

## Enterprise Products Partners, L.P.

## Capex creep concerns overblown; FCF inflection occurs in '26; Reiterate Buy

Reiterate Rating: BUY | PO: 31.00 USD | Price: 26.80 USD

## Mid-single digit growth w/ lower LT capex; Reiterate Buy

After a challenged year for weather and commodities, EPD was able to hit its internal EBITDA target of \$9.3bn, due to a very strong 4Q contribution from its NGL segment, where volumes from processing through exports broke quarterly records. And that momentum should continue as EPD brings on \$6.8bn of new wellhead-to-water infrastructure in '24/'25 to accommodate NGL volume growth. So EPD is targeting mid-single digit EBITDA growth from here (consistent with our numbers), allowing '25 EBITDA to exceed \$10bn. Concurrently, '26+ capex is expected to see a step change down from >\$3bn in '24/'25 to ~\$2bn (absent SPOT), allowing EPD to continue growing EBITDA through substantial operating leverage from the '24/'25 infrastructure buildout, without the continued spend. Then FCF steps up amongst industry leaders like ET. And combined with midstream's best balance sheet, we continue to recommend EPD units. Reiterate Buy and \$31 PO. '24/'25 EBITDA estimates move to \$9,790mm/\$10,077mm.

## Run-rate '26+ growth capex at ~\$2bn absent SPOT spend

The top end of '24 growth capex increases slightly by \$250mm to \$3.75bn, while initial growth capex for '25 is set at \$3bn (in-line w/ '23). Organic '23 growth capex ended at \$2.75bn (\$250mm below prior expectations), so capex was merely deferred into '24. These capex estimates are consistent with EPD's guide last quarter noting \$6.8bn of projects were under construction. Concern over continued growth capex at ~\$3bn annually, longer term, were addressed, with EPD seeing '26+ growth capex at ~\$2bn, absent construction of the SPOT terminal. With a lower capex run-rate and substantial operating leverage from the projects brought online in '25, EPD's FCF yield will compete with ET, at substantially lower leverage (~3x).

## Exports provide a natural hedge to lower commodity px

EPD owns the largest NGL downstream network in midstream with the most LPG/ethane export capacity and NGL storage. So, it has natural internal hedges that insulate it from lower commodity prices, as the arb for exports opens and more storage is utilized. If the recent run-up in NGL prices holds up, EPD can benefit from increasing NGL prices and higher export volumes, as freight rates have decreased. And if export capacity limits flows until both ET/EPD add new capacity in '25, EPD fares the best given its leading storage position around Mont Belvieu.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.56	2.53	2.78	2.93	3.04
GAAP EPS	2.50	2.52	2.78	2.93	3.04
EPS Change (YoY)	15.8%	-1.2%	9.9%	5.4%	3.8%
Consensus EPS (Bloomberg)			2.66	2.78	2.99
DPS	1.91	1.93	2.11	2.21	2.32
Valuation (Dec)					
P/E	10.5x	10.6x	9.6x	9.1x	8.8x
GAAP P/E	10.7x	10.6x	9.6x	9.1x	8.8x
Distribution Rate	7.1%	7.2%	7.9%	8.2%	8.7%
EV / EBITDA*	9.6x	9.5x	9.1x	8.8x	8.7x
Free Cash Flow Yield*	10.2%	7.4%	7.3%	9.0%	10.2%

The distribution rate may include non-income items, such as return of principal or loans proceeds or borrowings.

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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Timestamp: 02 February 2024 06:12AM EST

02 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2025E EPS	2.95	2.93
2026E EPS	NA	3.04
2024E EBITDA (m)	9,746.6	9,790.0
2025E EBITDA (m)	10,096.9	10,077.0
2026E EBITDA (m)	NA	10,281.1
2024E DPS	2.10	2.11

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## Stock Data

Price	26.80 USD
Price Objective	31.00 USD
Date Established	9-Jan-2023
Investment Opinion	B-1-7
52-Week Range	24.66 USD - 27.95 USD
Mkt Val (mn) / Shares Out (mn)	59,389 USD / 2,216.0
Free Float	67.4%
Average Daily Value (mn)	135.51 USD
BofA Ticker / Exchange	EPD / NYS
Bloomberg / Reuters	EPD US / EPD.N
ROE (2024E)	21.6%
Net Dbt to Eqty (Dec-2023A)	99.3%
ESGMeter™	Medium

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LT: Long-term ; px: price  
NGL: Natural gas liquids  
EPD: Enterprise Partners LP  
Capex: Capital expenditures  
SPOT: Sea Port Oil Terminal  
ET: Energy Transfer LP

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# iQprofile<sup>SM</sup> Enterprise Products Partners, L.P.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.8%	10.7%	11.2%	11.3%	11.4%
Return on Equity	21.7%	20.5%	21.6%	21.6%	21.4%
Operating Margin	11.9%	13.9%	14.8%	14.9%	15.0%
Free Cash Flow	6,075	4,372	4,362	5,339	6,051

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.4x	1.4x	1.4x	1.4x
Asset Replacement Ratio	1.1x	1.4x	1.8x	1.6x	1.4x
Tax Rate	1.4%	0.8%	1.5%	1.5%	1.5%
Net Debt-to-Equity Ratio	101.2%	99.3%	98.0%	93.7%	88.2%
Interest Cover	5.6x	5.5x	5.9x	6.0x	6.2x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	58,186	49,715	50,911	52,406	53,478
% Change	42.6%	-14.6%	2.4%	2.9%	2.0%
Gross Profit	6,443	6,467	7,064	7,351	7,555
% Change	16.7%	0.4%	9.2%	4.1%	2.8%
EBITDA	9,309	9,318	9,790	10,077	10,281
% Change	11.1%	0.1%	5.1%	2.9%	2.0%
Net Interest & Other Income	(1,210)	(1,228)	(1,251)	(1,276)	(1,276)
<b>Net Income (Adjusted)</b>	<b>5,629</b>	<b>5,550</b>	<b>6,057</b>	<b>6,316</b>	<b>6,517</b>
<b>% Change</b>	<b>15.7%</b>	<b>-1.4%</b>	<b>9.1%</b>	<b>4.3%</b>	<b>3.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	5,487	5,529	6,057	6,316	6,517
Depreciation & Amortization	1,797	2,313	2,210	2,210	2,210
Change in Working Capital	(54)	(508)	(105)	158	156
Deferred Taxation Charge	60	5	0	0	0
Other Adjustments, Net	749	238	144	144	205
Capital Expenditure	(1,964)	(3,206)	(3,944)	(3,488)	(3,037)
<b>Free Cash Flow</b>	<b>6,075</b>	<b>4,372</b>	<b>4,362</b>	<b>5,339</b>	<b>6,051</b>
<b>% Change</b>	<b>-3.4%</b>	<b>-28.0%</b>	<b>-0.2%</b>	<b>22.4%</b>	<b>13.3%</b>
Share / Issue Repurchase	0	0	0	(402)	(402)
Cost of Dividends Paid	(4,095)	(4,323)	(4,510)	(4,685)	(4,884)
Change in Debt	(1,255)	811	1,050	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	206	675	1,027	1,138	1,761
Trade Receivables	6,975	8,443	7,308	7,308	7,308
Other Current Assets	3,417	5,015	3,838	3,838	3,838
Property, Plant & Equipment	44,401	45,721	47,455	48,733	49,561
Other Non-Current Assets	13,109	13,026	12,999	12,997	12,995
<b>Total Assets</b>	<b>68,108</b>	<b>72,880</b>	<b>72,626</b>	<b>74,014</b>	<b>75,462</b>
Short-Term Debt	1,744	1,970	4,270	4,270	4,270
Other Current Liabilities	10,521	13,543	11,125	11,283	11,500
Long-Term Debt	26,551	27,134	25,884	25,884	25,884
Other Non-Current Liabilities	1,541	1,612	1,612	1,612	1,612
<b>Total Liabilities</b>	<b>40,357</b>	<b>44,259</b>	<b>42,891</b>	<b>43,049</b>	<b>43,266</b>
<b>Total Equity</b>	<b>27,751</b>	<b>28,621</b>	<b>29,735</b>	<b>30,965</b>	<b>32,196</b>
<b>Total Equity &amp; Liabilities</b>	<b>68,108</b>	<b>72,880</b>	<b>72,626</b>	<b>74,014</b>	<b>75,462</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Natural Gas-Pipelines

## Company Description

EPD, one of the largest publicly traded MLPs, provides a wide variety of midstream energy services, including gathering, processing, transportation and storage of natural gas, natural gas liquids (NGL) fractionation, import and export terminalling and offshore production platform services. EPD has four reportable business segments: Natural Gas Pipelines and Services, NGL Pipelines and Services, Petrochemical Services, and Crude Oil Pipelines and Services.

## Investment Rationale

Our Buy rating is underpinned by the following: (1) extensive nature of EPD's wellhead-to-water NGL and midstream value chain, (2) unique Petrochemical position, when compared to other midstream peers, and outsized demand growth expectations for ethylene and propylene, and (3) strong balance sheet.

## Stock Data

Average Daily Volume 5,056,244

## Quarterly Earnings Estimates

	2023	2024
Q1	0.64A	NA
Q2	0.56A	NA
Q3	0.60A	NA
Q4	0.72A	NA

## Price objective basis & risk

### Enterprise Products Partners, L.P. (EPD)

Our PO of \$31 is derived from our discounted cash flow valuation, which implies a 10.3x 2024E EV/EBITDA multiple. We forecast a ten-year outlook, which we believe is the limit of market recognition, and then forecast a terminal decline of 1.0% while using a 7.0% weighted-average cost of capital (WACC).

Downside risks to our price objective are supply chain disruptions, the loss of key customers, and lower sustained commodity prices. Any of these risks could negatively impact volumes at EPD's pipelines and storage facilities and demand for gathering, processing and storage of crude oil, natural gas, NGLs, and petrochemicals.

## Analyst Certification

I, Neel Mitra, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Pipelines and MLPs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Energy Transfer LP	ET	ET US	Neel Mitra, CFA
	Enterprise Products Partners, L.P.	EPD	EPD US	Neel Mitra, CFA
	Kinetik Holdings Inc.	KNTK	KNTK US	Neel Mitra, CFA
	Kodiak Gas Services, Inc.	KGS	KGS US	Neel Mitra, CFA
	ONEOK Inc	OKE	OKE US	Neel Mitra, CFA
	Targa Resources Corp.	TRGP	TRGP US	Neel Mitra, CFA
	The Williams Companies, Inc.	WMB	WMB US	Neel Mitra, CFA
<b>NEUTRAL</b>				
	Kinder Morgan Inc	KMI	KMI US	Neel Mitra, CFA
	Plains All American Pipeline, L.P.	PAA	PAA US	Neel Mitra, CFA
	Plains GP Holdings, L.P.	PAGP	PAGP US	Neel Mitra, CFA
<b>UNDERPERFORM</b>				
	Equitrans Midstream Corporation	ETRN	ETRN US	Neel Mitra, CFA
	MPLX LP	MPLX	MPLX US	Neel Mitra, CFA
	Western Midstream Partners, LP	WES	WES US	Neel Mitra, CFA
<b>RVW</b>				
	Golar LNG Limited	GLNG	GLNG US	Neel Mitra, CFA

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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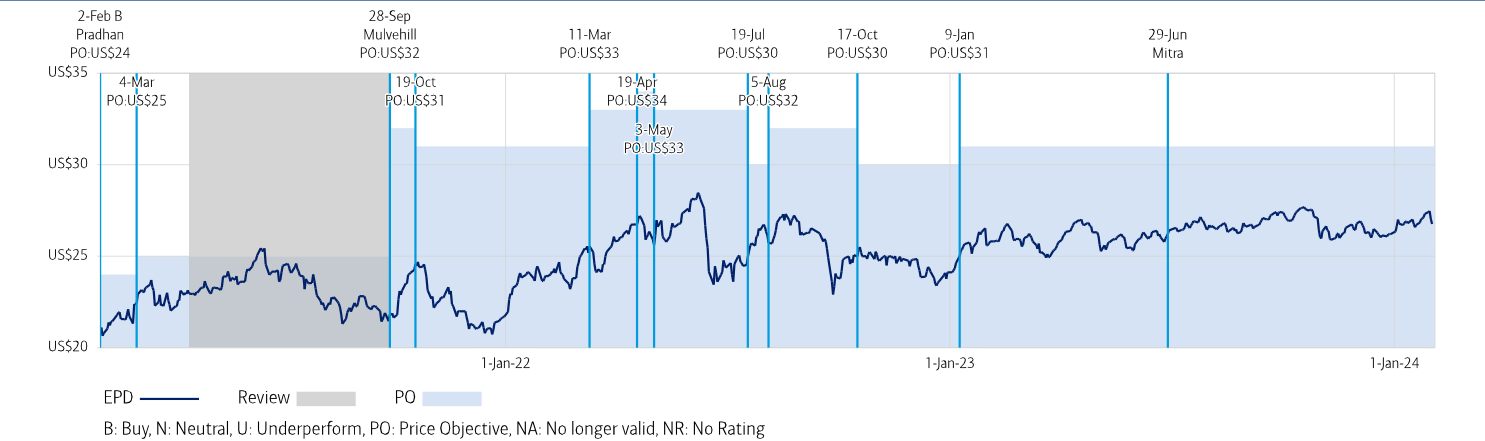
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Enterprise L.P. (EPD) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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