



EPD Fireside Chat: Asset Base and Track Record Differentiate

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Summary

- The volatility of 2020 highlighted the advantages of EPD's integrated asset base, which provides the flexibility to capitalize on dynamic market opportunities and supports stable cash flows.
- With its midstream petrochemicals services business, EPD has leverage to a differentiated growth opportunity.
- EPD is focused on an "All of the Above" capital allocation framework that prioritizes supporting and growing its distribution.

Last week, management from Enterprise Products Partners (EPD), including Chris Nelly, Executive Vice President-Finance and Sustainability and Treasurer, and Tony Chovanec, Senior Vice President of Fundamentals, participated in a fireside chat call series co-hosted by Morgan Stanley and Alerian. Today's note discusses key takeaways from the conversation, including the benefits of EPD's integrated asset base, its differentiated growth opportunities in petrochemicals, and its capital allocation framework.

Integrated asset base a perennial advantage but particularly beneficial in 2020.

Management emphasized the benefits of EPD's integrated asset base, particularly in periods of market dislocation as seen in 2020. The integrated asset base allows EPD flexibility to change the way assets are used, whether that's switching a natural gas liquid (NGL) storage cavern from one NGL to another or converting an NGL pipeline to crude service, for example. The size and integration of EPD's asset base also helps drive stable cash flows, which was clearly on display during the challenging market environment in 2020. For example, EPD was able to use its significant storage capacity to capitalize on opportunities stemming from the extreme contango in oil prices. The ability to optimize assets during dramatic swings in commodity prices and volumes supports resilient cash flows. As a result, despite very volatile markets last year, 2020 cash flows from operations were over 90% of the record operating cash flows generated in 2019.

Petrochemical business differentiates EPD.

Management highlighted EPD's midstream petrochemical services business as a differentiated growth opportunity for EPD going forward. EPD is not competing with traditional petrochemical companies but rather providing midstream logistics services to those companies, including transporting, storing, and exporting primary petrochemical products such as propylene and ethylene. EPD has a long history in petrochemicals, with its first propylene splitter coming online in the late 1970's. As the world looks for lighter, faster, and stronger products, the opportunities in petrochemicals are plentiful. Growth in petrochemical demand is expected to outpace global GDP growth, driven in part by a growing population that will rely on petrochemicals for things like food storage and food safety.

Distribution growth remains priority in "All of the Above" capital allocation framework.

Capital allocation was also in focus given a [new investor presentation](#) on the topic that was published last week. Supporting and growing the distribution remains at the top of EPD's "All of the Above" capital allocation framework. As noted in the presentation, the distribution is the most direct and tax-efficient way to return cash to unitholders. Management highlighted EPD's 23 years of distribution growth, with more than \$40 billion returned to unitholders through distributions and buybacks since EPD's initial public offering in 1998. Following the distribution, EPD's other capital allocation priorities include investing in midstream assets with attractive returns over the long term, maintaining a strong balance sheet and financial flexibility, and opportunistic buybacks. With a constructive outlook for continued free cash flow generation, investors can anticipate continued unitholder-friendly returns as has been EPD's established track record over the years and across cycles.

Bottom Line:

Midstream companies are pulling multiple levers across their organizations to reduce the carbon footprint of their operations and enhance their environmental profile as many stakeholders focus on ESG initiatives. Continued progress with reducing emissions reflects midstream's growing commitment to contribute to a cleaner energy future.

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