Genesis Energy (GEL)

Updated May 27th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$8	**5 Year CAGR Estimate:**	12.1%	**Market Cap:**	$923 M
Fair Value Price:	$9	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	7/28/2020[1]
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.6%	**Dividend Payment Date:**	8/12/2020
Dividend Yield:	7.5%[2]	**5 Year Price Target**	$11	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	N/A

Overview & Current Events

Genesis Energy is a diversified midstream energy limited partnership, which generates 37% of its operating income from offshore pipeline transportation, 36% from sodium minerals and sulfur services, 19% from onshore facilities and 8% from marine transportation. It has a market capitalization of $923 million.

Genesis Energy has dramatically underperformed the market in the last five years, as shares have fallen -83% whereas the S&P has rallied 42%. 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 five out of the last seven years. Moreover, it has diluted its unit holders, as it has increased its unit count by 56% in the last seven years. Furthermore, it has markedly increased its debt load, with its interest expense currently consuming 81% 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 is currently facing a fierce downturn due to the coronavirus, which has caused a collapse in the demand for oil products. Due to the pandemic, the MLP recently cut its quarterly distribution by -73%, from $0.55 to $0.15.

In early May, Genesis Energy reported (5/6/20) financial results for the first quarter of fiscal 2020. The results were affected by the pandemic and the collapse of the oil price in the quarter. Crude-by-rail volumes became zero in early March and are expected to remain at this level until the end of the year. On the bright side, crude oil volumes in the Gulf of Mexico were strong. As a result, distributable cash flow per unit fell only -15% over last year's quarter, from $95.9 million to $81.8 million. Thanks to the recent distribution cut, the MLP now covers its distribution 4.45 times. Due to the impact of the pandemic on Genesis Energy, we have lowered our forecast for its DCF (distributable cash flow or "available cash before reserves") per unit this year from $2.80 to $1.30.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
DCF/U	$2.50	$1.52	$1.94	$1.68	$2.07	$2.18	$2.81	$2.52	-$4.22	$2.93	***$1.30***	***$1.51***
DPU	$1.53	$1.65	$1.87	$2.07	$2.29	$2.47	$2.72	$2.65	$2.10	$2.20	***$1.00***	***$0.80***
Shares[3]	40.6	67.9	78.4	84.0	90.1	103.0	113.4	121.5	122.6	122.6	***123.0***	***150.0***

Genesis Energy has grown its DCF per unit at a 7.2% average annual rate during the last five years. However, the MLP has a markedly high leverage ratio (net debt/EBITDA) of 5.1. Due to the high leverage of the MLP and the extensive issuance of new units, we prefer to be conservative and assume only 3.0% growth per year on average over the next five years. 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 amid the uncertainty that results from the pandemic.

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[1] Estimated date.

[2] Forward dividend yield.

[3] 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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/DCF	10.5	18.5	18.4	31.3	20.5	16.9	12.9	8.9	---	7.3	***6.2***	***7.0***
Avg. Yld.	7.2%	6.2%	6.0%	4.2%	4.4%	5.7%	8.1%	8.8%	9.4%	9.4%	***7.5%***	***7.6%***

Excluding the outlier years of 2013-2014, Genesis Energy has traded at an average P/DCF ratio of 13.3 during the last decade. However, as Genesis Energy currently has a high debt load, it is prudent to expect a lower DCF multiple. Using a 7.0 ratio for the MLP in 2025, the stock could enjoy a 2.6% annualized gain thanks to P/DCF expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

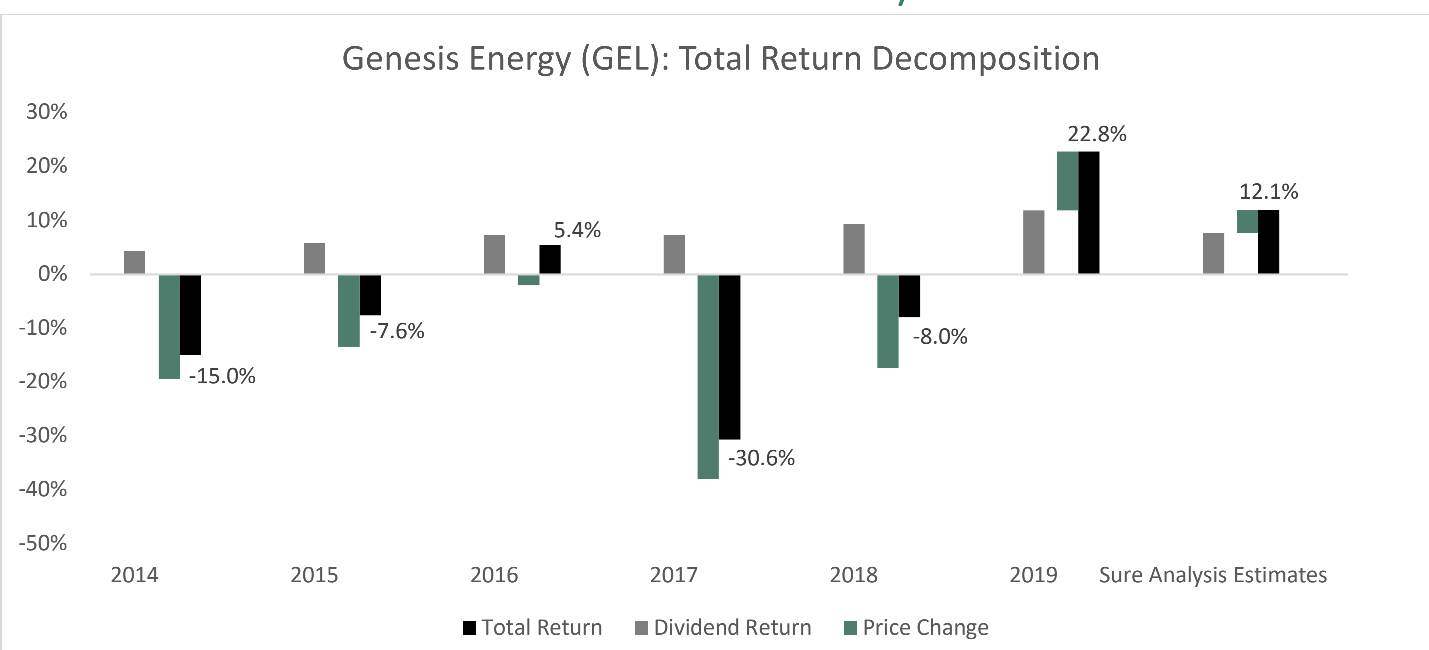
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	219%	75.7%	77.0%	87.7%	78.7%	37.6%	66.2%	65.0%	38.2%	75.1%	***46.2%***	***53.3%***

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 excessive dilution of its unit holders. It also renders Genesis Energy highly vulnerable to the ongoing downturn, which has resulted from the spread of the coronavirus. If the downturn extends beyond this year, the MLP will come under great financial stress.

Final Thoughts & Recommendation

Due to 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. Thanks to its depressed stock price and its resultant 7.5% distribution yield, the stock could offer a 12.1% average annual return over the next five years. However, the stock will be highly vulnerable if the pandemic extends beyond this year. While we expect the pandemic to subside from next year, we rate the stock as a buy only for those who realize its risk and can stomach high stock price volatility.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2,101	2,438	3,367	4,135	3,846	2,247	1,712	2,028	2,913	2,481
Gross Profit	86	116	157	158	183	222	252	247	321	325
Gross Margin	4.1%	4.8%	4.6%	3.8%	4.8%	9.9%	14.7%	12.2%	11.0%	13.1%
SG&A Exp.	113	34	42	47	51	65	46	66	67	53
D&A Exp.	54	62	61	65	91	---	---	---	---	---
Operating Profit	(27)	83	115	111	133	139	206	164	259	264
Operating Margin	-1.3%	3.4%	3.4%	2.7%	3.4%	6.2%	12.1%	8.1%	8.9%	10.6%
Net Profit	(48)	51	96	86	106	423	113	83	(6)	96
Net Margin	-2.3%	2.1%	2.9%	2.1%	2.8%	18.8%	6.6%	4.1%	-0.2%	3.9%
Free Cash Flow	78	30	43	(205)	(152)	(206)	(180)	73	195	219
Income Tax	3	(1)	(9)	1	3	4	3	(4)	1	1

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1,507	1,731	2,110	2,862	3,211	5,460	5,703	7,137	6,479	6,598
Cash & Equivalents	6	11	11	9	9	11	7	9	10	29
Accounts Receivable	172	238	271	368	272	220	225	495	323	417
Inventories	55	101	87	85	47	44	99	89	74	65
Goodwill & Int. Ass.	445	418	400	388	408	548	530	507	465	441
Total Liabilities	837	938	1,193	1,764	1,981	3,439	3,583	4,423	4,037	4,376
Accounts Payable	166	199	258	316	245	141	120	271	127	219
Long-Term Debt	610	659	851	1,284	1,581	2,922	3,091	3,698	3,432	3,429
Shareholder's Equity	669	793	916	1,098	1,229	2,029	2,130	2,723	2,453	2,225

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-3.7%	3.2%	5.0%	3.5%	3.5%	9.7%	2.0%	1.3%	-0.1%	1.5%
Return on Equity	-7.5%	7.0%	11.3%	8.6%	9.1%	25.9%	5.4%	3.4%	-0.2%	4.1%
Shares Out.	40.6	67.9	78.4	84.0	90.1	103.0	113.4	121.5	122.6	122.6
Revenue/Share	51.81	35.88	42.97	49.25	42.71	21.81	15.10	16.69	23.76	20.24
FCF/Share	1.92	0.45	0.55	-2.44	-1.69	-2.00	-1.59	0.60	1.59	1.79

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