Genesis Energy (GEL)

Updated February 23rd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$7.60	**5 Year CAGR Estimate:**	14.8%	**Market Cap:**	$932 M
Fair Value Price:	$10	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	4/29/2021[1]
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.6%	**Dividend Payment Date:**	5/14/2021
Dividend Yield:	7.9%	**5 Year Price Target**	$12	**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 $932 million.

Genesis Energy has dramatically underperformed the market in the last five years, as shares have fallen -68% whereas the S&P has rallied 99%. 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 eight years. Furthermore, it has markedly increased its debt load, with its interest expense currently exceeding 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 severely hurt the oil market. Due to the pandemic, the MLP cut its quarterly distribution by -73% last year, from $0.55 to $0.15.

In mid-February, Genesis Energy reported (2/18/21) financial results for the fourth quarter of fiscal 2020. In the full year, the MLP posted a hefty loss of -$4.01 per unit due to the impact of the pandemic on the demand for soda ash and the production of oil. In addition, Genesis Energy suffered from the most disruptive hurricane season since 2005. On the bright side, distributable cash flow per unit fell only -29% over the prior year and hence the MLP covered its reduced distribution 3.5 times. Management stated that it expects 2021 to be a transition year, thus implying that the MLP will not return to meaningful growth this year. We expect the pandemic to subside at the second half of the year and thus we believe that the worse is behind this MLP. Nevertheless, its hefty loss in 2020, which was more than half of its current market cap, is a stern reminder of the excessive risk of Genesis Energy in the event of a prolonged pandemic.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCF/U	$1.52	$1.94	$1.68	$2.07	$2.18	$2.81	$2.52	-$4.22	$2.93	$2.08	***$2.00***	***$2.43***
DPU	$1.65	$1.87	$2.07	$2.29	$2.47	$2.72	$2.65	$2.10	$2.20	$1.00	***$0.60***	***$0.60***
Shares[2]	67.9	78.4	84.0	90.1	103.0	113.4	121.5	122.6	122.6	122.6	***122.6***	***150.0***

Genesis Energy has grown its DCF per unit at a 3.6% average annual rate over the last decade. However, the MLP has net debt of $3.7 billion, which is 4 times the current market cap, and a markedly high leverage ratio (net debt/EBITDA) of 5.6. Due to the high leverage of the MLP and the extensive issuance of new units, we prefer to be conservative and assume only 4.0% growth per year on average over the next five years off this year's low comparison base. 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] In millions.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/DCF	18.5	18.4	31.3	20.5	16.9	12.9	8.9	---	7.3	3.8	***3.8***	***5.0***
Avg. Yld.	6.2%	6.0%	4.2%	4.4%	5.7%	8.1%	8.8%	9.4%	9.4%	12.5%	***7.9%***	***4.9%***

Genesis Energy is currently trading at a P/DCF ratio of 3.8, which is lower than its historical 4-year average of 6.7. However, as Genesis Energy currently has a high debt load, it is prudent to expect a lower DCF multiple. Using a 5.0 ratio for the MLP in 2026, the stock could enjoy a 5.6% annualized gain thanks to P/DCF expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

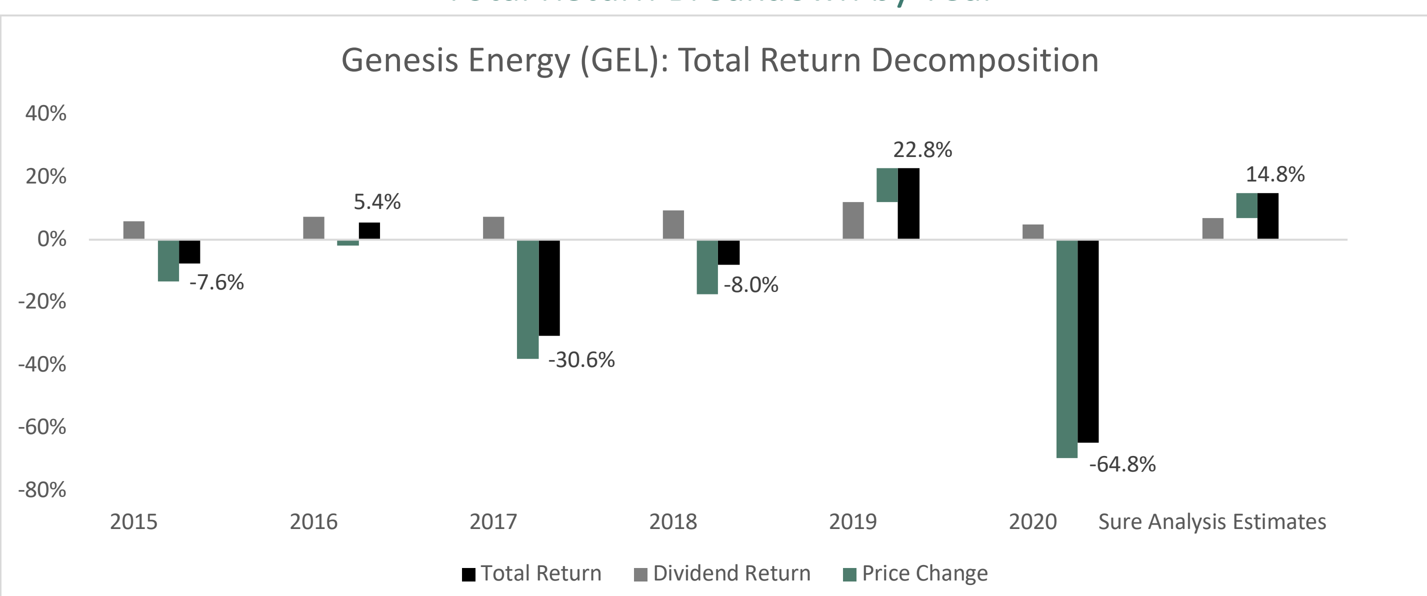
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	75.7%	77.0%	87.7%	78.7%	37.6%	66.2%	65.0%	38.2%	75.1%	48.0%	***30.0%***	***24.7%***

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 pandemic. 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 7.9% distribution yield, the stock could offer a 14.8% 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 at the second half of this year, we rate the stock as a buy only for those who realize its risk, can stomach high stock price volatility and are confident in a swift recovery of the economy from the pandemic.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,438	3,367	4,135	3,846	2,247	1,712	2,028	2,913	2,481	1,825
Gross Profit	116	157	158	183	222	252	247	321	325	114
Gross Margin	4.8%	4.6%	3.8%	4.8%	9.9%	14.7%	12.2%	11.0%	13.1%	6.2%
SG&A Exp.	34	42	47	51	65	46	66	67	53	57
D&A Exp.	62	61	65	91	---	---	---	---	---	---
Operating Profit	83	115	111	133	139	206	164	259	273	57
Operating Margin	3.4%	3.4%	2.7%	3.4%	6.2%	12.1%	8.1%	8.9%	11.0%	3.1%
Net Profit	51	96	86	106	423	113	83	(6)	96	(417)
Net Margin	2.1%	2.9%	2.1%	2.8%	18.8%	6.6%	4.1%	-0.2%	3.9%	-22.8%
Free Cash Flow	30	43	(205)	(152)	(206)	(180)	73	195	219	---
Income Tax	(1)	(9)	1	3	4	3	(4)	1	1	1

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,731	2,110	2,862	3,211	5,460	5,703	7,137	6,479	6,598	5,934
Cash & Equivalents	11	11	9	9	11	7	9	10	29	27
Accounts Receivable	238	271	368	272	220	225	495	323	417	392
Inventories	101	87	85	47	44	99	89	74	65	100
Goodwill & Int. Ass.	418	400	388	408	548	530	507	465	441	431
Total Liabilities	938	1,193	1,764	1,981	3,439	3,583	4,423	4,037	4,376	4,325
Accounts Payable	199	258	316	245	141	120	271	127	219	198
Long-Term Debt	659	851	1,284	1,581	2,922	3,091	3,698	3,432	3,429	3,394
Shareholder's Equity	793	916	1,098	1,229	2,029	2,130	2,723	2,453	2,225	1,610

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.2%	5.0%	3.5%	3.5%	9.7%	2.0%	1.3%	-0.1%	1.5%	-6.7%
Return on Equity	7.0%	11.3%	8.6%	9.1%	25.9%	5.4%	3.4%	-0.2%	4.1%	-21.7%
Shares Out.	67.9	78.4	84.0	90.1	103.0	113.4	121.5	122.6	122.6	122.6
Revenue/Share	35.88	42.97	49.25	42.71	21.81	15.10	16.69	23.76	20.24	14.89
FCF/Share	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.