



Suburban Propane (SPH)

Updated May 27th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	6.2%	Market Cap:	\$1,230 M
Fair Value Price:	\$14	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	08/06/24 ¹
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.5%	Dividend Payment Date:	08/14/24
Dividend Yield:	6.8%	5 Year Price Target	\$19	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Suburban Propane has been in operation since 1928 and became a Master Limited Partnership in 1996. The partnership services most of the U.S. with propane and other energy sources, with propane making up around 90% of total revenue. It has a market capitalization of \$1.2 billion and should generate about \$1.2 billion in revenue this year. The partnership has about 3,300 employees in 41 states, serving approximately 1 million customers.

Suburban posted second quarter earnings on May 9th, 2024, and results were worse than expected on both the top and bottom lines. Earnings-per-share came to \$1.72, which was seven cents light of estimates. Revenue also fell more than 5% year-over-year to \$498 million, missing estimates by almost \$13 million.

Adjusted EBITDA was \$147 million for the quarter, down very slightly from \$149 million a year ago. The management team said inconsistent weather was once again an issue, as was unseasonably warm weather across the partnership's footprint. Average temperatures were higher than the prior year, and higher than normal, with the exception of a brief cold front in January.

Retail propane gallons sold fell 2.7% to 140 million gallons. Average propane prices were up 2.8% from the year-ago period. That helped drive gross margin of \$308 million, up \$13 million, or 4.4%, year-over-year. Gross margin included a mark-to-market gain, which was a ~\$10 million tailwind compared to the year-ago period, meaning that without these adjustments, gross margin was roughly flat.

Suburban repaid \$32 million in debt, ending the quarter at a leverage ratio of 4.61X, down from 4.72X in the prior quarter. We see \$2.05 per share in profits this year after Q2 results.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
CF/S	\$3.82	\$3.59	\$2.36	\$2.72	\$3.28	\$3.66	\$2.86	\$3.65	\$2.79	\$1.82	\$2.05	\$2.74
DPS	\$3.50	\$3.54	\$3.55	\$3.26	\$2.40	\$2.40	\$1.80	\$1.26	\$1.30	\$1.30	\$1.30	\$1.30
Shares²	61	61	61	61	62	62	63	63	63	64	64	65

Cash flow has been predictably volatile during the past decade as it is all down to the weather for Suburban. It relies heavily upon heating demand so when temperatures are warmer than normal – as they have been for the past four years – results suffer. We forecast 6% average annual growth for the next five years as Suburban grapples with weather-related volumes, but on a much lower base of earnings. Weather patterns deteriorated for Suburban during the most recent heating season, which is critical for earnings. Shareholders would do well to monitor Suburban's results on a quarterly basis for commentary from management on this key variable. We note that the partnership has been able to maintain earnings despite poor weather conditions, with the exception of fiscal 2023.

Suburban cut its distribution in fiscal 2018 after it became clear it was unsustainable, and again in fiscal 2020. We see a payout of \$1.30 per share by fiscal 2029 as the partnership's fundamentals appear to be stabilizing. Cash flow should cover the distribution in the coming years, so another cut should not be necessary. Of course, Suburban should have

¹ Estimated date

² In millions

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been able to cover the distribution prior to 2020's cut, so we continue to be cautious. Weather is the clear wildcard for fiscal 2024 results as evidenced again in Q2 results.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/CF	7.3	7.3	9.9	8.0	7.1	6.2	6.2	4.2	5.4	8.8	9.3	7.0
Avg. Yld.	7.8%	8.5%	11.6%	12.1%	10.3%	10.5%	10.2%	8.2%	8.6%	8.1%	6.8%	6.8%

Suburban's valuation remains low on an absolute basis, but we see the stock as overvalued today. We see a -5.5% impact from the valuation on total returns as the stock trades at 132% of fair value today. We see the yield remaining where it is today as we are forecasting no distribution changes.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	98%	92%	99%	150%	120%	73%	63%	35%	47%	71%	63%	47%

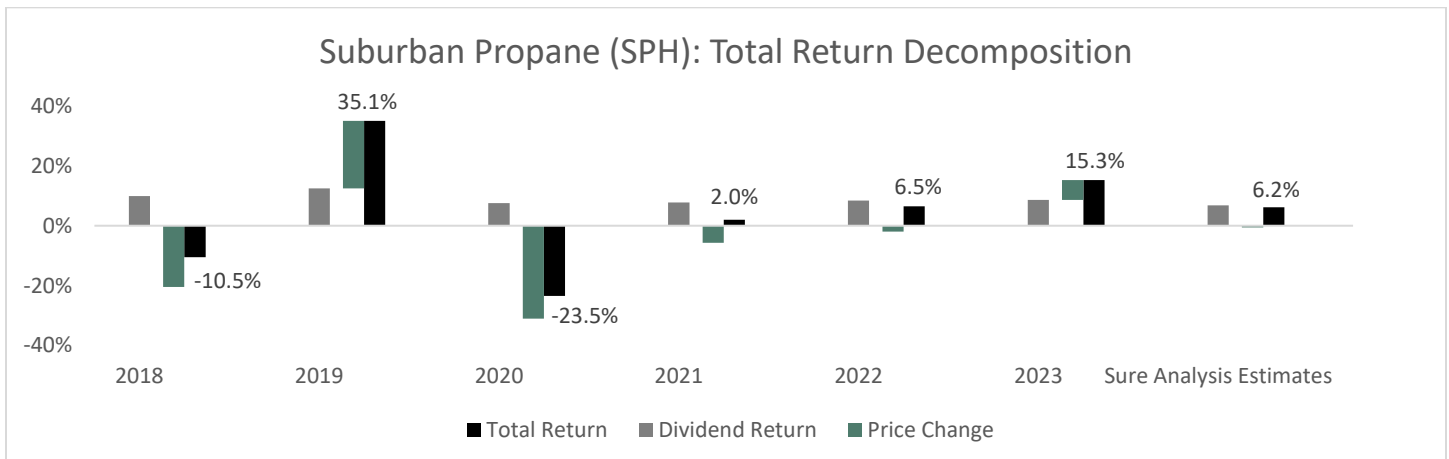
Suburban's payout ratio is very reasonable against its cash flow per share. Over time, we expect the payout ratio to fall given rising earnings estimates.

Suburban's main competitive advantages are its switching costs as well as its entrenched position in its service areas. It has a long operating history in the Northeast and that has allowed it to expand to other parts of the U.S., providing additional buying and distribution leverage. It is not beholden to economic conditions, so recessions are not a concern, but the weather is always a factor. It is not immune to competition as a natural gas distribution utility could encroach on Suburban's core business, especially if propane became significantly more expensive than natural gas. Suburban will likely need to continue acquiring smaller propane competitors to sustain its volumes as organic sales should continue to decline. This adds acquisition and integration risks to the operation as well.

Final Thoughts & Recommendation

Overall, Suburban appears to be a reasonably attractive investment with its forecasted annual returns of 6.2% thanks to its huge yield of 6.8% and a -5.5% impact from the valuation, as well as 6% growth. The distribution should be safe at its current levels for the foreseeable future, offering income investors the chance to grab a sizable yield. Suburban is not without risks, and we see the stock as significantly overvalued. Following second quarter results, we reiterate the stock at a hold rating but note the lack of distribution growth and very high relative valuation are unattractive.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,938	1,417	1,046	1,188	1,344	1,268	1,108	1,289	1,501	1,429
Gross Profit	858	824	684	711	752	746	725	803	789	839
Gross Margin	44.2%	58.1%	65.4%	59.9%	55.9%	58.8%	65.4%	62.3%	52.6%	58.7%
SG&A Exp.	65	68	61	57	66	71	66	74	82	92
D&A Exp.	136	133	130	128	125	121	117	105	59	63
Operating Profit	190	178	81	129	163	151	140	213	206	207
Operating Margin	9.8%	12.5%	7.7%	10.8%	12.1%	11.9%	12.7%	16.5%	13.7%	14.5%
Net Profit	95	84	14	38	77	69	61	123	140	124
Net Margin	4.9%	6.0%	1.4%	3.2%	5.7%	5.4%	5.5%	9.5%	9.3%	8.7%
Free Cash Flow	195	283	119	136	178	192	177	197	176	180
Income Tax	1	1	1	0	(1)	1	(0)	1	0	1

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,609	2,486	2,282	2,171	2,101	1,998	2,047	2,052	2,104	2,270
Cash & Equivalents	93	152	37	3	5	2	3	6	4	4
Accounts Receivable	97	60	54	66	71	59	55	71	79	68
Inventories	91	48	45	53	59	45	47	62	67	62
Goodwill & Int. Ass.	1,447	1,395	1,371	1,315	1,269	1,227	1,188	1,146	1,153	1,229
Total Liabilities	1,588	1,587	1,574	1,618	1,607	1,575	1,685	1,626	1,606	1,724
Accounts Payable	49	35	32	39	38	34	32	39	35	40
Long-Term Debt	1,243	1,241	1,225	1,272	1,255	1,227	1,210	1,118	1,077	1,188
Shareholder's Equity	1,021	898	708	553	494	424	362	425	498	546

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.5%	3.3%	0.6%	1.7%	3.6%	3.3%	3.0%	6.0%	6.7%	5.7%
Return on Equity	8.8%	8.8%	1.8%	6.0%	14.6%	15.0%	15.5%	31.2%	30.3%	23.7%
Shares Out.	61	61	61	61	62	62	63	63	64	64
Revenue/Share	31.90	23.26	17.10	19.30	21.74	20.33	17.66	20.36	23.45	22.18
FCF/Share	3.22	4.65	1.95	2.20	2.87	3.08	2.82	3.11	2.75	2.80

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

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