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Aug 06, 2020

Enterprise Products(EPD)

$17.59 (As of 08/05/20)

Price Target (6-12 Months): **$19.00**

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:A
	Value: B | Growth: B | Momentum: A	

Summary

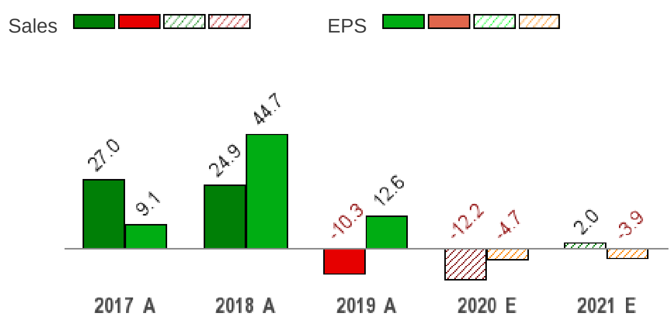
Enterprise Products boasts an extensive network of pipeline that spreads across nearly 50,000 miles and connects to every major U.S. shale play. This secures stable fee-based revenues for the partnership. Notably, the partnership is well positioned to generate additional cashflow from under-construction growth capital projects worth $6.9 billion. Enterprise recently reported better-than-expected earnings for the second quarter, thanks to higher marine terminal volumes of NGL & increased margins from uncontracted storage capacity. The positives were partially offset by lower natural gas pipeline transportation volumes and decreased propylene production. Also, the partnership's ability to pay off a portion of total long-term debt is in question since its results for the past few quarters show weakness, particularly, in terms of revenues.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$29.56 - $10.27**
20 Day Average Volume (sh)	**7,677,841**
Market Cap	**$38.4 B**
YTD Price Change	**-37.5%**
Beta	**1.41**
Dividend / Div Yld	**$1.78 / 10.1%**
Industry	**Oil and Gas - Production Pipeline - MLB**
Zacks Industry Rank	**Bottom 32% (171 out of 253)**
Last EPS Surprise	**2.2%**
Last Sales Surprise	**-17.4%**
EPS F1 Est- 4 week change	**1.7%**
Expected Report Date	**10/26/2020**
Earnings ESP	**0.2%**
P/E TTM	**8.3**
P/E F1	**8.6**
PEG F1	**2.2**
P/S TTM	**1.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	7,044 E	6,748 E	6,955 E	7,408 E	29,385 E
2020	7,483 A	5,751 A	6,614 E	6,968 E	28,803 E
2019	8,544 A	8,276 A	7,964 A	8,005 A	32,789 A

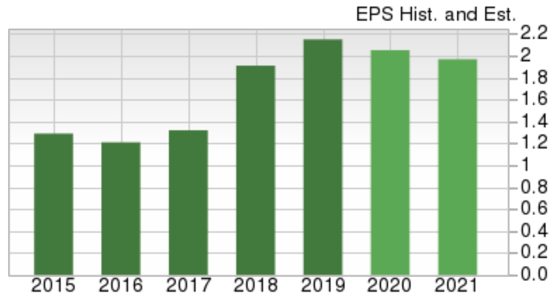
EPS Estimates

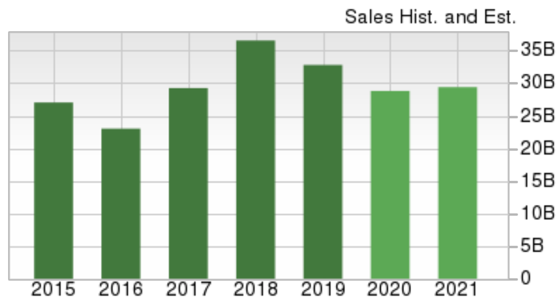
	Q1	Q2	Q3	Q4	Annual*
2021	$0.47 E	$0.47 E	$0.48 E	$0.50 E	$1.97 E
2020	$0.61 A	$0.47 A	$0.49 E	$0.49 E	$2.05 E
2019	$0.57 A	$0.55 A	$0.50 A	$0.54 A	$2.15 A

*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 08/05/2020. The reports text is as of 08/06/2020.

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 under-construction growth capital projects worth $6.9 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.

Reasons To Sell:

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

- 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 lowered growth capital investment projections for 2021 and 2022 to $2.3 billion and $1 billion, respectively, from the earlier projections. With lower spending on growth projects, the partnership is likely to miss the opportunity of earning incremental fee-based revenues.
- As of Jun 30, 2020, its outstanding total debt principal was $29.9 billion. In comparison, Enterprise Products' consolidated liquidity amounted to $7.3 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 is in question since its results for the past few quarters show weakness, particularly, in terms of revenues.
- 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 natural gas pipeline transportation volumes and decreased propylene production volumes are affecting the partnership's overall business.

Last Earnings Report

Enterprise Products Q2 Earnings Top Estimates, Fall Y/Y

Quarter Ending	06/2020
Report Date	Jul 29, 2020
Sales Surprise	-17.40%
EPS Surprise	2.17%
Quarterly EPS	0.47
Annual EPS (TTM)	2.12

Enterprise Productsreported second-quarter 2020 adjusted earnings per limited partner unit of 47 cents, beating the Zacks Consensus Estimate by a penny. The bottom line, however, deteriorated from the year-ago quarter's 55 cents per unit.

Revenues declined to $5,751 million from $8,276 million in the prior-year quarter. The top line also missed the consensus estimate of $6,962 million.

The better-than-expected earnings for the second quarter were supported by higher marine terminal volumes of NGL and increased margins from uncontracted storage capacity. The positives were partially offset by lower natural gas pipeline transportation volumes and decreased propylene production volumes

Segmental Performance

Gross operating income at **NGL Pipelines & Services** increased from $966.3 million in the year-ago quarter to $968.1 million on higher marine terminal volumes of NGL.

Natural Gas Pipelines and Services' gross operating income decreased to $208.9 million from $301.8 million in the year-ago quarter. The downsize is owing to lower natural gas pipeline transportation volumes.

Crude Oil Pipelines & Services recorded gross operating income of $634.4 million, which increased from $513.2 million in the prior-year quarter owing to an increase in margins from uncontracted storage capacity.

Gross operating income at **Petrochemical & Refined Products Services** amounted to $191.5 million compared with $304.9 million a year ago. The underperformance was owing to the decrease in propylene production volumes.

DCF

Quarterly distribution improved 1.1% year over year to 44.50 cents per common unit or $1.78 per unit on an annualized basis.

Adjusted distributable cash flow was $1,577 million, down 8.4% year over year, and provided coverage of 1.6x. Notably, the partnership retained $597 million of distributable cash flow in the second quarter.

Financials

During the quarter, the partnership's capital expenditure was $910 million.

As of Jun 30, 2020, its outstanding total debt principal was $29.9 billion. Enterprise Products' consolidated liquidity amounted to $7.3 billion, which included unrestricted cash on hand and available borrowing capacity.

Outlook

The partnership foresees investment of roughly $2.5 billion to $3 billion for growth capital project for 2020. The partnership expects its sustaining capital expenditures for 2020 at $300 million. Moreover, Enterprise Products lowered growth capital investment projections for 2021 and 2022 to $2.3 billion and $1 billion, respectively, from the earlier projections.

Recent News

Enterprise Products Grabs New Long-Term Propylene Supply Deal – Jul 30, 2020

Enterprise Productsrecently carried out a long-term polymer grade propylene agreement with Japan's Marubeni Corporation. Enterprise Products' second propane dehydrogenation plant near Mont Belvieu, TX — which is currently under construction — will likely be the source of supply to Japan's olefins trader.

The second plant is expected to be capable of upgrading 35,000 barrels per day (bpd) of propane into 25,000 bpd of polymer grade propylene. This is likely to lead to production of 1.65 billion pounds of polymer grade propylene per annum. The petrochemical has massive global demand as a feedstock for the production of consumer, medical and industrial products. This unit is expected to come online in second-quarter 2023.

Once the project construction is completed, Enterprise Products will have a total output capacity of up to 11 billion pounds of polymer grade propylene per annum and the plant will be the largest production complex on a global basis. Seven propylene fractionators will produce around 8 billion pounds of polymer grade propylene per year, while two propane dehydrogenation plants will produce 3 billion pounds of polymer grade propyleneper annum.

The partnership's polymer grade propylene network incorporates delivery pipelines of more than 300 miles, 26 connections and in excess of 5 million barrels of storage capacity. It also has an export terminal on the Houston Ship Channel. The latest deal with Marubeni should help the partnership generate steady cash flow in the long term.

Valuation

Enterprise Products shares are down 37.5% in the year-to-date period and 38.1% 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 up 2.7% in the year-to-date period and 14.9% in the past year.

The stock is currently trading at 8.82X forward 12-month earnings, which compares to 7.87X for the Zacks sub-industry, 30.5X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.6X and as low as 5.6X, with a 5-year median of 16.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $19 price target reflects 9.64X F12M earnings.

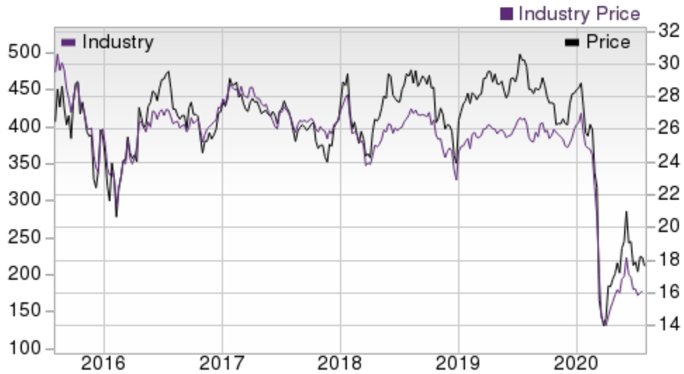
The table below shows summary valuation data for EPD.

Valuation Multiples - EPD

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.82	7.87	30.5	22.58
	5-Year High	22.6	20.17	60.98	22.58
	5-Year Low	5.6	5.55	11.32	15.25
	5-Year Median	16.9	14.6	18.64	17.55
EV/EBITDA TTM	Current	8.42	7.64	4.08	12.8
	5-Year High	16.9	16.22	10.42	12.85
	5-Year Low	6.68	6.7	3.04	8.24
	5-Year Median	14.39	13.32	6.46	10.89
P/S F12M	Current	1.32	0.64	0.72	3.63
	5-Year High	2.56	1.62	1.46	3.63
	5-Year Low	0.78	0.41	0.59	2.53
	5-Year Median	1.73	1.03	0.99	3.04

As of 08/05/2020

Industry Analysis **Zacks Industry Rank:** Bottom 32% (171 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Crestwood Equity Partners LP **(CEQP)**	Neutral	4
Delek Logistics Partners, L.P. **(DKL)**	Neutral	1
Energy Transfer LP **(ET)**	Neutral	3
Magellan Midstream Partners, L.P. **(MMP)**	Neutral	3
MPLX LP **(MPLX)**	Neutral	3
NuStar Energy L.P. **(NS)**	Neutral	4
Plains All American Pipeline, L.P. **(PAA)**	Neutral	3
Enable Midstream Partners, LP **(ENBL)**	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	3	3
VGM Score	A	-	-	B	C	A
Market Cap	38.45 B	1.44 B	22.93 B	19.23 B	9.17 B	5.78 B
# of Analysts	8	3	14	4	2	4
Dividend Yield	10.12%	10.52%	1.76%	17.06%	10.08%	9.07%
Value Score	B	-	-	A	C	A
Cash/Price	0.05	0.05	0.07	0.01	0.02	0.03
EV/EBITDA	8.10	7.21	13.16	6.59	9.50	5.41
PEG Ratio	2.15	0.72	2.99	NA	NA	NA
Price/Book (P/B)	1.47	1.80	3.20	0.59	3.74	0.78
Price/Cash Flow (P/CF)	5.77	4.20	12.45	2.67	6.97	2.17
P/E (F1)	8.58	8.58	21.78	7.86	11.40	5.33
Price/Sales (P/S)	1.32	1.21	2.47	0.42	3.47	0.20
Earnings Yield	11.65%	9.80%	4.33%	12.73%	8.78%	-36.90%
Debt/Equity	1.07	1.57	0.77	1.57	2.01	1.32
Cash Flow ($/share)	3.05	2.86	6.94	2.68	5.85	3.66
Growth Score	B	-	-	C	C	A
Hist. EPS Growth (3-5 yrs)	16.11%	5.73%	10.46%	5.73%	7.97%	20.22%
Proj. EPS Growth (F1/F0)	-4.60%	-5.26%	-7.14%	-33.09%	-24.89%	-216.83%
Curr. Cash Flow Growth	10.65%	10.65%	5.47%	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	1.32	0.83	0.61	0.91
Debt/Capital	51.61%	61.11%	44.59%	61.11%	66.75%	50.17%
Net Margin	15.41%	13.61%	10.15%	2.90%	37.15%	-7.01%
Return on Equity	18.08%	16.01%	14.46%	8.64%	38.93%	16.84%
Sales/Assets	0.47	0.33	0.51	0.48	0.32	1.06
Proj. Sales Growth (F1/F0)	-12.16%	-8.70%	-1.68%	-8.62%	-8.79%	-10.48%
Momentum Score	A	-	-	C	D	A
Daily Price Chg	-1.07%	3.23%	0.59%	3.47%	0.20%	-4.80%
1 Week Price Chg	-2.98%	-0.21%	0.14%	-1.50%	-3.32%	-4.50%
4 Week Price Chg	0.29%	4.09%	5.31%	9.33%	-4.12%	-10.18%
12 Week Price Chg	3.41%	18.50%	19.84%	3.03%	-0.27%	-2.46%
52 Week Price Chg	-38.02%	-45.22%	2.73%	-46.36%	-36.53%	-64.22%
20 Day Average Volume	7,677,841	329,598	2,098,555	21,383,618	1,208,863	4,412,457
(F1) EPS Est 1 week change	0.37%	0.00%	0.00%	0.00%	-5.49%	2.96%
(F1) EPS Est 4 week change	1.74%	1.74%	1.10%	0.27%	-2.66%	8.76%
(F1) EPS Est 12 week change	4.86%	4.86%	1.04%	-4.43%	-1.36%	15.50%
(Q1) EPS Est Mthly Chg	3.82%	0.00%	0.39%	0.00%	-0.23%	-0.44%

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	B
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.

Disclosures

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