Energy Transfer LP (ET)

Updated May 23rd, 2019 by Samuel Smith

Key Metrics

Current Price:	$14	**5 Year CAGR Estimate:**	16.4%	**Volatility Percentile:**	82.1%
Fair Value Price:	$18	**5 Year Growth Estimate:**	3.0%	**Momentum Percentile:**	35.0%
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.7%	**Growth Percentile:**	12.5%
Dividend Yield:	8.7%	**5 Year Price Target**	$20	**Valuation Percentile:**	80.4%
Dividend Risk Score:	C	**Retirement Suitability Score:**	A	**Total Return Percentile:**	87.2%

Overview & Current Events

On October 19th, 2018 Energy Transfer Equity, LP (previously ETE) and Energy Transfer Partners, LP (previously ETP) announced the completion of a merger with ETE buying ETP. As part of the merger, ETE changed its name to "Energy Transfer LP" and the common units began trading under the "ET" symbol. The combined firm owns and operates one of the largest and most diversified portfolios of energy assets in the United States with operations that include natural gas transportation and storage along with crude oil, natural gas liquids and refined product transportation and storage totaling 83,000 miles of pipelines. Energy Transfer, a $37.9 billion market cap company, also owns the Lake Charles LNG Company, as well as a stakes in publicly traded Sunoco LP (SUN) and USA Compression Partners (USAC).

On May 8th, 2019 Energy Transfer reported Q1 results for the period ending March 31st, 2019. For the quarter, the company reported record $2.8 billion of adjusted EBITDA and $1.66 billion of distributable cash flow to partners, backed by impressive performance across all business segments. NGLs, refined products, and crude segments continued to benefit from rising gas demand. Management's near-term focus is continuing to deleverage while also self-funding the company's aggressive $5 billion growth CapEx plan. Results in the remainder of the year should benefit from the fact that the Lake Charles-to-St. James portion of Bayou Ridge pipeline started up on April 1.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
CF/S	$0.86	$0.73	$1.01	$0.91	$1.31	$2.12	$3.12	$3.20	$3.38	$2.06	***$2.20***	***$2.55***
DPS	$0.53	$0.54	$0.61	$0.63	$0.67	$0.80	$1.08	$1.14	$1.15	$1.22	***$1.22***	***$1.50***
Units	892	892	892	1,120	1,123	1,081	1,047	1,047	1,079	2,619	***2,650***	***2,650***

Note that the 2009 through 2017 period utilizes Cash Flow per unit for the legacy ETE security. This will not be indicative of the business results moving forward, but it can provide some general insights: ETE was able to grow cash flow at a solid rate in the last decade and the distribution remains well covered.

Normally DPS means "dividends per share" but in this case we are referring to "distributions per share" due to the partnership format. Energy Transfer has stated its intention to keep paying the $0.305 quarterly cash distribution ($1.22 on an annualized basis) after the merger. In addition, the firm believes that distribution coverage moving forward will be in the ~1.7x to ~1.9x range. We have used the mid-point, 1.8x, to come up with a Distributable Cash Flow estimate for this year. Moving forward this is the metric we will be looking at as a gauge of valuation.

Energy Transfer operates a "toll booth" model of transporting energy, with natural gas being particularly interesting. Eventually the world may move away from fossil fuels, but for the foreseeable future that is not the case. In the meantime, natural gas is a cleaner, more efficient and often cheaper alternative – something we have seen play out in the last decade as U.S. electricity production has shifted dramatically away from coal and toward natural gas. The partnership has a healthy backlog, with the expectation to spend $5 billion in capital expenditures this year. However, for now our intermediate-term growth expectations are modest, in-line with our previous growth expectations for ETP.

Energy Transfer LP (ET)

Updated May 23rd, 2019 by Samuel Smith

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg P/CF	8.9	13.4	10.0	12.5	15.6	13.5	4.4	6.0	5.1	6.4	***6.4***	***8.0***
Avg. Yld.	8.5%	6.2%	6.1%	5.9%	4.3%	3.1%	4.0%	8.6%	6.5%	9.2%	***8.7%***	***7.4%***

Keep in mind that the 2009 through 2017 period represents the average Price-to-Cash Flow multiple, whereas Distributable Cash Flow will be our gauge moving forward. Notice that while Cash Flow per unit was solid and increasing during this time, the valuation investors were willing to pay has varied dramatically. For instance, the share price tripled from the end of 2012 through mid-2015, before dropping ~80% in late 2015 / early 2016. We believe ~8 times distributable cash flow is a reasonable multiple for pipelines in general and Energy Transfer in particular, taking into consideration the growth profile and steady business offset by the high payout ratio and leverage profile.

Investor returns likely will be driven by the exceptionally high 8.7% dividend yield. This mark offers a bit better valuation comparison, as the company has indicated its intention of keeping the old ETE distribution intact.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	62%	74%	60%	69%	51%	38%	35%	36%	34%	59%	***56%***	***59%***

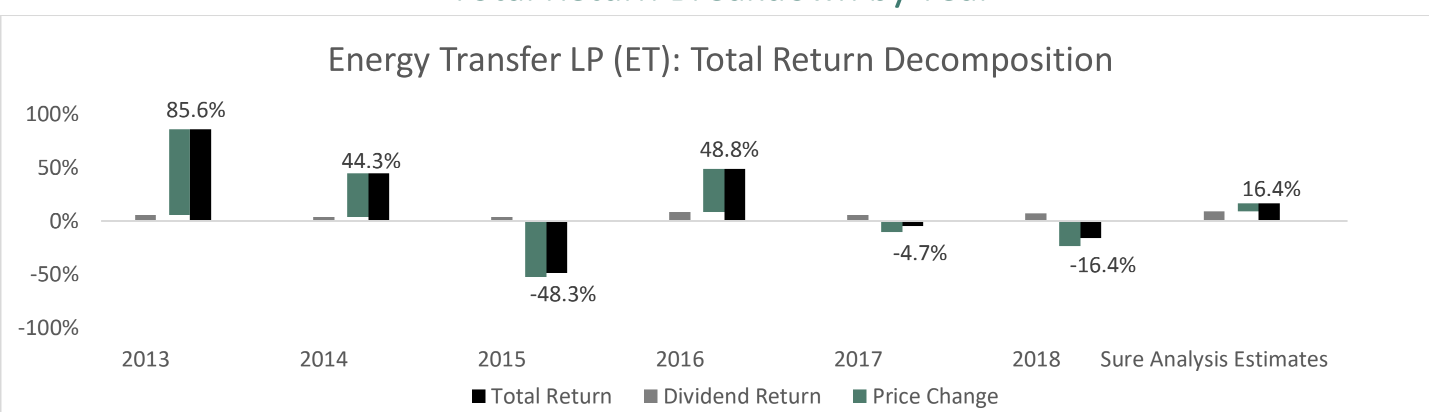
Energy Transfer is making strides in the safety department. Prior to merger, ETP was able to get Debt-to-Adjusted EBITDA down from 5.5x in Q1 2017 to 4.1x in Q2 2018. Since the merger Moody's has revised its credit rating to stable (Baa3 investment grade) and the company has told investors that it anticipates funding the majority of its growth capex with retained cash flow – reducing its reliance on the capital markets.

Additionally, Energy Transfer anticipates a distribution coverage ratio of ~1.7x to ~1.9x, which translates to a distribution payout ratio in the 50% to 60% range. That's more or less typical for a well-established common equity firm, but better than average for an MLP. In Q1, the company reported distribution coverage of over 2x, though this is expected to come down a little in the coming quarters depending upon how commodity prices perform.

Final Thoughts & Recommendation

The company's safety appears to be getting better thanks to growth making the distribution very well covered and deleveraging strengthening the balance sheet. Energy Transfer is a strong buy at current prices thanks to its expected 16.4% total returns stemming from the 8.7% distribution yield, its 3% annual DCF/unit growth prospects, and its expected 4.7% annual multiple expansion.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Energy Transfer LP (ET)

Updated May 23rd, 2019 by Samuel Smith

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	5417	6556	8190	16964	48335	55691	36096	31792	40523	54087
Gross Profit	1614	1683	2076	2758	4086	5175	5125	3547	4359	6481
Gross Margin	29.8%	25.7%	25.3%	16.3%	8.5%	9.3%	14.2%	11.2%	10.8%	12.0%
SG&A Exp.	179	233	253	527	533	611	548	656	599	702
D&A Exp.	325	406	586	871	1313	N/A	1951	N/A	N/A	N/A
Operating Profit	1110	1044	1237	1360	2240	2840	2626	2891	3760	5779
Operating Margin	20.5%	15.9%	15.1%	8.0%	4.6%	5.1%	7.3%	9.1%	9.3%	10.7%
Net Profit	442	193	310	304	196	633	1189	995	954	1694
Net Margin	8.2%	2.9%	3.8%	1.8%	0.4%	1.1%	3.3%	3.1%	2.4%	3.1%
Free Cash Flow	-25	-422	-432	-2193	-1086	-2206	-6004	-4449	-4015	99
Income Tax	9	14	17	54	93	357	-123	-258	-1833	4

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	12161	17379	20897	48904	50330	64279	71189	78925	86246	88246
Cash & Equivalents	68	86	126	372	590	847	606	467	336	419
Acc. Receivable	618	689	680	3057	3658	3378	2400	3557	4557	4120
Inventories	390	366	328	1522	1807	1467	1636	2055	2022	1677
Goodwill & Int. Ass.	1165	2861	3111	8725	8158	13447	12904	11182	10884	10885
Total Liabilities	8940	11131	13509	32554	34051	41950	47576	56479	56266	57396
Accounts Payable	398	449	545	3107	3834	3349	2274	3502	4716	3552
Long-Term Debt	7792	9381	11371	22053	23199	30485	36968	44052	44084	46028
Total Equity	0	121	53	2113	1078	664	-932	-1694	-1196	20559

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.8%	1.3%	1.6%	0.9%	0.4%	1.1%	1.8%	1.3%	1.2%	1.9%
Return on Equity	N/A	319.5%	357%	28.1%	12.3%	72.7%	-887%	-75.8%	-66.0%	17.5%
Shares Out.	892	892	892	1,120	1,123	1,081	1,047	1,047	1,079	2,619
Revenue/Share	6.08	7.35	9.18	15.90	43.09	51.16	33.96	29.48	35.21	37.01
FCF/Share	-0.03	-0.47	-0.48	-2.06	-0.97	-2.03	-5.65	-4.12	-3.49	0.07

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