap	**$51.8 B**
YTD Price Change	**-16.0%**
Beta	**0.95**
Dividend / Div Yld	**$1.78 / 7.5%**
Industry	**Oil and Gas - Production Pipeline - MLB**
Zacks Industry Rank	**Top 42% (106 out of 255)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**0.4%**
EPS F1 Est- 4 week change	**0.1%**
Expected Report Date	**05/06/2020**
Earnings ESP	**0.8%**
P/E TTM	**11.0**
P/E F1	**10.9**
PEG F1	**2.7**
P/S TTM	**1.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	9,086 E	8,914 E	8,895 E	9,727 E	36,044 E
2020	8,305 E	8,307 E	8,633 E	9,065 E	34,553 E
2019	8,544 A	8,276 A	7,964 A	8,005 A	32,789 A

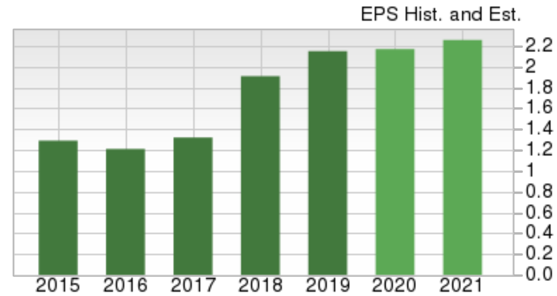
EPS Estimates

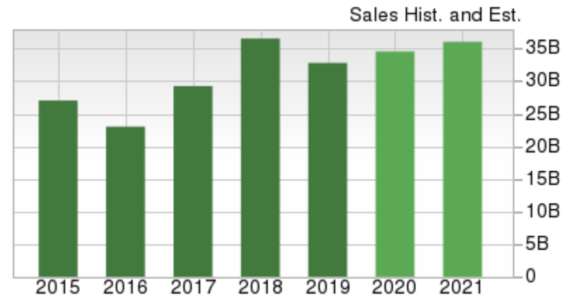
	Q1	Q2	Q3	Q4	Annual*
2021	$0.56 E	$0.56 E	$0.56 E	$0.62 E	$2.26 E
2020	$0.53 E	$0.53 E	$0.55 E	$0.57 E	$2.17 E
2019	$0.57 A	$0.55 A	$0.50 A	$0.54 A	$2.15 A

*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 03/05/2020. The reports text is as of 03/06/2020.

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 is well positioned to generate cashflow from growth capital projects.

- 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 growth capital projects of $3.1 billion that are expected to come online in 2020. The Midland & ECHO storage expansions will increase its Permian footprint.

- After raising distributions over more than 20 years, the partnership is planning to hike payments by 2.3% through 2020. Notably, the partnership intends to repurchase units in 2020 using a portion of its cash flow from operations. The distribution hike and unit buyback will likely lead to a 5.6% increase in returned capital to limited partners from 2019 levels.

Reasons To Sell:

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

- Lower processing margins, natural gas transportation and propylene production affected Enterprise Products' profits through the December quarter of 2019. The partnership was also hurt by lower refined products pipeline transportation volumes and decreased Rocky Mountain gas precessing volumes.

- Over the past few years, the partnership's debt-to-capitalization ratio of 50.1% has been consistently higher than the overall energy sector's 31%. This shows that Enterprise's balance sheet is more levered than the sector which can restrict the partnership's financial flexibility.

- With the phase-one trade agreement solving a few concerns for the United States, there are many more to be addressed. which raise the possibility of an escalation of the trade war. The threat to economic growth 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.

- Although Enterprise Products is strongly committed to returning capital to stockholders, the partnership's distribution yield is much lower than the industry it belongs to.

Last Earnings Report

Enterprise Products' Q4 Earnings Meet Estimates, Declines Y/Y

Quarter Ending	12/2019
Report Date	Jan 30, 2020
Sales Surprise	0.40%
EPS Surprise	0.00%
Quarterly EPS	0.54
Annual EPS (TTM)	2.16

Enterprise Products reported fourth-quarter 2019 adjusted earnings per limited partner unit of 54 cents, in line with the Zacks Consensus Estimate. The bottom line declined from 59 cents per unit in the year-ago quarter.

Revenues declined to $8,005.3 million from $9,182.3 million in the prior-year quarter. However, the top line beat the consensus estimate of $7,973 million.

The fourth-quarter results were supported by higher sales volumes, and margins from the NGL Pipelines & Services business. Increased crude oil transportation volumes also aided the results. This was partially offset by lower natural gas transportation volumes and decreased operating margin from the propylene business.

Notably, in 2019, the partnership had completed construction and brought online around $5.4 billion of organic growth capital projects.

Segmental Performance

Gross operating income at **NGL Pipelines & Services** increased from $969 million in the year-ago quarter to $1,136 million. The upside can be attributed to higher sales volumes and average margins. A 31% increase in LPG export loadings, supported by the Enterprise Hydrocarbons Terminal expansion, aided the segment. This was partially offset by lower margins from the natural gas processing business.

Natural Gas Pipelines and Services' gross operating income fell to $238 million from $263 million in the year-ago quarter. The downside was caused by lower natural gas transportation volumes. The partnership's Rocky Mountain gathering systems reported lower margins in the quarter.

Crude Oil Pipelines & Services recorded gross operating income of $416.1 million, which declined from $644.3 million in the prior-year quarter on the back of lower sales margins. This was partially offset by higher crude oil transportation volumes.

Gross operating income at **Petrochemical & Refined Products Services** amounted to $233.7 million compared with $254.7 million a year ago. The decline was primarily caused by lower pipeline transportation volumes. Lower operating margin from the propylene business affected the segment.

DCF & Unit Repurchase

Quarterly distribution improved 2.3% year over year to 44.50 cents per common unit or $1.78 per unit on an annualized basis. This marks the 62 nd consecutive quarterly increase of distribution.

Adjusted distributable cash flow was $1.6 billion, up 12% year over year, and provided coverage of 1.7x. Notably, the partnership retained $654 million of distributable cash flow in the fourth quarter. It bought back around 2.2 million units for $58 million in the fourth quarter.

Financials

During the quarter, the partnership's capital expenditure was $1,229.6 million.

As of Dec 31, 2019, its outstanding total debt principal was $27.9 billion. Enterprise Products' consolidated liquidity amounted to $4.9 billion, which included unrestricted cash on hand and available borrowing capacity.

Outlook

Enterprise Products expects to complete the construction of growth developments worth $3.1 billion through 2020. The projects include two NGL fractionators in the Mont Belvieu region and a third crude oil pipeline connecting the Permian Basin to Houston, TX.

It plans to further increase 2020 distribution by 2.3% from 2019 levels. The partnership also intends to repurchase units in 2020 using a portion of its cash flow from operations. The distribution hike and unit buyback will likely lead to a 5.6% increase in returned capital to limited partners from 2019 levels.

Recent News

Enterprise Products Brings Mentone Natural Gas Unit Online – Jan 21, 2020

Enterprise Products Partners announced the coming online of the Mentone cryogenic natural gas processing plant in the Permian Basin. The facility is located in the Loving County of Texas that marks the seventh natural gas processing unit of the partnership in the Delaware Basin, a part of the famous Permian.

About the New Facility

The plant — supported by a long-term acreage dedication agreement — has a natural gas processing capacity of 300 million cubic feet per day (Cf/d) and natural gas liquids (NGL) extraction capability of more than 40,000 barrels per day (BPD).

Since the start of the unit, Enterprise Products has a total natural gas processing capacity and NGL extraction capability of more than 1.6 billion Bcf/d and 250,000 BPD, respectively, in the Permian basin.

Creating Value

Natural gas comes as a by-product in the prolific Permian Basin. Discouragingly, the surge of the commodity has led to significant flaring problem. Markedly, natural gas and NGL production is expected to surge more than 60% in the coming five years. With the commencement of this facility, producers will be able to increase the commercialization of their products. Also, the facility will provide local producers with an integrated midstream network of the partnership, which will enable their products to reach both the domestic and international markets.

Additionally, Enterprise Products has developed 66-mile large-diameter gathering and residue pipelines, which connect Mentone to the partnership's natural gas pipeline networks. Investors should know that the partnership is building a 300,000-BPD NGL fractionation capacity in its complex in Mont Belvieu, TX. This will meet the needs of rising production in the region.

Valuation

Enterprise Products shares are down 16% in the year-to-date period and 16.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 15.5% and 20.3%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 21.7% and 26.5%, respectively.

The S&P 500 index is down 3.1% in the year-to-date period and 12.6% in the past year.

The stock is currently trading at 10.83X forward 12-month earnings, which compares to 9.87X for the Zacks sub-industry, 12.29X for the Zacks sector and 17.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.58X and as low as 10.48X, with a 5-year median of 17.42X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $26 price target reflects 11.90X 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	10.83	9.87	12.29	17.89
	5-Year High	24.58	23.62	32.4	19.34
	5-Year Low	10.48	9.87	11.27	15.18
	5-Year Median	17.42	15.39	18.49	17.46
EV/EBITDA TTM	Current	9.73	9.55	4.38	10.93
	5-Year High	18.21	18.25	10.26	12.88
	5-Year Low	9.73	9.43	4.38	8.49
	5-Year Median	14.7	13.45	6.52	10.79
P/S F12M	Current	1.49	0.78	0.72	3.3
	5-Year High	2.56	1.62	1.45	3.43
	5-Year Low	1.09	0.78	0.67	2.54
	5-Year Median	1.73	1.06	0.99	3.01

As of 03/05/2020

Industry Analysis **Zacks Industry Rank:** Top 42% (106 out of 255)

Top Peers

NuStar Energy L.P. **(NS)**	Outperform
Crestwood Equity Partners LP **(CEQP)**	Neutral
Enable Midstream Partners, LP **(ENBL)**	Neutral
Energy Transfer LP **(ET)**	Neutral
Magellan Midstream Partners, L.P. **(MMP)**	Neutral
MPLX LP **(MPLX)**	Neutral
Plains All American Pipeline, L.P. **(PAA)**	Neutral
Delek Logistics Partners, L.P. **(DKL)**	Underperform

Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb

Industry Peers

	EPD Neutral	X Industry	S&P 500	ET Neutral	MMP Neutral	PAA Neutral
VGM Score	B	-	-	A	D	B
Market Cap	51.82 B	1.83 B	21.47 B	30.26 B	12.52 B	9.54 B
# of Analysts	9	3	13	9	7	10
Dividend Yield	7.52%	11.16%	2.04%	10.84%	7.48%	10.99%
Value Score	B	-	-	A	D	A
Cash/Price	0.02	0.02	0.05	0.01	0.00	0.01
EV/EBITDA	10.61	8.15	12.81	7.61	11.77	6.52
PEG Ratio	2.73	4.10	1.88	NA	NA	NA
Price/Book (P/B)	2.01	2.01	2.95	0.87	4.62	0.87
Price/Cash Flow (P/CF)	7.76	4.53	11.75	4.20	9.40	3.58
P/E (F1)	10.91	9.46	17.19	8.23	11.98	7.52
Price/Sales (P/S)	1.58	1.15	2.32	0.56	4.59	0.28
Earnings Yield	9.17%	9.36%	5.81%	12.18%	8.35%	13.28%
Debt/Equity	0.99	1.33	0.70	1.51	1.79	0.88
Cash Flow ($/share)	3.05	2.86	7.01	2.68	5.85	3.66
Growth Score	C	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	13.09%	7.92%	10.85%	8.79%	7.92%	13.05%
Proj. EPS Growth (F1/F0)	0.93%	0.00%	6.27%	0.49%	-3.60%	-30.64%
Curr. Cash Flow Growth	10.65%	10.65%	6.07%	41.31%	8.14%	27.46%
Hist. Cash Flow Growth (3-5 yrs)	9.38%	9.55%	8.52%	22.26%	7.30%	9.72%
Current Ratio	0.86	0.96	1.23	1.02	0.69	0.92
Debt/Capital	49.82%	55.45%	42.57%	60.12%	64.11%	42.05%
Net Margin	14.00%	14.59%	11.69%	6.62%	37.42%	6.45%
Return on Equity	18.88%	16.14%	16.66%	11.85%	40.94%	19.20%
Sales/Assets	0.55	0.34	0.54	0.58	0.33	1.20
Proj. Sales Growth (F1/F0)	5.38%	4.00%	3.90%	7.72%	5.18%	2.82%
Momentum Score	C	-	-	F	F	C
Daily Price Chg	-1.66%	-3.61%	-3.79%	-2.51%	-3.61%	-4.66%
1 Week Price Chg	-10.06%	-10.77%	-12.06%	-8.73%	-9.76%	-13.70%
4 Week Price Chg	-8.11%	-21.08%	-10.92%	-11.49%	-7.54%	-21.08%
12 Week Price Chg	-15.95%	-21.80%	-8.10%	-11.00%	-11.99%	-25.78%
52 Week Price Chg	-16.12%	-25.10%	4.09%	-25.10%	-8.73%	-45.35%
20 Day Average Volume	7,602,290	417,570	2,483,920	25,788,958	1,547,712	5,262,638
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.28%	0.00%	-0.26%
(F1) EPS Est 4 week change	0.10%	0.10%	-0.06%	-2.30%	-1.04%	16.08%
(F1) EPS Est 12 week change	-1.59%	-1.59%	-0.42%	-4.43%	-2.05%	-3.55%
(Q1) EPS Est Mthly Chg	1.75%	-1.54%	-0.29%	-1.60%	0.00%	2.28%

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	C
Momentum Score	C
VGM Score	B

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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