Building A Successful Enterprise

We first made Enterprise Products Partners (EPD: $33/share) a Long Idea in January 2023 and reiterated our thesis in May 2024. Enterprise Products has underperformed as a Long Idea and is one of many stocks that the market has overlooked despite the strength of the company's business. As the coming Golden Era for stocks takes hold, we expect EPD to benefit from a market that allocates value more efficiently and awards the businesses and stocks that can create the most shareholder value.

EPD still offers favorable Risk/Reward based on the company's:

- position to profit from rising oil & gas production and demand,
- "toll-taker" business model,
- investments to capitalize on future demand,
- strong cash flow generation and yield to investors, and
- cheap valuation.

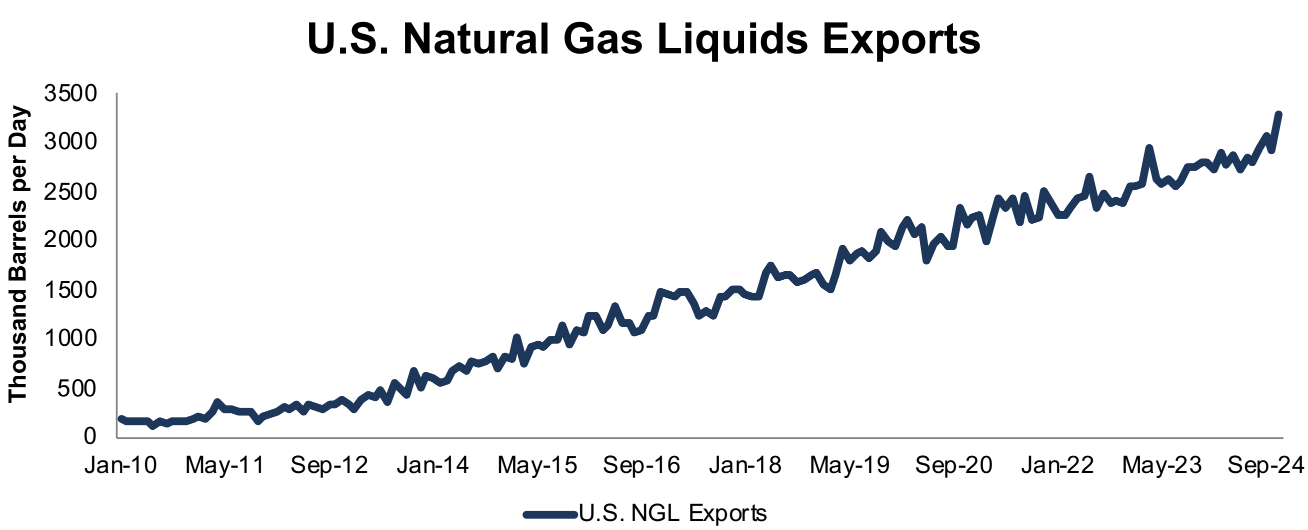
What's Working

U.S. Oil & Gas Demand Continues to Rise

2024 marked the seventh consecutive year that the U.S. produced more crude oil than any other country. U.S. crude oil production reached a record average of 13.2 million b/d, up from 12.9 million b/d in 2023. Production is projected to grow further to an average 13.6 million b/d in 2025 and 13.7 million b/d in 2026.

U.S. Natural Gas Liquids (NGL) exports have also consistently risen every year since 2010. U.S. NGL exports grew from 194 thousand barrels per day (Mbbl/d) in January 2010 to 3,280 Mbbl/d in November 2024. See Figure 1. Enterprise Products benefits from continued NGL growth as the company's second largest segment by revenue is its NGL Pipelines & Services segment (34% of revenue).

Figure 1: U.S. NGL Exports Between January 2010 and November 2024



Source: EIA

Record Growth

We've mentioned the key advantage of a "toll-taking" business model several times before, and that advantage is on full display in Enterprise Products' operations. With rising oil and gas demand, Enterprise Products achieved record volumes in 2024.

In 2024, Enterprise Products grew its natural gas processing inlet volumes by 10% YoY, total equivalent pipeline volumes by 6% YoY, NGL fractionation volumes 3% YoY, and marine terminal volumes by 6% YoY. The volume levels achieved in each of these segments represent record highs for the company. Since 2020, Enterprise Products has grown volumes in these four segments by 7%, 7%, 8%, and 6% compounded annually, respectively.

Capitalizing on Future Demand

As we've highlighted before, Enterprise Products continues to invest in additional capacity to meet future oil and gas demand. The company has $7.6 billion of major capital projects under construction at the end of 2024. $6 billion of these projects are expected to be completed in 2025 and begin generating cash flow, according to management. The projects expected to be completed in 2025 include two natural gas processing plants in the Permian Basin, the Bahia NGL pipeline, Fractionator 14, the first phase of an NGL export facility on the Neches River, and expansion of ethane and ethylene marine terminals.

Management notes these projects "are supported by long-term contracts" and enable the company to continue to capitalize on growing demand for oil and gas.

On the ethane and propane front, the company is building a new export terminal in Orange County, TX, part of which will go live in 3Q25, with the project finishing in the first half of 2026. Additionally, Enterprise Products is adding a 900 Mbbl refrigerated ethane tank to its ethane terminal at Morgan's Point, which will enable higher loading rates.

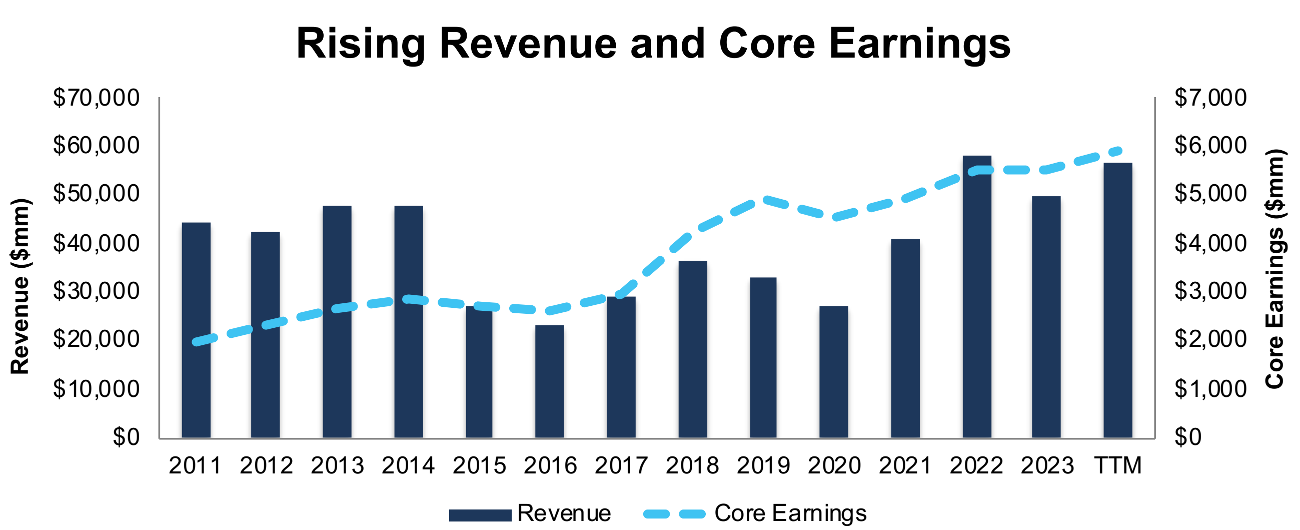
As a toll-taker, Enterprise is well-positioned to transport today's oil and gas while also capitalizing on future demand.

Quality Fundamentals

Strong oil and gas demand results in strong sales and profits at Enterprise Products. In 3Q24, Enterprise grew revenue and Core Earnings by 6% and 11% YoY, respectively. Core Earnings in the TTM period are the highest of any annual period in company history.

Longer-term, Enterprise has grown revenue and Core Earnings by 2% and 8% compounded annually from 2013 through the trailing-twelve-months (TTM) ended 3Q24. See Figure 2. The company's net operating profit after-tax (NOPAT) margin increased from 7% in 2013 to 13% in the TTM ended 3Q24, while the company's return on invested capital (ROIC) improved from 10.7% to 11.8% over the same time.

Figure 2: EPD's Revenue and Core Earnings: 2011 – TTM ended 3Q24



Sources: New Constructs, LLC and company filings

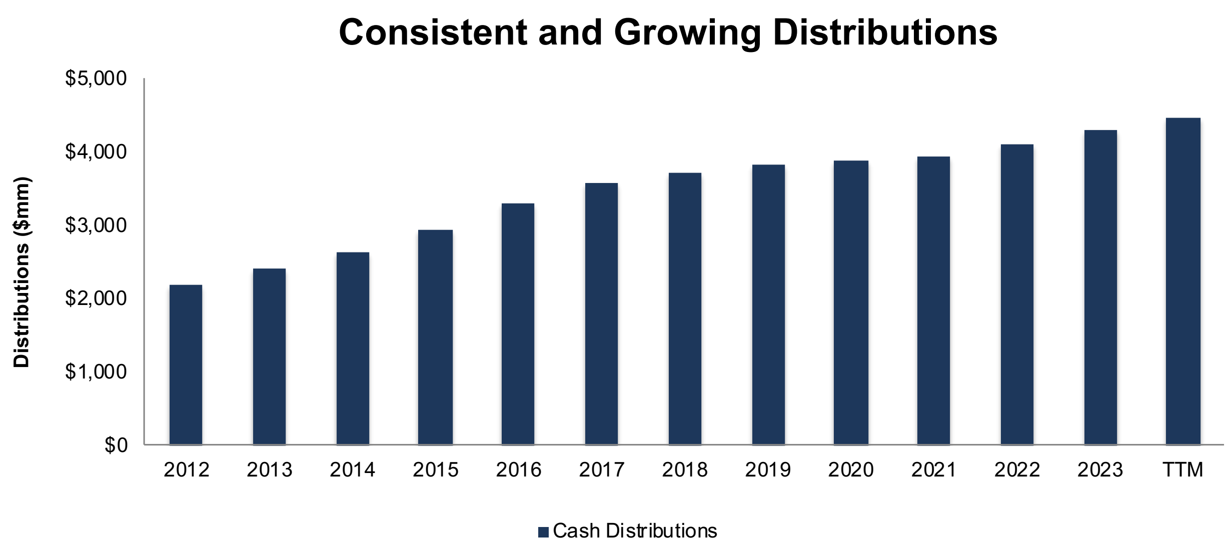
Distribution + Share Repurchase Yield = ~6.7%

Enterprise Products has an impressive record of returning capital to unitholders. 2024 represented the company's 26th consecutive year of increasing its distribution. More recently, Enterprise increased its per unit distribution to $2.10/unit in 2024 compared to $1.27/unit in 2012. See Figure 3.

When annualized, the current distribution gives investors a 6.4% yield.

Enterprise Products also repurchases units, which provides additional return to investors. Enterprise Products repurchased $188 million worth of units in 2023 and repurchased $219 million worth of units in 2024. Enterprise Products has $1.1 billion remaining under its current authorization. Should the company repurchase units at the 2024 pace, the combined distribution and repurchase yield would be 6.7%.

Figure 3: Enterprise Products' Distributions: 2012 – TTM end 3Q24

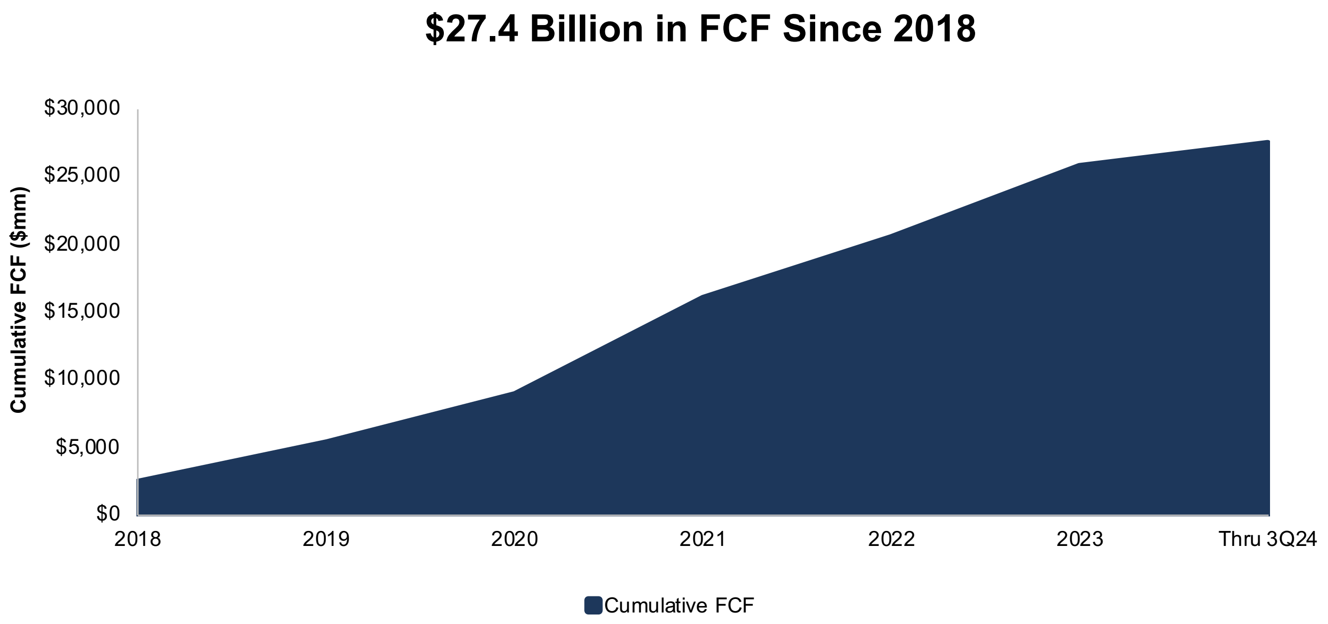


Sources: New Constructs, LLC and company filings

Strong Cash Flows Support Distributions

Enterprise Products paid out $27.2 billion in distributions from 2018 through 3Q24. Most importantly, the company generated a cumulative $27.4 billion (26% of enterprise value) in free cash flow (FCF) over the same time, or more than enough to cover the distributions. See Figure 4.

Figure 4: Enterprise Products' Cumulative Free Cash Flow Since 2018



Sources: New Constructs, LLC and company filings

Leading Balance Sheet Efficiency

Over the TTM, Enterprise Products' invested capital turns, a measure of balance sheet efficiency, of 0.9 is the highest amongst its peers. It's ROIC of 12% ranks third, behind fellow Long Idea MPLX, and Western Midstream Partners (WES). See Figure 5.

Figure 5: Enterprise Products Partners' Profitability Vs. Pipeline Peers: TTM

Ticker	Company Name	NOPAT Margin	IC Turns	ROIC
MPLX	MPLX LP	49%	0.3	13%
WES	Western Midstream Partners LP	47%	0.3	13%
EPD	**Enterprise Products Partners**	**13%**	**0.9**	**12%**
OKE	ONEOK Inc.	19%	0.5	9%
ET	Energy Transfer LP	11%	0.8	8%
KMI	Kinder Morgan Inc.	27%	0.2	5%
WMB	Williams Companies, Inc.	31%	0.2	5%

Sources: New Constructs, LLC and company filings

What's Not Working

Growth Rates Are Expected to Slow

While demand for oil and gas is projected to rise, the rate at which it does so is expected to decline after a record 2024. According to energy executives at the Argus Global Crude Summit, oil output is expected to increase by 250k-300k bbl/day in the Permian Basin in 2025. Such growth, while positive, would be a decline from 2024's growth of 380k bbl/day in the region.

Master Limited Partnership Risks Remain

Enterprise Products is clearly a successful business, as noted above. Nonetheless, as a master limited partnership (MLP), there is risk that the general partner's interests conflict with those of unitholders.

As a result of this structural concern, we give all MLPs a suspended Stock Rating as the nature of MLP agreements creates risk of significant unitholder dilution. However, we think the cheap valuation of Enterprise Products Partners' common units easily offsets the risks involved in owning this MLP.

This structure could account for EPD trading at a discount to non-MLP peers.

Per Figure 6, EPD's price-to-economic book value (PEBV) ratio is 0.8, while the PEBV of its non-MLP peers range from 1.9 to 3.4, with an average of 2.5. In other words, the market has priced non-MLP peers much higher than their economic book value. This valuation gap may never close, due to EPD's MLP structure, but the stock price trading so far below the company's economic book value, or no-growth value, more than compensates investors for the MLP risk.

Figure 6: EPD's PEBV Vs. Non-MLP Peers: TTM

Ticker	Company Name	PEBV
EPD	**Enterprise Products Partners, L.P.**	**0.8**
KMI	Kinder Morgan Inc.	1.9
OKE	ONEOK Inc.	2.0
ENB	Enbridge Inc	2.7
WMB	Williams Companies, Inc.	3.4

Sources: New Constructs, LLC and company filings

Shares Have Strong Upside Potential

At its current price, EPD's PEBV ratio is 0.8. This ratio means the market expects the company's NOPAT to permanently fall 20% from TTM ended 3Q24 levels. For reference, Enterprise Products has grown NOPAT 5% and 7% compounded annually since 2018 and 2013, respectively.

Below, we use our reverse discounted cash flow (DCF) model to quantify the cash flow expectations for different stock price scenarios for EPD.

In the first scenario, we quantify the expectations baked into the current price. If we assume:

- NOPAT margin falls to 10% (below five-year average of 16% and TTM margin of 13%) from 2024 to 2033 and
- revenue grows just 3% compounded annually (lower than the 8% compounded annually in the last five years) through 2033.

In this scenario, Enterprise Products' NOPAT would fall 1% compounded annually through 2033 and the stock would be worth $33/unit today – nearly equal to the current price. This scenario also implies that the company's NOPAT in 2033 would be 7% less than the company's TTM NOPAT.

Shares Could Go At Least 27% Higher

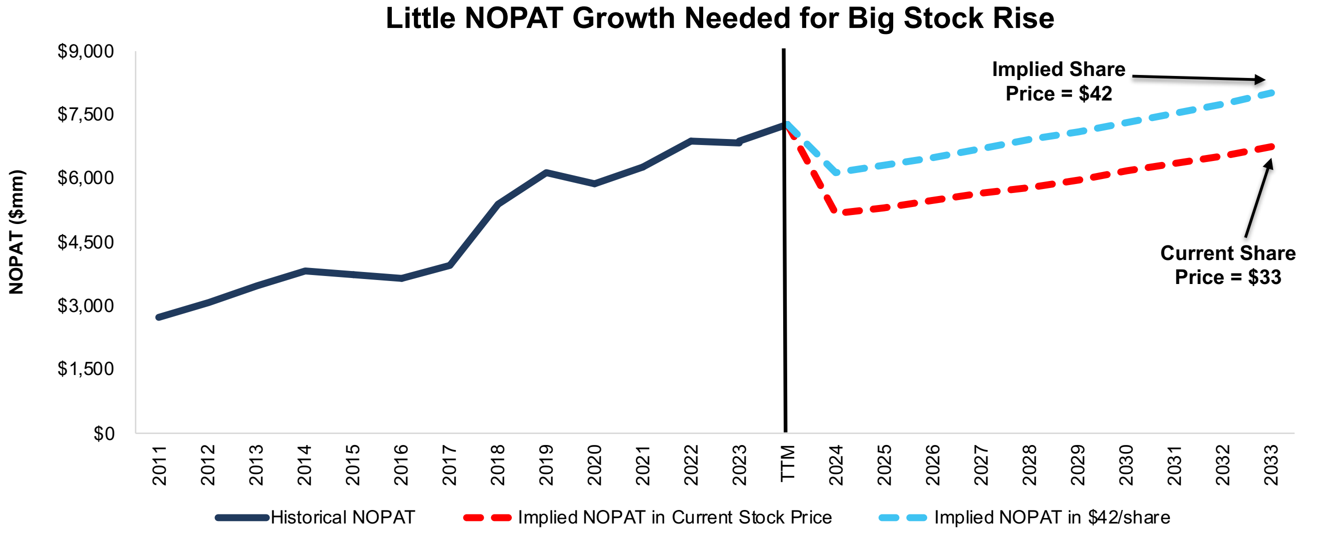
If we assume EPD's:

- NOPAT margin falls to 12% from 2024 to 2033,
- revenue grows 3% compounded annually each year through 2033, then

EPD would be worth at least $42/unit today – a 27% upside to the current price. In this scenario, EPD's NOPAT grows just 1.5% compounded annually over the next decade.

Should EPD grow profits more in line with historical levels, the stock has even more upside. Figure 7 compares EPD's historical NOPAT to the NOPAT implied in each of the above DCF scenarios.

Figure 7: EPD's Historical and Implied NOPAT: DCF Valuation Scenarios



Sources: New Constructs, LLC and company filings.

This article was originally published on [February 14, 2025](#).

Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.

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Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

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