



Superior Plus Corporation (SUUIF)

Updated September 6th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	\$9	5 Year CAGR Estimate:	7.7%	Market Cap:	\$1.67B
Fair Value Price:	\$11	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	09/28/20
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.8%	Dividend Payment Date:	10/15/20
Dividend Yield:	5.9%	5 Year Price Target	\$11	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	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 underwent operational challenges during Q2, posting revenues of C\$450 million, down 17.4% against Q2 2019. Despite lower revenues the company achieved adjusted EBITDA of C\$67.7 million, a 13% YoY increase, amid favorable operations in its U.S. propane distribution segment, strong unit margins and cost reductions. Adjusted operating cash flow per share has remained relatively stable in the first half of the year, at C\$1.25 (H1-2019 of C\$1.28).

The company retained its 2020 adjusted EBITDA guidance of C\$475-515 million. Management expects to achieve its low end, which would represent a 10% decrease from the 2019 adjusted EBITDA of C\$525 million. Stable half-yearly results though with growth in EBITDA, suggest potentially encouraging FY2020 results, despite management's more cautious guidance.

On July 13, 2020, Superior announced the issuance of 260,000 perpetual exchangeable preferred shares for gross proceeds of US\$260 million to Brookfield Asset Management. On an as-exchanged basis, the Brookfield Investment currently represents approximately 15% Superior's outstanding common shares. Brookfield's investment adds significant credibility to Superior's investment case, as the company is one of Canada's best-in-breed asset managers, having delivered incredible performance of their own over the past decades.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
CFPS	\$1.26	\$1.67	\$1.73	\$1.52	\$1.63	\$1.23	\$0.86	\$1.17	\$1.28	\$1.63	\$1.65	\$1.65
DPS	\$1.58	\$1.27	\$0.60	\$0.58	\$0.55	\$0.56	\$0.54	\$0.55	\$0.56	\$0.54	\$0.55	\$0.55
Shares¹	106	109	112	123	126	129	142	143	158	175	175	235

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. Our 2020 CFPS estimate is based on the company's 2020 EBITDA guidance and its overall performance over the first half of the year.

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 it 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). Management updated its Total Debt to Adjusted EBITDA guidance to around 3.0x to 3.5x (previously 3.6x to 4.0x), consistent with Superior's long-term target range. However, the ratio still remains relatively high (with a peak of 5 in 2017), so the lack of dividend increases may be due to management being cautious.

Considering the sector's cyclicity, which can cause volatile demand for oil, gas, and propane – as evidenced by the drop

¹ Average Weighted Share count is in millions.

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in CFPS in 2010 and 2016, it would not be prudent for management to over distribute, hence the reserved capital returns. Finally, the forex between US\$ and C\$ adds uncertainty. 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.

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	5.6	6.5
Avg. Yld.	---	19.4%	7.6%	5.4%	5.1%	6.2%	6.2%	5.9%	6.8%	6.4%	5.9%	5.1%

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 compared to 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, especially considering Brookfield's investment, which could lead a multiple expansion going forward. Perhaps it's its lack of growth, or perhaps it was 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

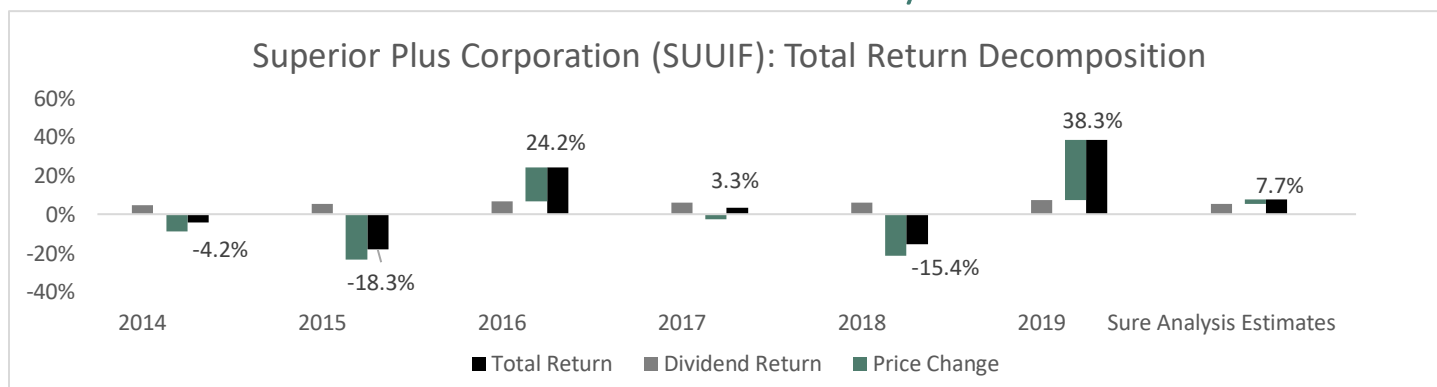
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	125%	76%	35%	38%	34%	46%	63%	47%	44%	33%	33%	33%

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

Brookfield's investment which could turn into a potential future stake through its convertible shares, may add value in the company going forward. However, considering that a dividend has been lagging, we believe that future returns are mostly limited. Assuming constant distributions and a modest valuation expansion, we forecast annualized returns of around 7.7%. There are higher certainty and quality ideas in the Sure Dividend coverage universe. Considering SUUIF risks, lack of distribution growth commitment, and not a sky-high yield to compensate investors, we view little reasoning behind buying the company's shares, and rate it a hold.

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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