

## Enterprise Products Partners, L.P.

## Project \$9.3bn hit in '23; Expect growth in '24 from leading integrated NGL footprint

Reiterate Rating: BUY | PO: 31.00 USD | Price: 26.76 USD

## Project \$9.3bn achieved in tough '23 environment

Despite weak NGL/natural gas prices and extreme heat in West TX during 2Q/3Q, Enterprise Products Partners (EPD) was able to achieve its internal goal of \$9.3bn for '23 EBITDA, with a strong 4Q print, driven by the NGL Pipelines and Services business (segment). EPD reported 4Q EBITDA of \$2,499mm beating cons/BofA by 2%/1%. The NGL Pipelines and Services business reported adjusted Gross Margin of \$1,383mm (55% of total gross margin) beating cons/BofA by 6%/3%. Gross margins increased sequentially 16% from 3Q, beating consensus volume expectations across the entire value chain including processing volumes (+6%), NGL pipeline volumes (+6%), fractionation volumes (+4%), and especially export volumes (+15%). So EPD benefited from the surge production in 4Q after flat to down 2Q/3Q volumes associated with TX heat. Next, the Natural Gas Pipelines segment reported adjusted gross margin of \$285mm beating cons/BofA by 2%. EPD holds equity volumes on natural gas pipes between Waha and the TX Gulf Coast, and finally benefited from a wider basis. The Petchem segment reported adjusted gross margin of \$444mm, in-line with expectations. PGP-RGP spreads did widen out, but PDH II continued to see ramp-up issues while octane enhancement volumes saw a seasonal downtick. Lastly, crude underperformed expectations by 7% with adjusted gross margin of \$421 (adjusting for MTM and shipper make up rights), but Midland to Echo volumes continue to improve sequentially. Reiterate Buy and \$31 PO as EPD's integrated footprint allows it to grow in a weak commodity environment.

## Readthrough: TRGP/ET 4Q benefit from NGL exports

EPD noted that its NGL marine terminal volumes hit a record 922 Mbpd in 4Q23. We also expect TRGP Galena Park to set a record for quarterly exports. And that is also likely the case for ET's Gulf Coast NGL exports. As we noted in our [2024 Year Ahead](#), we prefer integrated NGL names, as they have "internal hedges" allowing them offset weaker NGL prices with higher export volumes as international arbs open up.

## '24 EBITDA increases with new projects contributing FY

Several companies are seeing "transition" years in '24. But EPD and ET will see strong '24 growth as new projects contribute a full year of earnings. Our '24 EBITDA estimate is \$9.75bn, a 5% y/y increase. EPD benefits from a full quarter from Poseidon, Frac 12 and PDH II in 4Q. PDH II is expected to contribute ~\$200mm in EBITDA annually, as operational issues are less likely in '24. Next, 2 Permian processing plants come online in 1Q24 de-bottlenecking volumes wellhead to water volumes, further.

## Upper end of '24 growth capex increases; '25 at \$3bn

The top end of '24 growth capex increases slightly \$250mm to \$3.75bn, while initial growth capex for '25 is set at \$3bn (in-line with '23). These capex estimates are consistent with EPD's guide last quarter noting \$6.8bn of projects were under construction. Remember, last quarter, EPD announced 5 new '25 projects highlighted by the new 600 Mbpd Bahia NGL pipeline. As we detailed in our [Year Ahead](#), the Permian is overbuilt with NGL pipe. So, we'd like to see EPD comment on puts and takes for its system such as pulling Navitas volumes on its system in a couple of years while having to compete for expiring Lucid volumes already on its system.

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Timestamp: 01 February 2024 08:48AM EST

01 February 2024

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## Stock Data

Price	26.76 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
Mrkt Val (mn) / Shares Out (mn)	59,300 USD / 2,216.0
Free Float	67.4%
Average Daily Value (mn)	134.45 USD
BofA Ticker / Exchange	EPD / NYS
Bloomberg / Reuters	EPD US / EPD.N
ROE (2023E)	20.4%
Net Dbt to Eqty (Dec-2022A)	101.2%
ESGMeter™	Medium

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## Glossary

Arbs: Arbitrage  
Capex: Capital expenditures  
Cons: Consensus  
EPD: Enterprise Partners LP  
ET: Energy Transfer LP  
Frac: Fractionation  
MTM: Mark-to-market  
NGL: Natural gas liquids  
PDH: Propane dehydrogenation  
PGP-RGP: Polymer Grade Propylene-Refinery Grade Propylene  
TRGP: Targa Resources Corp.  
TX: Texas

**Exhibit 1: EPD 4Q23 Variance Table**

NGL Pipelines &amp; Services outperforms beating Cons/BofA by 6% / 3%

Earnings Variance (\$mm)	4Q23			% Beat (Miss)		% Change vs. Actual	
	Actual	Consensus	BofA	Consensus	BofA	Q/Q	Y/Y
<b>Gross Op. Margin by Segment</b>							
NGL Pipelines & Services	1,383	1,309	1,347	6%	3%	16%	7%
Crude Oil Pipelines & Services	421	452	456	-7%	-8%	-3%	1%
Natural Gas Pipelines & Services	285	280	254	2%	12%	19%	-10%
Petrochemical & Refined Products Services	444	439	486	1%	-9%	-2%	31%
<b>Total Gross Operating Margin</b>	<b>2,533</b>	<b>2,480</b>	<b>2,544</b>	<b>2%</b>	<b>0%</b>	<b>61%</b>	<b>55%</b>
Net income (Before Adj for NCI)	1,602	1,470	1,589	9%	1%	19%	10%
Depreciation, amortization, and accretion in costs and expenses	584	572	566	2%	3%	1%	6%
Interest expense (including related amortization)	325	326	309	0%	5%	-1%	6%
Equity in income of unconsolidated affiliates	(115)	(122)	(123)	NM	NM	NM	NM
Provision for or benefit from income taxes	(1)	20	24	NM	NM	NM	NM
Other	104	186	120	-44%	-14%	NM	NM
<b>Adjusted EBITDA, before NCI adjustment</b>	<b>2,499</b>	<b>2,453</b>	<b>2,485</b>	<b>2%</b>	<b>1%</b>	<b>7%</b>	<b>5%</b>
Interest expense, including related amortization	(325)	(326)	(309)	NM	NM	NM	NM
Sustaining capital expenditures	(129)	(112)	(120)	NM	NM	NM	NM
Other, net	14	(40)	0	NM	NM	-74%	NM
<b>Distributable Cash Flow</b>	<b>2,059</b>	<b>1,975</b>	<b>2,056</b>	<b>4%</b>	<b>0%</b>	<b>10%</b>	<b>2%</b>
Net Debt	28,632	28,692	28,766	0%	-0.5%	0.1%	1.9%
Growth capex	823	985	1,025	-16%	-19.7%	14.0%	69.7%
Free cash flow	1,218	1,094	1,007	11%	21.0%	41.3%	-36.8%
<b>SEGMENT DETAILS</b>							
<b>Crude Oil Pipelines &amp; Services</b>							
<b>Gross Operating Margin (Clean)</b>	<b>\$421</b>	<b>\$452</b>	<b>\$456</b>	<b>-7%</b>	<b>-8%</b>	<b>-7%</b>	<b>3%</b>
Transportation volumes (Mbpd)	2,610	2,567	2,586	2%	1%	2%	15%
Marine volumes (Mbpd)	1,000	954	998	5%	0%	1%	32%
<b>Natural Gas Pipelines &amp; Services</b>							
<b>Gross Operating Margin (Clean)</b>	<b>\$285</b>	<b>\$280</b>	<b>\$254</b>	<b>2%</b>	<b>12%</b>	<b>17%</b>	<b>-10%</b>
Net Natural Gas Pipeline Volumes (BBtu/d)	18,723	18,534	18,440	1%	2%	2%	6%
<b>NGL Pipelines &amp; Services</b>							
<b>Gross Operating Margin (GAAP)</b>	<b>\$1,383</b>	<b>\$1,309</b>	<b>\$1,347</b>	<b>6%</b>	<b>3%</b>	<b>16%</b>	<b>7%</b>
Net NGL Pipeline Volumes (Mbpd)	4,258	4,065	4,173	5%	2%	7%	10%
NGL Marine Terminal volumes (Mbpd)	922	799	810	15%	14%	20%	23%
Net NGL Fractionation Volume (Mbpd)	1,598	1,530	1,595	4%	0%	5%	20%
Net Fee-based Processing (MMcf/d)	6,237	5,907	6,224	6%	0%	5%	15%
<b>Petrochemical &amp; Refined Products Services</b>							
<b>Gross Operating Margin</b>	<b>\$444</b>	<b>\$439</b>	<b>\$486</b>	<b>1%</b>	<b>-9%</b>	<b>-2%</b>	<b>31%</b>
Propylene production volumes (Mbpd)	102	104	113	-2%	-10%	-1%	15%
Butane Isomerization Volume (Mbpd)	117	112	110	5%	6%	4%	11%
Net Octane Enhancement Volumes (Mbpd)	40	39	41	2%	-2%	-2%	5%
Refined Products Transportation volumes (Mbpd)	899	727	834	24%	8%	9%	21%
Refined Products and Petrochemical Marine Terminal Volumes (Mbpd)	352	284	334	24%	5%	6%	64%

Source: Bloomberg, Visible Alpha, Company Filings, BofA Global Research

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**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.

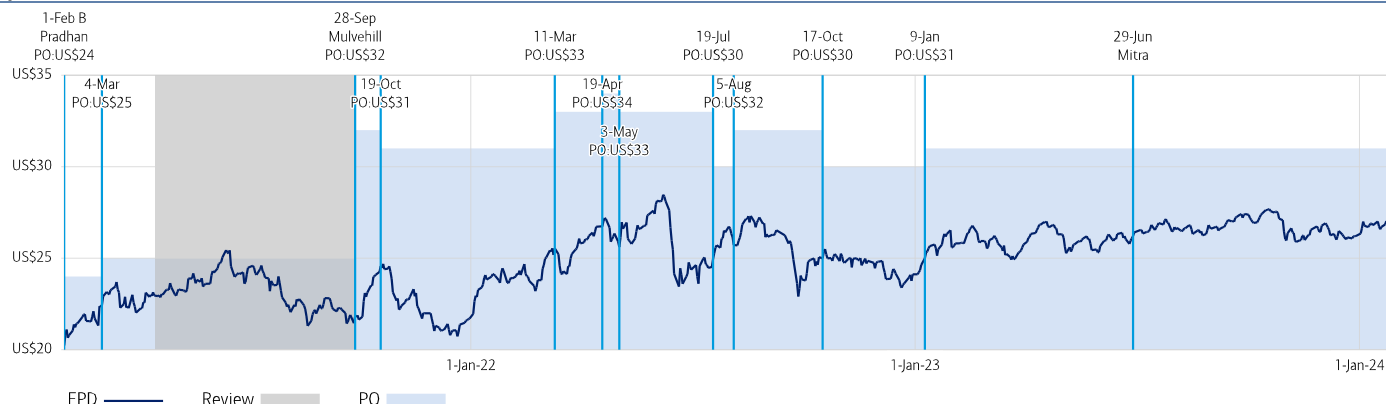
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### Enterprise L.P. (EPD) Price Chart



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### 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%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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