



# UGI Corporation (UGI)

Updated May 11<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

|                             |        |  |      |                                  |         |
|-----------------------------|--------|--|------|----------------------------------|---------|
| <b>Current Price:</b>       | \$24.9 | <b>5 Year CAGR Estimate:</b>               | 8.7% | <b>Market Cap:</b>               | \$5.2 B |
| <b>Fair Value Price:</b>    | \$28.2 | <b>5 Year Growth Estimate:</b>             | 1.2% | <b>Ex-Dividend Date:</b>         | 6/14/24 |
| <b>% Fair Value:</b>        | 88%    | <b>5 Year Valuation Multiple Estimate:</b> | 2.5% | <b>Dividend Payment Date:</b>    | 7/01/24 |
| <b>Dividend Yield:</b>      | 6.0%   | <b>5 Year Price Target</b>                 | \$30 | <b>Years Of Dividend Growth:</b> | 36      |
| <b>Dividend Risk Score:</b> | B      | <b>Retirement Suitability Score:</b>       | A    | <b>Rating:</b>                   | Hold    |

## 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 \$5.2 billion. The company operates in four reporting segments: AmeriGas, UGI International, Midstream & Marketing, and UGI Utilities.

UGI Corporation (UGI) reported strong financial results for the fiscal quarter ending March 31, 2024, with GAAP diluted EPS reaching \$2.30 and adjusted diluted EPS at \$1.97, compared to \$0.51 and \$1.68 respectively in the prior-year period. Despite warmer weather across its service territories, the company achieved higher margins from natural gas marketing activities and reduced operating expenses, leading to robust second-quarter performance. Additionally, UGI affirmed its commitment to returning value to shareholders through dividend payments, marking the 140th consecutive year of paying dividends. The company also concluded its strategic review of its LPG businesses, deciding to retain ownership of AmeriGas Propane after evaluating various value creation opportunities. Mario Longhi, Interim President and CEO, emphasized the importance of executing a revised operational strategy to optimize assets and create long-term shareholder value. UGI remains confident in its ability to deliver full-year results within its fiscal 2024 adjusted EPS guidance range and aims to drive balanced growth and value creation through diligent execution on its long-term strategy.

## Growth on a Per-Share Basis

| Year                      | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024          | 2029          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.92 | \$2.01 | \$2.05 | \$2.29 | \$2.74 | \$2.28 | \$2.67 | \$2.96 | \$2.90 | \$2.84 | <b>\$2.82</b> | <b>\$3.00</b> |
| <b>DPS</b>                | \$0.79 | \$0.89 | \$0.93 | \$0.96 | \$1.03 | \$1.21 | \$1.31 | \$1.37 | \$1.43 | \$1.47 | <b>\$1.50</b> | <b>\$1.60</b> |
| <b>Shares<sup>1</sup></b> | 172.4  | 172.4  | 173.0  | 173.2  | 173.8  | 209.0  | 208.4  | 209.8  | 209.7  | 210.9  | <b>209.6</b>  | <b>212</b>    |

We see 1.2% 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. Moreover, UGI is currently undergoing a strategic review that could significantly impact our estimates, but for now we see the regulated utility business growing at a strong clip while the remainder of the business will likely continue to suffer from meaningful headwinds. Management is dedicated to continuing the long streak of paying dividends and the 36 years of consecutive increases.

## Valuation Analysis

| Year             | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now         | 2029        |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/E</b>  | 16.4 | 15.4 | 15.8 | 17.7 | 19.3 | 20.8 | 20.2 | 12.9 | 13.2 | 8.2  | <b>8.8</b>  | <b>10.0</b> |
| <b>Avg. Yld.</b> | 2.5% | 2.9% | 2.9% | 2.4% | 2.0% | 2.6% | 2.4% | 3.6% | 3.7% | 6.5% | <b>6.0%</b> | <b>5.3%</b> |

<sup>1</sup> In millions

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Today's price-to-earnings multiple stands at 8.8 times our expected 2024 earnings-per-share. However, we are forecasting a reversion to our fair value estimate of 10 as the stock remains undervalued. Dividend stocks, and utilities in particular, have seen their valuation multiples contract due to rapidly rising interest rates, but UGI is currently trading significantly below its historical price-to-earnings levels, giving it additional upside potential from valuation multiple expansion. We note the current valuation is near its lowest point of the past decade.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2029  |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Payout | 41.1% | 44.3% | 45.4% | 41.9% | 37.6% | 53.1% | 49.1% | 46.3% | 49.3% | 51.8% | 53.2% | 53.3% |

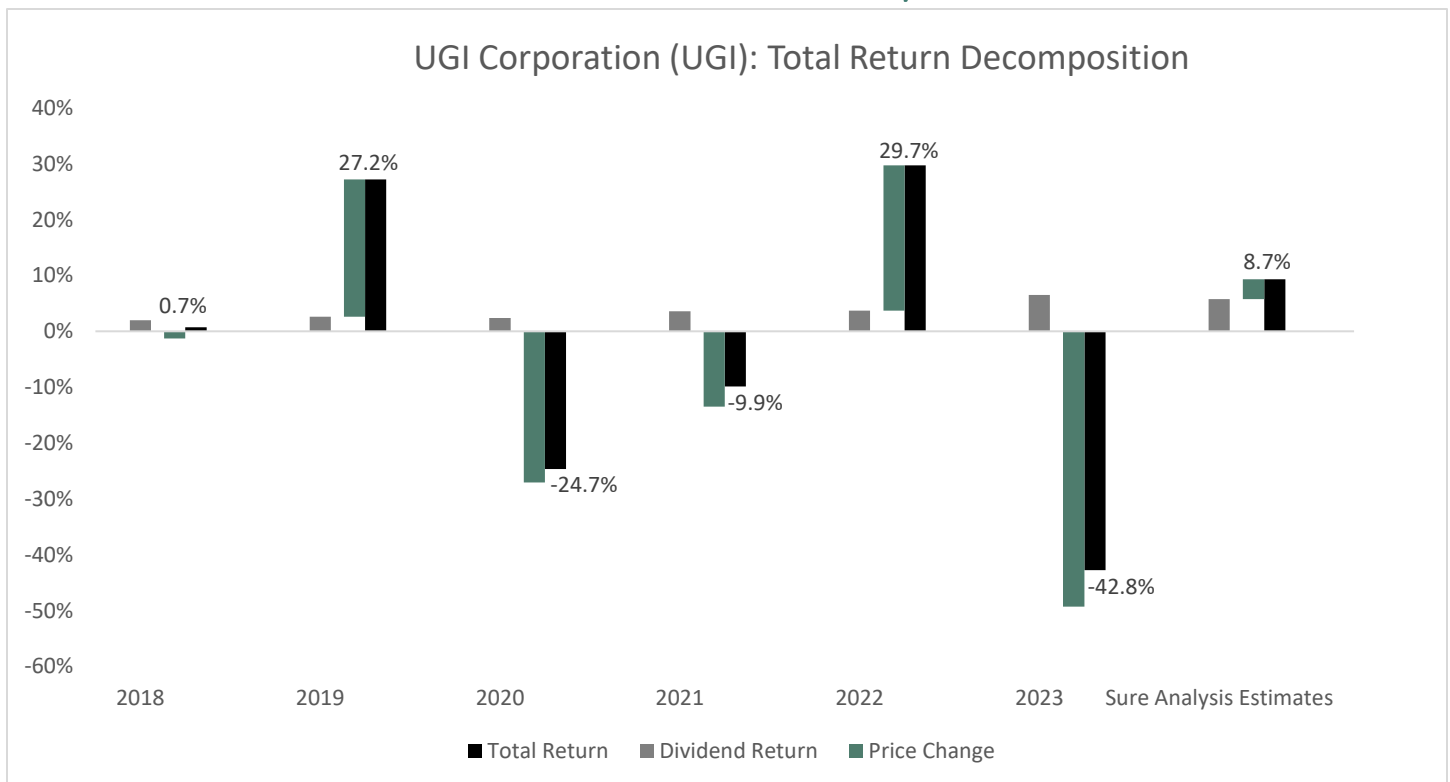
UGI's main competitive advantage is in its highly diversified business model. It has electric and gas utilities, propane distribution that covers a wide geographic area and diverse customer base, as well as a variety of other energy generation and distribution activities. This allows it to not only weather 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 Aristocrat that offers solid future annualized total return potential of 8.7% due to the combination of slight 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 Hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022   | 2023    |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|---------|
| <b>Revenue</b>          | 8,277 | 6,691 | 5,686 | 6,121 | 7,651 | 7,320 | 6,559 | 7,447 | 10,106 | 8,928   |
| <b>Gross Profit</b>     | 3,102 | 2,955 | 3,248 | 3,283 | 3,576 | 2,997 | 3,410 | 4,833 | 4,133  | 1,991   |
| <b>Gross Margin</b>     | 37.5% | 44.2% | 57.1% | 53.6% | 46.7% | 40.9% | 52.0% | 64.9% | 40.9%  | 22.3%   |
| <b>SG&amp;A Exp.</b>    | 1,753 | 1,774 | 1,882 | 1,868 | 2,013 | 1,963 | 1,911 | 2,014 | 2,028  | 2,158   |
| <b>D&amp;A Exp.</b>     | 363   | 374   | 401   | 416   | 455   | 448   | 484   | 502   | 518    | 532     |
| <b>Operating Profit</b> | 979   | 810   | 969   | 1,011 | 1,116 | 591   | 1,020 | 2,317 | 1,619  | (658)   |
| <b>Operating Margin</b> | 11.8% | 12.1% | 17.0% | 16.5% | 14.6% | 8.1%  | 15.6% | 31.1% | 16.0%  | -7.4%   |
| <b>Net Profit</b>       | 337   | 281   | 365   | 437   | 719   | 256   | 532   | 1,467 | 1,073  | (1,502) |
| <b>Net Margin</b>       | 4.1%  | 4.2%  | 6.4%  | 7.1%  | 9.4%  | 3.5%  | 8.1%  | 19.7% | 10.6%  | -16.8%  |
| <b>Free Cash Flow</b>   | 549   | 673   | 406   | 326   | 511   | 373   | 447   | 791   | (88)   | 133     |
| <b>Income Tax</b>       | 235   | 178   | 221   | 178   | 33    | 93    | 135   | 522   | 313    | (335)   |

## Balance Sheet Metrics

| Year                            | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>             | 10,093 | 10,514 | 10,847 | 11,582 | 11,981 | 13,347 | 13,985 | 16,723 | 17,575 | 15,401 |
| <b>Cash &amp; Equivalents</b>   | 420    | 370    | 503    | 558    | 453    | 447    | 336    | 855    | 405    | 241    |
| <b>Accounts Receivable</b>      | 685    | 620    | 552    | 627    | 752    | 641    | 652    | 880    | 1,127  | 878    |
| <b>Inventories</b>              | 423    | 240    | 210    | 279    | 318    | 230    | 241    | 469    | 665    | 433    |
| <b>Goodwill &amp; Int. Ass.</b> | 3,410  | 3,564  | 3,569  | 3,719  | 3,674  | 4,165  | 4,195  | 4,353  | 4,112  | 3,470  |
| <b>Total Liabilities</b>        | 6,430  | 6,942  | 7,252  | 7,841  | 7,881  | 9,520  | 9,848  | 11,192 | 11,501 | 11,007 |
| <b>Accounts Payable</b>         | 460    | 393    | 391    | 440    | 562    | 439    | 475    | 837    | 891    | 613    |
| <b>Long-Term Debt</b>           | 3,722  | 3,857  | 4,087  | 4,539  | 4,590  | 6,600  | 6,381  | 6,816  | 7,000  | 7,249  |
| <b>Shareholder's Equity</b>     | 2,659  | 2,692  | 2,844  | 3,163  | 3,681  | 3,817  | 4,128  | 5,309  | 5,904  | 4,219  |
| <b>LTD/E Ratio</b>              | 1.40   | 1.43   | 1.44   | 1.43   | 1.25   | 1.73   | 1.55   | 1.23   | 1.15   | 1.65   |

## Profitability & Per Share Metrics

| Year                    | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022   | 2023   |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| <b>Return on Assets</b> | 3.4%  | 2.7%  | 3.4%  | 3.9%  | 6.1%  | 2.0%  | 3.9%  | 9.6%  | 6.3%   | -9.1%  |
| <b>Return on Equity</b> | 13.1% | 10.5% | 13.2% | 14.5% | 21.0% | 6.8%  | 13.4% | 31.1% | 19.1%  | -29.7% |
| <b>ROIC</b>             | 4.6%  | 3.8%  | 4.8%  | 5.5%  | 8.5%  | 2.7%  | 5.1%  | 12.8% | 8.4%   | -12.2% |
| <b>Shares Out.</b>      | 172.4 | 172.4 | 173.0 | 173.2 | 173.8 | 209.0 | 208.4 | 209.8 | 209.7  | 209.5  |
| <b>Revenue/Share</b>    | 47.24 | 38.09 | 32.38 | 34.55 | 43.25 | 40.42 | 31.25 | 35.11 | 46.83  | 42.55  |
| <b>FCF/Share</b>        | 3.13  | 3.83  | 2.31  | 1.84  | 2.89  | 2.06  | 2.13  | 3.73  | (0.41) | 0.63   |

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

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