



Enterprise Products Partners (EPD)

Crude Oil and Natural Gas Pipelines & Services; Petrochemical & Refined Products Services



- Enterprise Products Partners' gross operating margin could soar 35%, from \$5.2 billion in 2016 to \$7.0 billion in 2021.
- The company's fully integrated system allows it to benefit from rising hydrocarbon production, growth in hydrocarbon export markets and expansion of the U.S. petrochemical industry.
- EPD has continued to aggressively expand its infrastructure, investing \$18 billion in 2014-16 and budgeting \$8.4 billion in capital projects over the next three years.
- The gross operating margin of the Crude Oil and Petrochemical & Refined Products units will increase by \$800 million, or 58%, by 2021 on expansion projects.
- EPD's natural gas pipelines and gathering system margins will rise modestly as higher-resource-play volumes offset conventional-play declines.
- EPD, which eliminated incentive distribution rights in 2010, has increased distributions for 51 consecutive quarters.

1. Introduction

Enterprise Products Partners L.P. is a publicly traded (NYSE: EPD) midstream master limited partnership that operates an integrated U.S. network of natural gas, natural gas liquids (NGLs), crude oil and refined product midstream infrastructure. Its assets include pipelines, natural gas processing, liquids and gas storage, NGL fractionation facilities, import and export terminals and marine transportation assets. The company is connected to every major U.S. shale basin, every U.S. ethylene cracker and 90% of the refineries east of the Rocky Mountains. EPD has a market capitalization of \$58 billion — the fourth-largest of any U.S. energy company — and expects to generate \$23 billion in revenue and \$5.2 billion in earnings before interest, taxes, depreciation and amortization (EBITDA) in 2017.

The company has attracted strong investor support because of its corporate structure and dividend history. EPD purchased its general partner in 2010, thereby simplifying its management structure and becoming one of the few master limited partnerships (MLPs) to eliminate incentive distribution rights (IDRs) that provide a disproportionate share of cash flow to the general partnership. The company has also increased its distributions to shareholders for 51 consecutive quarters through the first quarter of 2017. Despite the higher rate of return, EPD has retained a reserve of \$6.9 billion in distributable cash flow since 2004, including \$2.7 billion in the last three years.

EPD has positioned itself for dramatic growth over the next five years. Despite the plunge in hydrocarbon commodity prices since 2014, the company has maintained a stable gross operating margin of about \$5.3 billion while investing \$17.9 billion in organic growth projects and acquisitions. As a result, it is well positioned to benefit from the recovery in oil and gas production, especially in the Permian Basin and Eagle Ford Shale; from continuing NGL and crude oil exports; and from significant growth in the U.S. petrochemical industry. We project the company's gross operating margin will increase by one-third to \$6.9 billion by 2021.

Because of EPD's size and diversity, we are releasing our Spotlight analysis in two parts. This Part Two focuses on the company's Crude Oil Pipelines & Services, Natural Gas Pipelines & Services and Petrochemical & Refined Products Services segments.

This Spotlight Report from RBN Energy and East Daley Capital is available for individual purchase or as part of RBN's Backstage Pass premium content service at rbnenergy.com.

For more information on individual or group subscriptions, send an email to info@rbnenergy.com or call 888-613-8874.

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2. Spotlight Reports from RBN Energy and East Daley Capital

2.1 What is Spotlight?

Spotlight reports provide a deep dive into the fundamentals that shape the outlook for midstream energy companies. In each of these reports, we shine a spotlight on a midstream energy firm, usually one operating within an MLP structure. Our goal is to provide a comprehensive, fundamentals-based view of our Spotlight companies based on a bottom-up analysis of their assets and operations. We dissect their asset structure to reveal what volumes are flowing, what rates are (and can be) charged, how they are exposed to commodity price risk, how their assets fit together and what aspects of their operations provide competitive advantages in today’s extremely volatile energy marketplace.

Spotlight is a joint venture of RBN Energy LLC and East Daley Capital Advisors Inc. We have joined together with the support of Oil & Gas Financial Analytics LLC to provide a comprehensive, detailed insight into the companies we select for our analysis. We use publicly available data, combined with the deep experience of our combined teams to get to the answers that can be overlooked in the more high-level assessments that are in the marketplace today. Instead of a high-level approach, we get into the micro-level detail, integrating fundamentals data, market data and company data in a comprehensive model that provides a clear picture of the company and its prospects.

As with all energy fundamental analysis, Spotlight reports rely on estimates and approximations of volumes, throughputs and fees. No nonpublic data from the subject company or any other source has been used in the preparation of this report.

2.2 *How Can I Get Spotlight?*

Spotlight is available to RBN Backstage Pass subscribers. Non-subscribers may purchase individual company Spotlight reports separately. For more information about Spotlight, go to rbnenergy.com/spotlight.