



UGI Corporation (UGI)

Updated August 23rd, 2023 by Samuel Smith

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	15.2%	Market Cap:	\$4.8 B
Fair Value Price:	\$31	5 Year Growth Estimate:	4.6%	Ex-Dividend Date:	09/14/23
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	6.0%	Dividend Payment Date:	10/01/23
Dividend Yield:	6.5%	5 Year Price Target	\$39	Years Of Dividend Growth:	36
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

UGI Corporation is a gas and electric utility that operates in Pennsylvania, in addition to a large energy distribution business that serves the entire US and other parts of the world. It was founded in 1882 and has paid consecutive dividends since 1885. Its market capitalization is \$4.8 billion. The company operates in four reporting segments: AmeriGas, UGI International, Midstream & Marketing, and UGI Utilities.

On August 2nd, 2023, UGI reported its Q3 results. The quarter saw GAAP diluted earnings per share ("EPS") of \$(3.76) and adjusted diluted EPS of \$0.00, contrasting with GAAP diluted EPS of \$(0.03) and adjusted diluted EPS of \$0.06 in the prior-year period. Year-to-date figures revealed GAAP diluted EPS of \$(7.78) and adjusted diluted EPS of \$2.81 compared to GAAP diluted EPS of \$3.84 and adjusted diluted EPS of \$2.90 in the prior-year period. The year-to-date reportable segments earnings before interest expense and income taxes ("EBIT") stood at \$1,076 million, nearly on par with the prior-year period's \$1,079 million. As of June 30, 2023, the company maintained available liquidity of about \$1.8 billion. UGI entered into definitive agreements for divestitures including the natural gas and power marketing business in Belgium, scheduled to conclude by the end of fiscal 2023, as well as certain natural gas and power marketing portfolios in France and the wind and solar portfolio in the Netherlands, anticipated to close in the first and second quarters of fiscal 2024, respectively. Additionally, UGI released its fifth annual ESG Report titled "Partners for the Future," outlining advancements and achievements in key initiatives.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.59	\$1.92	\$2.01	\$2.05	\$2.29	\$2.74	\$2.28	\$2.67	\$2.96	\$2.90	\$2.80	\$3.50
DPS	\$0.74	\$0.79	\$0.89	\$0.93	\$0.96	\$1.03	\$1.21	\$1.31	\$1.37	\$1.43	\$1.50	\$1.70
Shares¹	171.7	172.4	172.4	173.0	173.2	173.8	209.0	208.4	209.8	209.7	209.5	212

We see 4.6% annualized growth over the next half decade. UGI completes acquisitions periodically, further bolstering future growth. It does not buy back stock, but these initiatives should be enough to drive earnings-per-share growth over the long-term. Keep in mind that results are non-linear thanks to the weather, so UGI will almost certainly not achieve steady growth, but will go through stops and starts. Long-term, however, the growth story remains intact.

Management is dedicated to continuing the long streak of paying dividends and the 36 years of consecutive increases.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.0	16.4	15.4	15.8	17.7	19.3	20.8	20.2	12.9	13.2	8.2	11.0
Avg. Yld.	3.1%	2.5%	2.9%	2.9%	2.4%	2.0%	2.6%	2.4%	3.6%	3.7%	6.5%	4.4%

Today's price-to-earnings multiple stands at 8.2 times our expected 2023 earnings-per-share. However, we are forecasting a reversion to the mean at 11 as the stock remains undervalued. Dividend stocks, and utilities in particular, have been assigned rising valuations in recent years due to persistently low interest rates, but UGI is currently trading

¹ In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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below its historical price-to-earnings levels, giving it additional upside potential from valuation multiple expansion. We note the current valuation is near the lowest point of the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	46.5%	41.1%	44.3%	45.4%	41.9%	37.6%	53.1%	49.1%	46.3%	49.3%	53.6%	48.6%

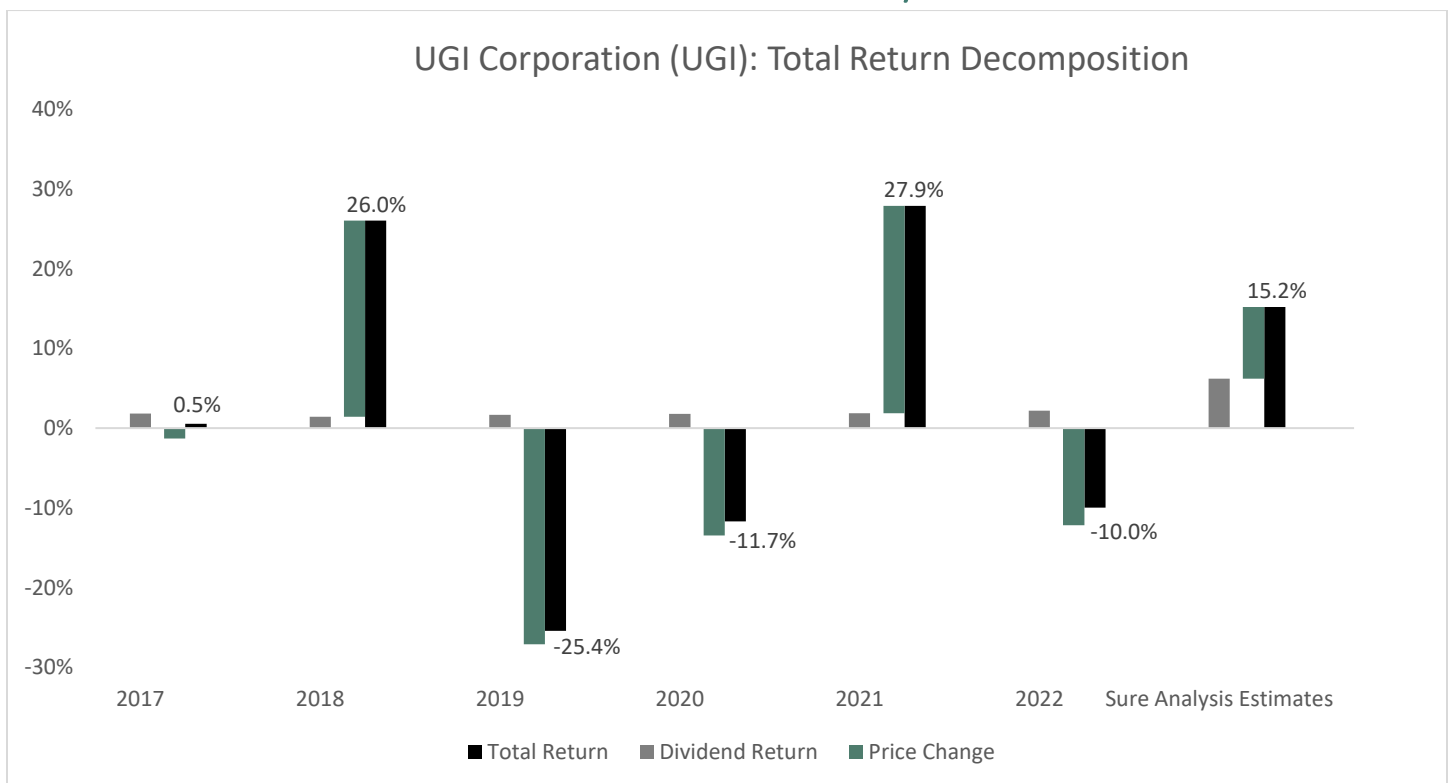
UGI's main competitive advantage is in its highly diversified business model. It has electric and gas utilities, propane distribution that covers a wide geographic area and diverse customer base, as well as a variety of other energy generation and distribution activities. This allows it to not only weather downturns in any particular business, but provides several avenues for growth as well. UGI's strong performance during the Great Recession illustrates this.

The payout ratio is quite reasonable today given the company weathered the COVID-19 recession well. We expect a ~50% payout ratio for the foreseeable future, indicating excellent dividend safety.

Final Thoughts & Recommendation

UGI is a Dividend Champion that offers strong future annualized total return potential of 15.2% due to the combination of strong growth, an attractive dividend yield, and expected multiple expansion. As a utility, it should be well-positioned to weather a recession and its well-covered and growing dividend yield is attractive for dividend growth investors. As a result, we rate it a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	7,195	8,277	6,691	5,686	6,121	7,651	7,320	6,559	7,447	10,106
Gross Profit	2,870	3,102	2,955	3,248	3,283	3,576	2,997	3,410	4,833	4,133
Gross Margin	39.9%	37.5%	44.2%	57.1%	53.6%	46.7%	40.9%	52.0%	64.9%	40.9%
SG&A Exp.	1,692	1,753	1,774	1,882	1,868	2,013	1,963	1,911	2,014	2,028
D&A Exp.	363	363	374	401	416	455	448	484	502	518
Operating Profit	812	979	810	969	1,011	1,116	591	1,020	2,317	1,614
Operating Margin	11.3%	11.8%	12.1%	17.0%	16.5%	14.6%	8.1%	15.6%	31.1%	16.0%
Net Profit	278	337	281	365	437	719	256	532	1,467	1,073
Net Margin	3.9%	4.1%	4.2%	6.4%	7.1%	9.4%	3.5%	8.1%	19.7%	10.6%
Free Cash Flow	316	549	673	406	326	511	373	447	791	(88)
Income Tax	163	235	178	221	178	33	93	135	522	313

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	10009	10093	10514	10847	11582	11981	13347	13985	16723	17575
Cash & Equivalents	389	420	370	503	558	453	447	336	855	405
Accounts Receivable	746	685	620	552	627	752	641	652	880	1,127
Inventories	366	423	240	210	279	318	230	241	469	665
Goodwill & Int. Ass.	3,482	3,410	3,564	3,569	3,719	3,674	4,165	4,195	4,353	4,112
Total Liabilities	6,461	6,430	6,942	7,252	7,841	7,881	9,520	9,848	11,192	11,501
Accounts Payable	472	460	393	391	440	562	439	475	837	891
Long-Term Debt	3,837	3,722	3,857	4,087	4,539	4,590	6,600	6,381	6,816	7,000
Shareholder's Equity	2,493	2,659	2,692	2,844	3,163	3,681	3,817	4,128	5,309	5,904
LTD/E Ratio	1.54	1.40	1.43	1.44	1.43	1.25	1.73	1.55	1.23	1.15

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.8%	3.4%	2.7%	3.4%	3.9%	6.1%	2.0%	3.9%	9.6%	6.3%
Return on Equity	11.8%	13.1%	10.5%	13.2%	14.5%	21.0%	6.8%	13.4%	31.1%	19.1%
ROIC	3.9%	4.6%	3.8%	4.8%	5.5%	8.5%	2.7%	5.1%	12.8%	8.4%
Shares Out.	171.7	172.4	172.4	173.0	173.2	173.8	209.0	208.4	209.1	209.7
Revenue/Share	41.52	47.24	38.09	32.38	34.55	43.25	40.42	31.25	35.11	46.83
FCF/Share	1.82	3.13	3.83	2.31	1.84	2.89	2.06	2.13	3.73	(0.41)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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