Genesis Energy (GEL)

Updated August 27th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$14.0	**5 Year CAGR Estimate:**	5.6%	**Market Cap:**	$1.7 B
Fair Value Price:	$14.0	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date[1]:**	10/28/2024
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Dividend Payment Date:**	11/12/2024
Dividend Yield:	4.3%	**5 Year Price Target**	$15	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Genesis Energy is a diversified midstream energy limited partnership, which generates 51% of its operating income from offshore pipeline transportation, 31% from sodium minerals and sulfur services, 3% from onshore facilities and 15% from marine transportation. It has a market capitalization of $1.7 billion.

Genesis Energy has dramatically underperformed the market in the last five years, as shares have fallen -32% whereas the S&P has rallied 95%. The underperformance of Genesis Energy reflects its poor business performance. The MLP has spent hefty amounts on capital expenses but the performance of its investments has been poor. As a result, it has posted negative free cash flows in six out of the last ten years. Moreover, it has markedly increased its debt load, with its interest expense currently consuming 85% of its operating income. Consequently, when some turnarounds and Hurricane Harvey adversely affected its results, the MLP was forced to cut its distribution by -31% in late 2017.

Even worse, Genesis Energy faced a fierce downturn in 2020-2021 due to the pandemic, which severely hurt the oil segment and the sodium business. The MLP cut its quarterly distribution by -73% in 2020, from $0.55 to $0.15.

In early August, Genesis Energy reported (8/1/24) financial results for the second quarter of fiscal 2024. The offshore pipeline saw its operating income decrease -8% vs. last year's quarter due to underperformance in two major platforms. The marine transportation segment enjoyed higher day rates but the soda and sulfur segment was negatively affected by lower export prices. As a result, distributable cash flow decreased from $96 million to $38 million and distribution coverage ratio decreased from 5.2 to 2.1. The company lowered its guidance for adjusted EBITDA in the full year from $680-$740 million to $625-$650 million. At the mid-point, this guidance implies a -15% decrease. On the bright side, the MLP expects to grow adjusted EBITDA to about $800 million in 2025 and $900 million in 2026. The hefty loss in 2020, which was ~29% of the current market cap, is a reminder of the excessive risk of Genesis Energy during downturns.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCF/U	$2.07	$2.18	$2.81	$2.52	-$4.22	$2.93	$2.08	$1.66	$2.88	$2.87	***$2.85***	***$3.15***
DPU	$2.29	$2.47	$2.72	$2.65	$2.10	$2.20	$1.00	$0.60	$0.60	$0.60	***$0.60***	***$0.60***
Shares[2]	90.1	103.0	113.4	121.5	122.6	122.6	122.6	122.6	122.6	122.5	***122.4***	***150.0***

Genesis Energy has failed to grow its DCF per unit consistently over the last decade, mostly due to its poor investments and the impact of the pandemic on its business. The MLP has net debt of $4.6 billion, which is nearly triple the current market cap, and a somewhat high leverage ratio (net debt/EBITDA) of 4.4. Due to its high leverage, the MLP was forced to sell a 36% stake in its CHOPS oil pipeline system in 2021 and used the proceeds to pay debt and become compliant with the requirements of its lenders. Given the outlook for lower capital expenses from 2025, we expect 2.0% growth of DCF per unit on average until 2029. Part of this growth should come from the deleveraging process, which will reduce interest expense to healthier levels. The choppy and poor growth record raises a red flag for the stock.

[1] Estimated date.
[2] In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/DCF	20.5	16.9	12.9	8.9	---	7.3	3.8	5.7	3.7	3.7	***4.9***	***4.9***
Avg. Yld.	4.4%	5.7%	8.1%	8.8%	9.4%	9.4%	12.5%	6.3%	5.6%	5.6%	***4.3%***	***3.9%***

Genesis Energy is currently trading at a P/DCF ratio of 4.9, which is equal to the historical 5-year average of the stock. As we view this valuation level as fair, we do not expect valuation to affect the 5-year return of the stock meaningfully.

Safety, Quality, Competitive Advantage, & Recession Resiliency

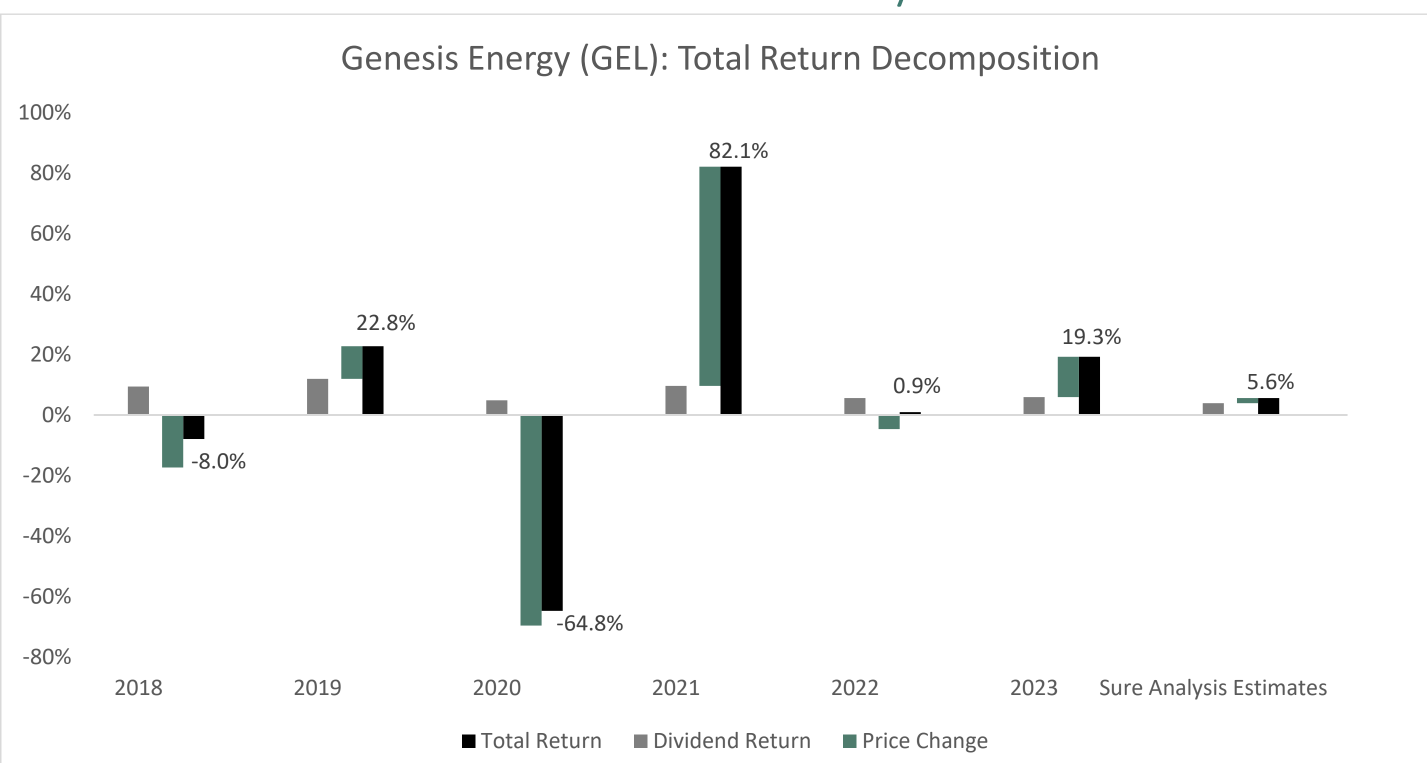
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	78.7%	37.6%	66.2%	65.0%	38.2%	75.1%	48.0%	36.1%	20.8%	20.9%	***21.1%***	***19.1%***

Given the volatile and lackluster performance record of Genesis Energy, it is evident that there is no meaningful competitive advantage in place. While Genesis Energy operates primarily with a fee-based model, its earnings are not resilient. In our view, the MLP invested too heavily and increased its leverage too much in the past. As a result, the financial burden of its debt exerts a strong drag on its results through high interest expense and dilution of its unit holders. It also renders Genesis Energy highly vulnerable to any downturn in its business, such as a recession.

Final Thoughts & Recommendation

Due to its poor business performance and its high leverage, which has caused two distribution cuts, Genesis Energy has dramatically underperformed the market in the last five years. The stock could offer a 5.6% average annual return over the next five years thanks to its 4.3% distribution and 2.0% growth of DCF per unit. Nevertheless, it will be highly vulnerable in the event of another downturn, such as a recession. We rate the stock as a hold only for those who realize its risk and can stomach high stock price volatility.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,846	2,247	1,712	2,028	2,913	2,481	1,825	2,125	2,789	3,177
Gross Profit	183	222	252	247	321	325	114	137	342	395
Gross Margin	4.8%	9.9%	14.7%	12.2%	11.0%	13.1%	6.2%	6.4%	12.3%	12.4%
SG&A Exp.	51	65	46	66	67	53	57	61	67	66
D&A Exp.	91	---	---	---	---	---	---	310	296	280
Operating Profit	133	139	206	164	259	273	57	76	275	329
Operating Margin	3.4%	6.2%	12.1%	8.1%	8.9%	11.0%	3.1%	3.6%	9.9%	10.4%
Net Profit	106	423	113	83	(6)	96	(417)	(165)	75	118
Net Margin	2.8%	18.8%	6.6%	4.1%	-0.2%	3.9%	-22.8%	-7.8%	2.7%	3.7%
Free Cash Flow	(152)	(206)	(180)	73	195	219	153	37	(90)	(99)
Income Tax	3	4	3	(4)	1	1	1	2	3	0

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,211	5,460	5,703	7,137	6,479	6,598	5,934	5,906	6,366	7,019
Cash & Equivalents	9	11	7	9	10	29	27	20	8	9
Accounts Receivable	272	220	225	495	323	417	392	400	722	760
Inventories	47	44	99	89	74	65	100	78	78	135
Goodwill & Int. Ass.	408	548	530	507	465	441	431	429	429	443
Total Liabilities	1,981	3,439	3,583	4,423	4,037	4,376	4,325	3,926	4,591	5,308
Accounts Payable	245	141	120	271	127	219	198	264	428	589
Long-Term Debt	1,581	2,922	3,091	3,698	3,432	3,429	3,394	2,980	3,464	3,753
Shareholder's Equity	1,229	2,029	2,130	2,723	2,453	2,225	1,610	1,426	1,465	1,341

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.5%	9.7%	2.0%	1.3%	-0.1%	1.5%	-6.7%	-2.8%	1.2%	1.8%
Return on Equity	9.1%	25.9%	5.4%	3.4%	-0.2%	4.1%	-21.7%	-10.9%	5.2%	6.8%
Shares Out.	90.1	103.0	113.4	121.5	122.6	122.6	122.6	122.6	2.1%	3.0%
Revenue/Share	42.71	21.81	15.10	16.69	23.76	20.24	14.89	17.34	122.58	122.54
FCF/Share	-1.69	-2.00	-1.59	0.60	1.59	1.79	1.25	0.30	22.75	25.93

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