



Superior Plus Corporation (SUUIF)

Updated February 28th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	\$10.40	5 Year CAGR Estimate:	5.2%	Market Cap:	\$1.84B
Fair Value Price:	\$10.70	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	03/25/21 ¹
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date:	04/15/21
Dividend Yield:	5.3%	5 Year Price Target	\$11	Years Of Dividend Growth:	0
Dividend Risk Score:	D	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 also owns a specialty chemical (chlorates) operation, which generates about 15% of total EBITDA. The company is the dominant distributor in Canada (37% of EBITDA), and has significant operations in the U.S. (48% of total EBITDA). This report is in US\$ unless otherwise noted.

Despite the challenges caused by COVID-19 during its past couple of quarters, Superior's business activity shined during Q4, showing financial improvements. The company generated an adjusted EBITDA of C\$169.8 million, 4% down YoY, but much improved from Q3's 19% decline YoY. More specifically, Superior's U.S. Propane segment saw EBITDA growth of 3% to C\$80.4 million primarily due to the incremental contribution from the tuck-in acquisitions completed in the past 12 months and higher average unit margins. The Canadian Propane segment saw an EBITDA decline of 13% to C\$65.6 million primarily due to lower sales volumes, partially offset by lower operating costs. Also, the avg. weather across Canada for Q4 was 6% warmer YoY and 4% warmer than the five-year average, contributing to lower overall sales. Finally, specialty chemicals saw an EBITDA decline of 24% YoY primarily due to lower adjusted gross profit amid higher expenses.

For FY2020, the company generated an adjusted EBITDA of C\$495.9, implying a 5% decline YoY, indicating quite a resilient performance considering the unprecedented events in the energy sector. However, adjusted operating cash flow per share declined by 7.9% to US\$1.50 vs. FY2019. This was due to the conversion of the preferred shares into common shares, slightly diluting common shareholders. YTD, Superior completed 3 more acquisitions for ~C\$40 million, further expanding its propane distribution footprint. Additionally, the company entered into a definitive agreement to sell its Specialty Chemicals business for a total consideration of \$725.0 million, divesting from its weaker segment. Management expects FY2021 adjusted EBITDA of \$370-\$410 million, a 10% increase YoY in its midpoint (excluding the chemical business which is to be sold.) Hence, we expect FY2021 CFPS/share of \$1.65.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
CFPS	\$1.67	\$1.73	\$1.52	\$1.63	\$1.23	\$0.86	\$1.17	\$1.28	\$1.63	\$1.50	\$1.65	\$1.65
DPS	\$1.27	\$0.60	\$0.58	\$0.55	\$0.56	\$0.54	\$0.55	\$0.56	\$0.54	\$0.57	\$0.55	\$0.55
Shares²	109	112	123	126	129	142	143	158	175	206	210.0	250.0

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. We continue to expect 0% growth in superior's CFPS, due to the cyclical nature of its business model, which can easily offset the company's organic growth over time. 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), in order to deleverage. Management seems to already be hitting its Total Debt to

¹ Estimated dates

² 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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Adjusted EBITDA guidance of around 3.0x to 3.5x, as the figure fell to 3.5x as of Q4, from 3.7x in Q4-2019. Still, the ratio 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 cyclicality, which can cause volatile demand for oil, gas, and propane – as evidenced by the drop 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/CF	3.9	4.6	7.2	6.7	7.4	10.1	8.1	6.4	5.2	7.0	6.3	6.5
Avg. Yld.	19.4%	7.6%	5.4%	5.1%	6.2%	6.2%	5.9%	6.8%	6.4%	5.5%	5.3%	5.1%

For the table above, we 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 in 2020, which could lead a multiple expansion going forward. A larger question is begged, though: why does this stock trade so cheaply, consistently?? 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

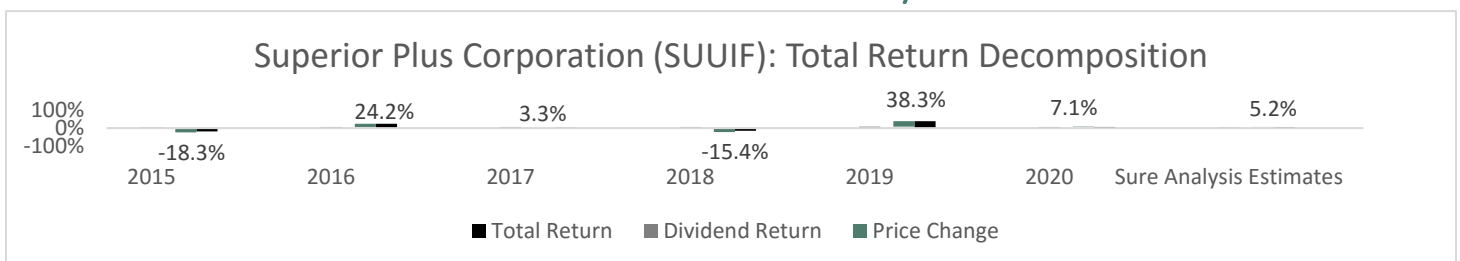
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	76%	35%	38%	34%	46%	63%	47%	44%	33%	38%	33%	33%

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

Superior Plus weathered the storm of the past year quite resiliently, managed to get an investment from Brookfield, acquired more business, and sold its weaker segment. However, with the dividend lagging, and the stock attracting a very humble valuation consistently, we believe that future returns are mostly limited. Assuming constant distributions and a slight valuation expansion, we forecast annualized returns of around 5.2%. Considering the market's weak love for SUUIF, its lack of distribution growth, 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3970	3625	3644	3601	1765	1528	1840	2113	2150	1787
Gross Profit	837	847	844	835	516	496	567	732	914	820
Gross Margin	21.1%	23.4%	23.2%	23.2%	29.2%	32.4%	30.8%	34.6%	42.5%	45.9%
SG&A Exp.	622	619	634	598	410	359	380	473	515	423
D&A Exp.	133	114	100	92	100	91	87	154	190	199
Operating Profit	128	158	150	164	60	89	137	133	231	184
Operating Margin	3.2%	4.4%	4.1%	4.6%	3.4%	5.8%	7.4%	6.3%	10.7%	10.3%
Net Profit	-306	90	51	52	21	222	-22	-26	107	56
Net Margin	-7.7%	2.5%	1.4%	1.4%	1.2%	14.6%	-1.2%	-1.2%	5.0%	3.1%
Free Cash Flow	176	230	104	125	130	37	82	121	216	182
Income Tax	-51	9	6	14	-1	28	111	0	19	54

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2149	2043	2011	1822	1544	1370	1858	2683	2785	3001
Cash & Equivalents	5	8	8	3	0	4	25	18	20	19
Accounts Receivable	463	390	450	369	270	180	253	281	252	212
Inventories	199	215	194	159	127	75	109	108	89	97
Goodwill & Int. Ass.	247	230	200	183	157	171	470	1119	1125	1238
Total Liabilities	1806	1666	1504	1348	1030	682	1241	1883	1990	1997
Accounts Payable	235	237	282	241	174	135	189	212	235	221
Long-Term Debt	1300	1166	982	861	612	392	837	1314	1297	1225
Shareholder's Equity	342	376	507	474	514	689	617	799	795	744
D/E Ratio	3.79	3.10	1.94	1.82	1.19	0.57	1.36	1.64	1.63	1.65

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-12.6%	4.3%	2.5%	2.7%	1.2%	15.3%	-1.3%	-1.2%	3.9%	1.9%
Return on Equity	-55.8%	25.0%	11.6%	10.5%	4.2%	37.0%	-3.3%	-3.7%	13.5%	7.3%
ROIC	-16.3%	5.7%	3.4%	3.6%	1.7%	20.2%	-1.7%	-1.5%	5.1%	2.6%
Shares Out.	109	112	123	126	129	142	143	158	175	190
Revenue/Share	36.36	32.40	28.27	27.12	13.68	10.33	12.89	13.36	12.29	9.42
FCF/Share	1.61	2.05	0.80	0.94	1.01	0.25	0.57	0.77	1.24	0.96

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

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