

## Taking Stock: Decision not hard: sell Microsoft

by Malcolm Berko

Dear Mr. Berko: I bought 200 shares of Enterprise Products at \$19 in late 2002. I have a good profit and the dividend has almost tripled. Should I continue to hold the stock, which is now \$31? My next question is about Duncan Energy which was spun-off by Enterprise last year and it's now \$26 a share but doesn't pay a dividend. What do you think of this stock? Do you think it should be bought? Do you think it will pay a dividend and if you do when will it pay the dividend? I'd like to own 200 shares. I can either get the money from selling Enterprise Products or sell 200 shares of Microsoft. Please advise.

M.W.

Oklahoma City

Dear M.W.: Even though it doesn't pay a dividend yet (probably this fall) my decision to recommend Duncan Energy Partners (DEP-\$26) is a piece of cake. Duncan, spun off from Enterprise Products Partners (EDD-\$31) in September and listed on the Big Board in January, may be one of the most undervalued master limited partnerships overlooked by the Wall Street Turks and the investing public.

Duncan owns an attractive portfolio of midstream energy assets. The company gathers, transports, sells and stores natural gas liquids as well as petrochemicals. An analyst at Merrill Lynch with whom I recently spoke believes that DEP's trailing 12-month revenues of \$1.1 billion will produce earnings of \$2.38 and cash flow of \$3.40. With those earnings, that's a very conservative price-earnings ratio of just under 11 - and that bakes my cake. But the frosting, according to my Merrill man, is that DEP trades about six points below its \$32.41 book value. Then there's extra frosting left to lick the bowl: DEP also trades at an extremely low 7.5 times price to cash flow and a 0.5 times price to sales. And holy of holies, DEP has no long-term debt - yet!

Like most start-up energy MLPs, DEP will need a few years of operations to gain traction. Certainly revenues will be significantly more than \$1.1 billion. Like most start-up MLPs, DEP's initial dividend may be followed by successively higher earnings and dividends as operations gain momentum. A good portion of its dividend will be considered return of capital and not taxable. So if DEP "minds its p's and q's: today's \$26 market price could move higher as management puts its company in gear.

So without question I'd buy 200 shares of DEP. Its price to earnings, price to sales, price to cash flow and price to book value are significantly below industry average. As DEP matures, I believe those ratios could move a lot higher. Sell Microsoft!

Enterprise Products, with \$14 billion in revenues, operates four distinct business segments: natural gas

pipeline and services; offshore natural gas pipelines and service; offshore pipelines & service; and petrochemical services. EPD builds pipelines and midstream energy infrastructure in the U.S. and the Gulf of Mexico, providing these critical services to producers and consumers of natural gas, natural gas liquids, crude oil and various petrochemicals. Last year, EPD formed DEP to acquire, own and operate a portfolio of 66 percent of the company's midstream energy infrastructure.

EPD has a footprint in just about every nook and cranny of oil and natural gas supply chains, from production platforms and gathering pipelines, to gas processing, separation and distribution. Management has grown revenues at an average annual rate of 12.5 percent over the last 5 years. Revenues for 2007 should grow by 15 percent to \$15.7 billion; earnings should grow by 20 percent from \$1.13 to \$1.36 while the dividend (6 percent currently yield) is projected to improve 8 percent from \$1.80 to \$1.95. Similar gains are expected for 2008.

Capital spending is expected to remain strong at \$1.8 billion this year and management is likely to add several new projects; all of which will be financed with funds from ongoing operations. EPD expects to expand its energy assets in Texas as well as in the Rocky Mountain region, while natural gas is expected to begin flowing at its Gulf of Mexico facility by this summer.

EPD is a mature, low- to moderate-risk investment that should provide you with dependable dividend growth and modest capital appreciation in the coming three to five years. I feel it can continue to be a good companion to your portfolio. Sell Microsoft.

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