

# Superior Plus Corporation (SUUIF)

Updated May 29<sup>th</sup>, 2020 by Kay Ng

## Key Metrics

<b>Current Price:</b>	\$7	<b>5 Year CAGR Estimate:</b>	12.1%	<b>Market Cap:</b>	\$1.2B
<b>Fair Value Price:</b>	\$9	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	05/28/20
<b>% Fair Value:</b>	73%	<b>5 Year Valuation Multiple Estimate:</b>	6.5%	<b>Dividend Payment Date:</b>	06/15/20
<b>Dividend Yield:</b>	8.0%	<b>5 Year Price Target</b>	\$9	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	0%

## Overview & Current Events

Superior Plus Corp is a relatively small industrial company, but one of the larger propane distributors in North America. It has publicly traded for over a decade. Superior Plus has a specialty chemical (chlorates) operation, which generates about 24% of total revenue. The company is the dominant distributor in Canada, and has significant operations in the U.S. (60% of total revenues). This report is in US\$ unless otherwise noted.

Superior Plus reported Q1 2020 results on 05/13/20. It reported revenue of C\$840 million, down 19% against Q1 2019. Adjusted EBITDA fell 9% to C\$219 million, and its adjusted operating cash flow per share declined 12% to C\$1.04.

Out of its three businesses, its Canadian Propane Distribution business was the only one that expressed a gain in EBITDA from operations (up 3%). Both its U.S. Propane Distribution and Specialty Chemicals businesses saw a decline in EBITDA from operations -- down 18% and 14%, respectively.

Because of warmer weather, the economic slowdown from COVID-19 pandemic impacts, and low oil prices, Superior Plus expects to achieve the lower end of its 2020 adjusted EBITDA guidance of C\$475-515 million. The low end would represent a 10% decrease from the 2019 adjusted EBITDA of C\$525 million.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>CFPS</b>	\$1.26	\$1.67	\$1.73	\$1.52	\$1.63	\$1.23	\$0.86	\$1.17	\$1.28	\$1.63	<b>\$1.43</b>	<b>\$1.43</b>
<b>DPS</b>	\$1.58	\$1.27	\$0.60	\$0.58	\$0.55	\$0.56	\$0.54	\$0.55	\$0.56	\$0.54	<b>\$0.54</b>	<b>\$0.54</b>
<b>Shares<sup>1</sup></b>	106	109	112	123	126	129	142	143	158	175	<b>184</b>	<b>235</b>

We use a cash flow measure for our analysis, which the company calls adjusted operating cash flow. The adjustments are for transaction costs, and some years have a meaningful impact. In any event, these adjustments bring the cash flow number closer to what's available to pay dividends. The estimate for 2020 CFPS is based on low end of its 2020 EBITDA guidance.

For the 2025 CFPS estimate, we assessed their 9-year history. CFPS grew at an average annual rate of 2.9% from 2010 to 2019, BUT was flat from 2014 to 2019, so we'll assume a flat trajectory going forward. Estimating DPS is even more of a guess, frankly. Management has held it stable for some time, even as their coverage ratio has remained high (a 2.0 average through 2018). The company had a somewhat high historical Debt/EBITDA ratio of 3.3 (with a peak of 5 in 2017), so it may be that they are just being cautious. And the business clearly has some cyclicity to it -- as evidenced by the drop in CFPS in 2010 and 2016. And the forex between US\$ and C\$ adds uncertainty. So even though it had close to a 2.8X coverage in 2019, Superior Plus did not increase its dividend. We also note that the company cut the dividend in half in 2012, despite it being a pretty good year. We conclude that paying a growing dividend is not especially high on this company's priority list.

<sup>1</sup> Average Weighted Share count is 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/CF	---	3.9	4.6	7.2	6.7	7.4	10.1	8.1	6.4	5.2	<b>4.7</b>	<b>6.5</b>
Avg. Yld.	---	19.4%	7.6%	5.4%	5.1%	6.2%	6.2%	5.9%	6.8%	6.4%	<b>8.0%</b>	<b>5.8%</b>

Even though SUUIF has been a public company for over 10 years, we are unable to locate share price data prior to October 2011. For the table above, we also note that CFPS and DPS have been currency adjusted to be consistent with share price, which is US\$ denominated. SUUIF's valuation seems low versus its historical average of 6.6 between 2011 and 2019. We think a bump up to 6.5 times is well within the realm of reality. A larger question is begged, though: why does this stock trade so cheaply, consistently? What does the market know? Perhaps it's its lack of growth, or perhaps it's the 50% dividend cut back in 2012 – the market has a long memory for failure and it is unforgiving.

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

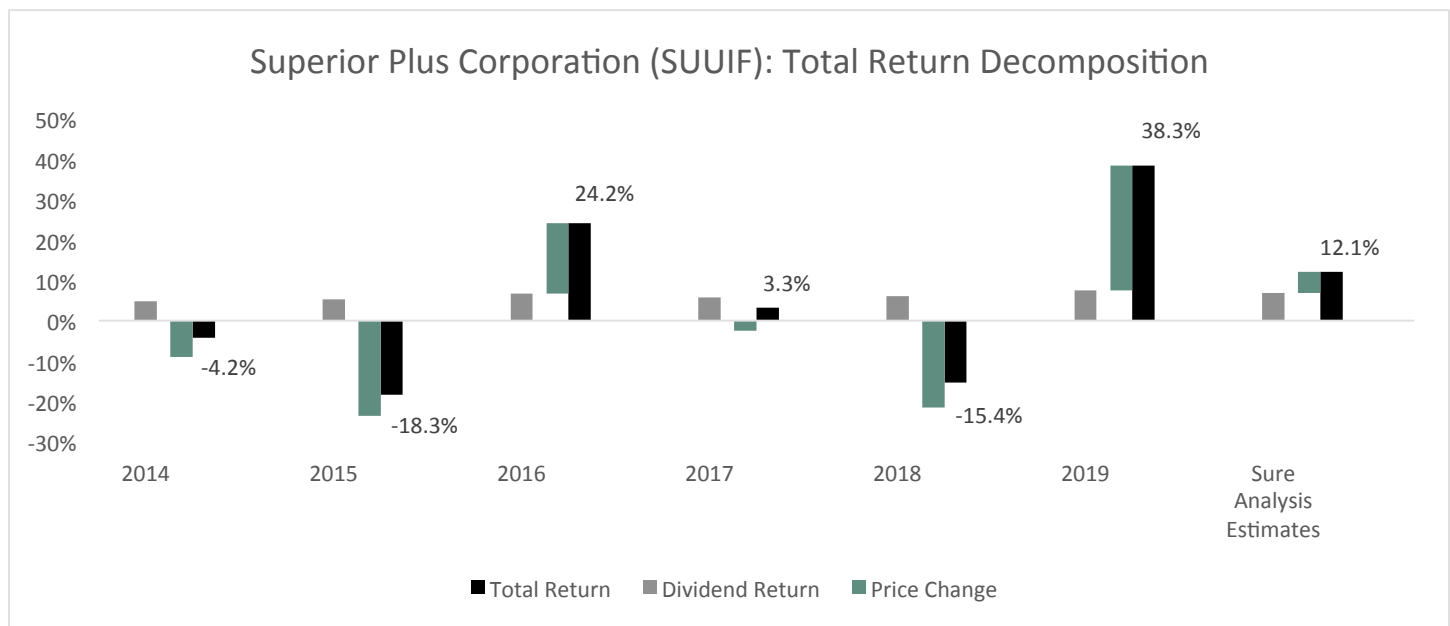
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	125%	76%	35%	38%	34%	46%	63%	47%	44%	33%	<b>38%</b>	<b>38%</b>

On the positive side, the company has maintained a steady dividend for several years. Superior Plus has an exceptionally clear and well-presented annual report, unlike so many where important data is buried. It seems to do a good job acquiring smaller businesses and absorbing them. The main concern is the lack of per-share growth in both cash flow and the dividend. And of course, the huge cut in the dividend back in 2012 gives cause for pause.

## Final Thoughts & Recommendation

SUUIF decided not to sell its specialty chemical business in late January. Perhaps, it'd revisit the idea when the economy improves and it can sell it at a better valuation. There are higher certainty and quality ideas in the Sure Dividend coverage universe. Only high-risk investors would consider SUUIF for potential total returns of 12.1% based on an 8.0% yield, valuation expansion of 6.5%, and 0% growth.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3430	3970	3625	3644	3601	1765	1528	1840	2113	2150
Gross Profit	757	837	847	844	835	516	496	567	732	914
Gross Margin	22.1%	21.1%	23.4%	23.2%	23.2%	29.2%	32.4%	30.8%	34.6%	42.5%
SG&A Exp.	575	622	619	634	598	410	359	380	473	515
D&A Exp.	122	133	114	100	92	100	91	87	154	190
Operating Profit	100	128	158	150	164	60	89	137	133	231
Operating Margin	2.9%	3.2%	4.4%	4.1%	4.6%	3.4%	5.8%	7.4%	6.3%	10.7%
Net Profit	-73	-306	90	51	52	21	222	-22	-26	107
Net Margin	-2.1%	-7.7%	2.5%	1.4%	1.4%	1.2%	14.6%	-1.2%	-1.2%	5.0%
Free Cash Flow	-30	176	230	104	125	130	37	82	121	216
Income Tax	6	-51	9	6	14	-1	28	111	0	19

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2696	2149	2043	2011	1822	1544	1370	1858	2683	2785
Cash & Equivalents	8	5	8	8	3	0	4	25	18	20
Accounts Receivable	551	463	390	450	369	270	180	253	281	252
Inventories	167	199	215	194	159	127	75	109	108	89
Goodwill & Int. Ass.	472	247	230	200	183	157	171	470	1119	1125
Total Liabilities	1942	1806	1666	1504	1348	1030	682	1241	1883	1990
Accounts Payable	318	235	237	282	241	174	135	189	212	235
Long-Term Debt	1352	1300	1166	982	861	612	392	837	1314	1297
Shareholder's Equity	754	342	376	507	474	514	689	617	799	795
D/E Ratio	1.79	3.79	3.10	1.94	1.82	1.19	0.57	1.36	1.64	1.63

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-3.0%	-12.6%	4.3%	2.5%	2.7%	1.2%	15.3%	-1.3%	-1.2%	3.9%
Return on Equity	-11.2%	-55.8%	25.0%	11.6%	10.5%	4.2%	37.0%	-3.3%	-3.7%	13.5%
ROIC	-4.1%	-16.3%	5.7%	3.4%	3.6%	1.7%	20.2%	-1.7%	-1.5%	5.1%
Shares Out.	106	109	112	123	126	129	142	143	158	175
Revenue/Share	32.48	36.36	32.40	28.27	27.12	13.68	10.33	12.89	13.36	12.29
FCF/Share	-0.28	1.61	2.05	0.80	0.94	1.01	0.25	0.57	0.77	1.24

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

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