

## Enterprise Products(EPD)

**\$27.88** (As of 12/30/19)

Price Target (6-12 Months): **\$30.00**

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:C

Value: C

Growth: B

Momentum: D

### Summary

Enterprise Products boasts an extensive network of pipeline that spreads across nearly 50,000 miles. Importantly, this network is connected to every major U.S. shale play, thereby providing services to producers and users of natural gas, crude oil and refined products. This secures stable fee-based revenues for the partnership. Notably, the partnership is well positioned to generate incremental cash flow from \$9.1 billion worth of midstream growth projects that are currently under construction. However, Enterprise's balance sheet is more levered than the sector. Moreover, the stock's distribution yield is much lower than the industry it belongs to. While the phase-one trade agreement has solved a few concerns for America, re-escalation of the trade war can hurt Enterprise's cash flow from its export facilities.

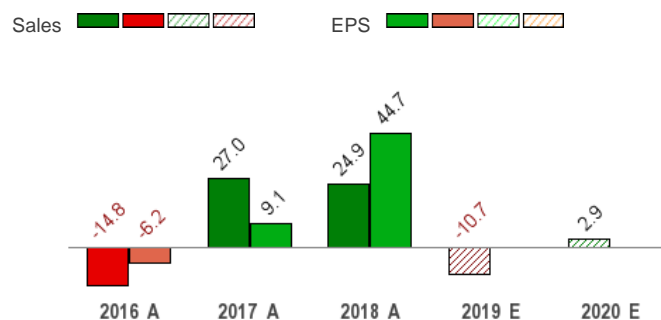
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$30.87 - \$24.01
20 Day Average Volume (sh)	5,671,534
Market Cap	\$61.0 B
YTD Price Change	13.4%
Beta	0.87
Dividend / Div Yld	\$1.77 / 6.3%
Industry	<a href="#">Oil and Gas - Production Pipeline - MLB</a>
Zacks Industry Rank	Top 5% (13 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.7%
Last Sales Surprise	-9.5%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	01/30/2020
Earnings ESP	0.0%
P/E TTM	12.6
P/E F1	13.1
PEG F1	3.3
P/S TTM	1.8

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	8,129 E	8,136 E	8,423 E	8,911 E	33,599 E
2019	8,544 A	8,276 A	7,964 A	8,013 E	32,641 E
2018	9,299 A	8,468 A	9,586 A	9,182 A	36,534 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.54 E	\$0.53 E	\$0.53 E	\$0.55 E	\$2.13 E
2019	\$0.57 A	\$0.55 A	\$0.50 A	\$0.53 E	
2018	\$0.39 A	\$0.46 A	\$0.51 A	\$0.59 A	\$1.91 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 12/30/2019. The reports text is as of 12/31/2019.

## 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.

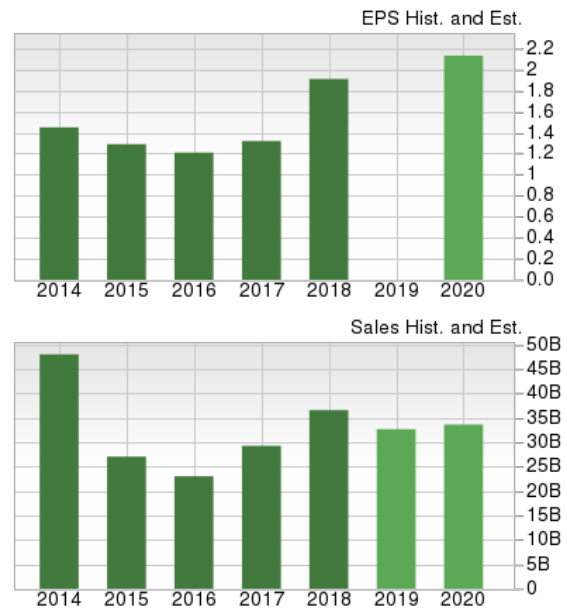
Enterprise divides its operations into four segments: NGL Pipelines & Services, Crude Oil Pipelines & Services, Natural Gas Pipelines & Services and Petrochemical & Refined Products Services.

**NGL Pipelines & Services** (the segment accounted for 49.2% of third-quarter 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:** (24.2%) 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:** (12.6%) It includes around 19,700 miles of natural gas pipeline systems as well as related marketing activities.

**Petrochemical & Refined Products Services:** (14%) 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.



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## 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 growth capital projects of \$9.1 billion that are currently under construction. 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 2019. Notably, third-quarter distribution improved 2.3% to 44.25 cents per common unit or \$1.77 per unit on an annualized basis. It has also announced \$2-billion-unit buyback programs to return more capital to unitholders.

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

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### Reasons To Sell:

- ▼ Lower processing margins, increased NGL Pipelines & Services' operating expenses and a decline in equity NGL production affected Enterprise Products' profits through the September quarter of 2019. The partnership was also hurt by lower product blending revenues and higher operating expenses at the Mont Belvieu NGL fractionators in the third quarter.
  - ▼ Over the past few years, the partnership's debt-to-capitalization ratio of 50.1% has been consistently higher than the overall energy sector. 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.
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The partnership's levered balance sheet can restrict its financial flexibility.

## Last Earnings Report

### Enterprise Products Q3 Earnings & Revenues Miss Estimates

Enterprise Products reported third-quarter 2019 adjusted earnings per limited partner unit of 50 cents, which missed the Zacks Consensus Estimate of 53 cents. The bottom line also declined from 51 cents in the year-ago quarter.

Revenues declined to \$7,964.1 million from \$9,585.9 million in the prior-year quarter. The top line also missed the consensus estimate of \$8,225 million.

The weak results stemmed from lower processing margins, increased NGL Pipelines & Services' operating expenses and lower equity NGL production. This was partially offset by higher natural gas transportation volumes and increased production volumes in the propylene business.

### Distributable Cash Flow

Quarterly distribution improved 2.3% year over year to 44.25 cents per common unit or \$1.77 per unit on an annualized basis. Adjusted distributable cash flow was \$1.6 billion, up 4.7% year over year and provided coverage of 1.7x.

### Segmental Performance

Gross operating income at *NGL Pipelines & Services* decreased from \$1,063.1 million in the year-ago quarter to \$1,008.3 million. The downside can be attributed to lower processing margins, increased operating expenses and lower equity NGL production. This was partially offset by a 47% increase in fee-based processing volumes at the Permian Basin plants.

*Natural Gas Pipelines and Services'* gross operating income jumped to \$258.5 million from \$216.9 million in the year-ago quarter. The upside was supported by a record transportation volume of 14.5 trillion British thermal unit of natural gas per day.

*Crude Oil Pipelines & Services* recorded gross operating income of \$496.2 million, falling from \$594.2 million in the prior-year quarter, which included higher mark-to-market gains on financial instruments.

Gross operating income at *Petrochemical & Refined Products Services* amounted to \$288.4 million compared with \$249.4 million a year ago. The improvement can be primarily attributed to higher gross operating margins and increased production volumes in the propylene business.

### Financials

During the quarter, the partnership's capital expenditure was \$1,041.3 million.

As of Sep 30, 2019, outstanding total debt principal of the partnership was \$28.2 billion. Enterprise Products' consolidated liquidity amounted to \$6.2 billion, which included unrestricted cash on hand of \$1.2 billion and available borrowing capacity.

### Outlook

Enterprise Products expects to complete the construction of growth developments worth \$2.6 billion through the fourth quarter of 2019.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	-9.49%
EPS Surprise	-5.66%
Quarterly EPS	0.50
Annual EPS (TTM)	2.21

## Valuation

Enterprise Products shares are up 13.4% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 4.3% and 1.8%, respectively.

The S&P 500 index is up 27.2% in the past year.

The stock is currently trading at 12.64X forward 12-month earnings, which compares to 11.31X for the Zacks sub-industry, 14.88X for the Zacks sector and 18.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.01X and as low as 11.39X, with a 5-year median of 17.8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$30 price target reflects 13.57X 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	12.64	11.31	14.88	18.76
	5-Year High	25.01	23.71	32.45	19.34
	5-Year Low	11.39	10.66	11.28	15.17
	5-Year Median	17.8	15.56	18.7	17.43
EV/EBITDA TTM	Current	10.8	9.84	5.06	12.01
	5-Year High	18.38	18.25	10.22	12.86
	5-Year Low	10.28	9.44	4.55	8.49
	5-Year Median	14.76	13.63	6.5	10.65
P/S F12M	Current	1.82	0.94	0.89	3.41
	5-Year High	2.56	1.62	1.44	3.41
	5-Year Low	1.09	0.8	0.66	2.54
	5-Year Median	1.72	1.05	0.99	3

As of 12/30/2019

## Industry Analysis Zacks Industry Rank: Top 5% (13 out of 253)



## Top Peers

Delek Logistics Partners, L.P. (DKL)	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
NuStar Energy L.P. (NS)	Neutral
Plains All American Pipeline, L.P. (PAA)	Neutral

Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb				Industry Peers		
	EPD Neutral	X Industry	S&P 500	ET Neutral	MMP Neutral	PAA Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>A</b>	<b>D</b>	<b>A</b>
Market Cap	61.03 B	2.50 B	23.80 B	33.39 B	14.00 B	13.39 B
# of Analysts		2	13			
Dividend Yield	6.35%	8.52%	1.78%	9.60%	6.65%	7.83%
<b>Value Score</b>	<b>C</b>	-	-	<b>A</b>	<b>C</b>	<b>A</b>
Cash/Price	0.02	0.02	0.04	0.01	0.01	0.05
EV/EBITDA	11.89	10.00	13.88	9.00	10.38	7.29
PEG Ratio	3.27	2.96	2.13	NA	2.29	NA
Price/Book (P/B)	2.39	2.39	3.33	1.04	5.24	1.24
Price/Cash Flow (P/CF)	10.09	6.59	13.55	6.67	11.33	6.39
P/E (F1)	13.09	11.44	19.62	9.46	13.72	6.72
Price/Sales (P/S)	1.80	1.55	2.66	0.62	4.91	0.40
Earnings Yield	7.64%	8.57%	5.09%	10.54%	7.29%	14.85%
Debt/Equity	1.00	1.49	0.71	1.49	1.81	0.88
Cash Flow (\$/share)	2.76	2.61	6.94	1.90	5.41	2.88
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>D</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	10.74%	7.08%	10.48%	11.68%	7.08%	5.74%
Proj. EPS Growth (F1/F0)	11.65%	4.45%	6.14%	16.81%	-23.46%	45.48%
Curr. Cash Flow Growth	34.22%	26.22%	14.75%	-0.02%	15.82%	53.00%
Hist. Cash Flow Growth (3-5 yrs)	9.38%	12.00%	8.93%	14.15%	11.13%	3.31%
Current Ratio	0.91	0.99	1.24	1.00	0.83	0.96
Debt/Capital	50.11%	55.26%	42.92%	59.79%	64.42%	42.07%
Net Margin	14.07%	14.34%	11.06%	5.94%	36.75%	8.95%
Return on Equity	19.59%	10.93%	17.10%	10.93%	38.78%	21.05%
Sales/Assets	0.58	0.34	0.54	0.60	0.36	1.22
Proj. Sales Growth (F1/F0)	-10.66%	-2.02%	2.49%	-0.07%	0.48%	-3.97%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>C</b>	<b>D</b>	<b>B</b>
Daily Price Chg	-1.06%	-1.38%	0.21%	-2.16%	-0.76%	-2.08%
1 Week Price Chg	0.18%	2.00%	1.46%	-0.61%	-1.17%	1.29%
4 Week Price Chg	7.40%	4.36%	1.98%	9.29%	4.36%	6.30%
12 Week Price Chg	-0.21%	-3.49%	9.78%	0.00%	-6.33%	-7.17%
52 Week Price Chg	13.38%	7.45%	28.47%	-3.79%	7.45%	-8.23%
20 Day Average Volume	5,671,534	453,530	1,778,443	17,070,936	1,054,230	4,498,756
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.55%	0.00%	0.00%	-0.67%	-0.09%	0.00%
(F1) EPS Est 12 week change	-0.20%	0.97%	0.12%	0.72%	4.27%	5.00%
(Q1) EPS Est Mthly Chg	-1.04%	0.00%	0.00%	-0.32%	-0.21%	3.18%

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## 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.

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### 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	C
Growth Score	B
Momentum Score	D
VGM Score	C

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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