Enterprise Products Partners, L.P. (NYSE: EPD)
Sector: Energy

Target Price	Current Price	52 Week High	52 Week Low	P/DCF	Market Cap.	Dividend Yield	Beta
$29.50	$24.71	$30.11	$19.00	9.22x	$51.74B	6.51%	0.85

Business Description
Enterprise Products Partners, L.P., a master limited partnership, provides midstream energy services to producers and consumers of natural gas, natural gas liquids (NGLs), crude oil, petrochemicals, and refined products. The fully integrated midstream company has four business segments including: NGL Pipelines & Services, Crude Oil Pipelines & Services, Natural Gas Pipelines & Services, and Petrochemical & Refined Products Services. It has roughly 49,000 miles of pipelines across the United States and is connected to approximately 90% of refineries east of the Rockies. In addition, Enterprise has 250 million barrels of storage capacity, 26 natural gas processing plants, 22 fractionators, and export facilities in which it operates.

Industry Trends
The midstream MLP segment has come under pressure in recent year alongside the decline in oil prices. Midstream MLPs are usually less tied to energy prices due to the fee and tariff-based long-term contracts on indispensable, long-lived assets. Sound financial results have been reported by companies that own infrastructure assets as they continue to collect fees to transport, store, or process oil and gas products. Although exploration and production (E&P) companies may struggle if the oil market weakens, midstream cash flows are typically insulated because producing assets typically continue to operate even in the event of bankruptcy for those E&P companies. Oil and natural gas prices continue to recover in 2016 with the possibility of an OPEC production cut agreement. Congress lifted the ban of exporting crude oil at the end of 2015, which should support production efforts and create additional business opportunities for oil companies.

Investment Thesis
Based on our research, we have concluded Enterprise Products Partners is an undervalued company that will benefit from the recovery in energy prices. In addition to providing a considerable margin of safety, Enterprise also produces a steady cash distribution to unitholders due to their structure as a master limited partnership and management's commitment to increase future distributions. We believe the company's assets and experience in the NGL market and high level of creditworthiness will allow it to capture market share or complete strategic acquisitions to help grow future distributable cash flow. Finally, Enterprise's long-term fee based contracts and diversified lines of business in the crude oil, natural gas and petrochemical markets will allow it to weather any storm if energy prices decline in the future.

Valuation Assumptions
Cost of Equity: 8.52%
Terminal DCF Growth Rate: 1.75%
Estimated DCF/U: 2.10
Estimated DCF: 3,613
Industry Median P/DCF: 13.8x

Key Financials
Total Operating Margin: 15.4%
EBITDA/Interest: 5.2x
Debt/EBITDA: 4.5x
Dist. Coverage Ratio: 1.24x

Corporate Social Responsibility
ESG Disclosure Score: 11.57 (Industry average: 23.88)
Business Ethics Policy: 1 (Industry average: 1)
Percent Independent Directors on Board: 58.33% (Industry average: 65.06%)
Percent Women on Board: 16.67% (Industry average: 15.33%)
CEO Tenure as of Year-End: 5.17 (Industry average: 2.94)

5-Year Stock Performance


Competitive Analysis
Although Enterprise owns assets that require high barriers to entry, the company does compete with other midstream energy firms for future projects such as: Kinder Morgan Inc., Enbridge Inc., Williams Partners LP, Energy Transfer Partners LP and MPLX LP. In addition to standalone companies, Enterprise may also face competition from major integrated companies such as Exxon Mobil Corp. and Chevron Corp.

Competitive Advantages
Enterprise's scale in multiple services within the natural gas liquids market allows the company to operate at a significant advantage over peers in the industry. These assets carry high barriers to entry due to the capital and regulatory compliance that is needed from competitors to steal market share. In addition to these key assets, Enterprise's financial position as a low carrier of debt allows it to retain distributable cash flow for future projects it undertakes. The company's creditworthiness also allows it to tap into the debt market for future financing at a significant lower cost than other lower rated competitors, allowing the company to create new projects or acquire other companies that would be seen as too expensive to competitors. Finally, Enterprise does not have any incentive distributable rights (IDRs) for its general partners. This gives the company higher levels of distributable cash flow that could be used for future projects since general partners are not taking their fee before distributable cash flow is actually generated.

Risks
Enterprise faces the risk of changes in supply, demand, prices, and production of hydrocarbon products. Changes in these factors may lead to lower volumes of product being transported and thus, lower fees collected. Enterprise also faces some commodity risk in the natural gas and NGL segments where contracts provide fees to be calculated based on regional natural gas or NGL price index or to be paid in-kind by taking title to natural gas or NGLs. Because Enterprise transports a variety of different products, we believe that they are less vulnerable to commodity risk. In addition, the nature of the business leaves Enterprise vulnerable to natural disasters as well as further development of more efficient forms of cleaner energy. Any efforts to build additional infrastructure will require regulatory approval, which may result in delays or discontinuation.

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Sources: Bloomberg, OppenheimerFunds, Yahoo! Finance