



Energy Transfer LP (ET)

Updated March 5th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$8	5 Year CAGR Estimate:	14.6%	Market Cap:	\$21.6 B
Fair Value Price:	\$11	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	5/5/21 ¹
% Fair Value:	72%	5 Year Valuation Multiple Estimate:	6.8%	Dividend Payment Date:	5/18/21 ²
Dividend Yield:	7.6%	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

On October 19th, 2018 Energy Transfer Equity, LP (previously ETE) and Energy Transfer Partners, LP (previously ETP) announced the completion of a merger with ETE buying ETP. As part of the merger, ETE changed its name to “Energy Transfer LP” and the common units began trading under the “ET” symbol. The combined firm owns and operates one of the largest and most diversified portfolios of energy assets in the United States. Operations include natural gas transportation and storage along with crude oil, natural gas liquids and refined product transportation and storage totaling 83,000 miles of pipelines. Energy Transfer, a \$21.6 billion market capitalization company, also owns the Lake Charles LNG Company and stakes in Sunoco LP (SUN) and USA Compression Partners (USAC). On February 17th, 2021 management announced its acquisition of Enable Midstream Partners (ENBL) in a \$7 billion stock-for-stock deal.

In mid-February, ET reported (2/17/21) financial results for the fourth quarter of fiscal 2020. The company proved fairly resilient to the pandemic, as it posted just a -10% decrease in its distributable cash flow thanks to its fee-based model and its long-term contracts. It also achieved a strong distribution coverage ratio of 3.3, which bodes well for the safety of the dividend.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
CF/S	\$1.01	\$0.91	\$1.31	\$2.12	\$3.12	\$3.20	\$3.38	\$2.06	\$2.20	\$2.13	\$2.10	\$2.32
DPS	\$0.61	\$0.63	\$0.67	\$0.80	\$1.08	\$1.14	\$1.15	\$1.22	\$1.22	\$1.07	\$0.61	\$0.78
Units³	892	1,120	1,123	1,081	1,047	1,047	1,079	2,619	2,650	2,699	2,800	3,000

Energy Transfer operates a “toll booth” model of transporting energy, with natural gas being particularly interesting. Eventually the world may move away from fossil fuels, but this is not the case for the foreseeable future. Moreover, all the environmental policies are positive for natural gas, which is considered a cleaner and environmentally friendly fuel. In the last decade, U.S. electricity production has shifted dramatically from coal to natural gas.

Energy Transfer has a healthy backlog, with the expectation to spend billions of dollars in capital expenditures this year. The growth projects and the acquisitions of ET will be significant growth drivers, but its results will be burdened by its high debt load (net debt to EBITDA of 4.3) and its increased share count. Energy Transfers’ investments prime the MLP for growth in a positive scenario but render it vulnerable to downturns. We expect 2% average annual growth in cash flow per share over the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg P/DCF	10.0	12.5	15.6	13.5	4.4	6.0	5.1	6.4	5.3	3.6	3.8	5.3
Avg. Yld.	6.1%	5.9%	4.3%	3.1%	4.0%	8.6%	6.5%	9.2%	10.5%	14.1%	7.6%	6.3%

¹ Estimate

² Estimate

³ Units in millions

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The average price-to-cash flow ratio of ET has dramatically decreased in recent years due to the excessive debt load of the MLP. The stock is currently trading at a cash flow multiple of 3.8, which is lower than the 5-year average of 5.3 of the stock. If the stock reverts to its average valuation level in five years, it will enjoy a 6.8% annualized boost in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

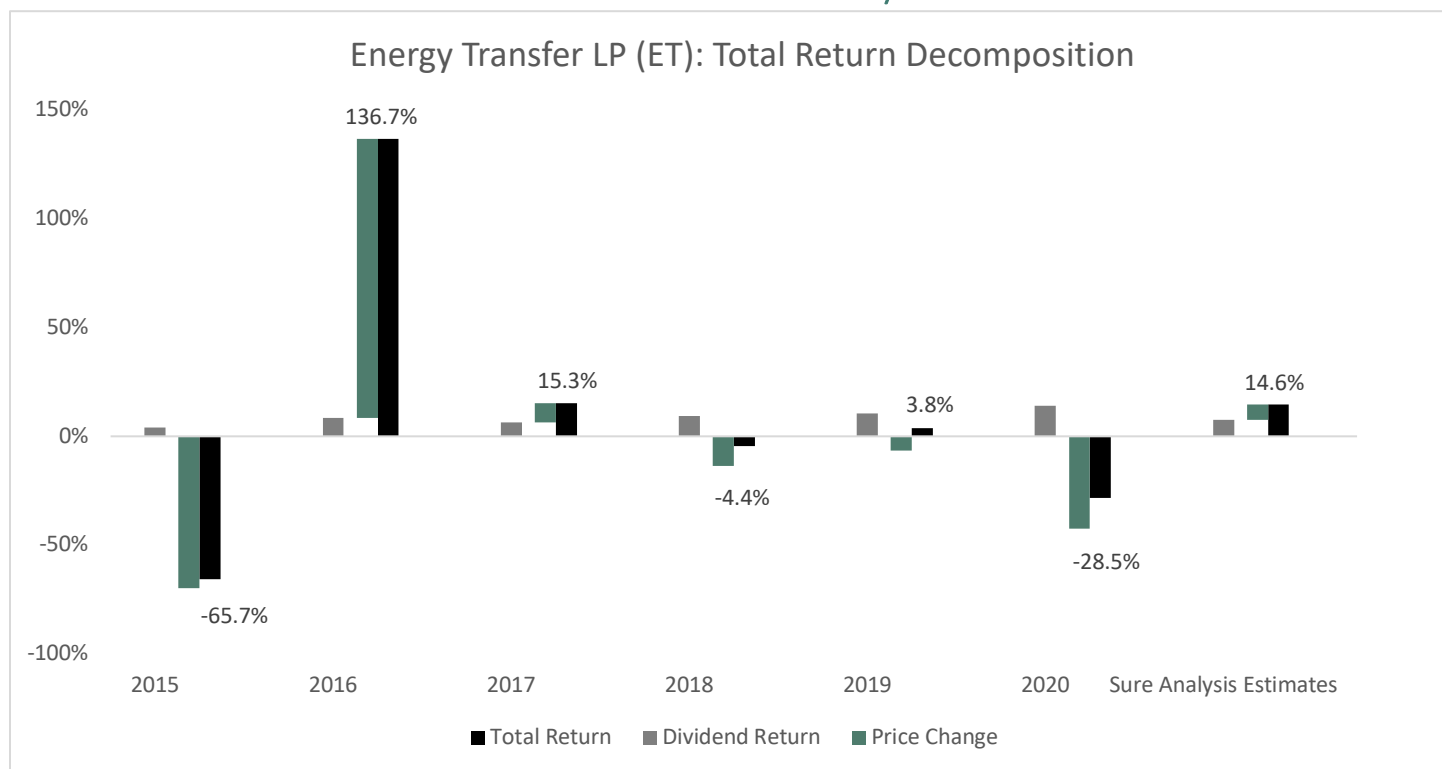
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	60%	69%	51%	38%	35%	36%	34%	59%	56%	50%	29%	34%

Energy Transfer has been trying to offer extremely generous distributions to its shareholders and at the same time it has been investing excessive amounts in growth projects and acquisitions. Unfortunately, it is impossible to achieve these without a price. The price is the leveraged balance sheet, which renders the MLP vulnerable to any unforeseen downturn. When the pandemic struck, Energy Transfer was forced to cut its distribution by -50% due to its high leverage. Moreover, the stock plunged 7-0% in less than three months due to investors' aversion to the risk of the stock. Income-oriented investors who are attracted by the high distribution yield of ET should be well aware of the risk of the stock and its volatility. With that said, the new (reduced) distribution is well covered by cash flows, with a coverage ratio of 3.3. Therefore, in the absence of a prolonged pandemic, the 7.6% distribution yield of ET should be considered safe.

Final Thoughts & Recommendation

Energy Transfer is a fairly risky bet given the coronavirus crisis and the weak balance sheet of the MLP. However, we expect the pandemic to subside in the second half of the year and we view the valuation of the stock as cheap. Overall, we expect the stock to offer a 14.6% average annual return over the next five years thanks to its 7.6% distribution yield, 2% growth in cash flow per share and a 6.8% annualized expansion of its valuation level. As a result, we rate Energy Transfer as a buy, but we note that the stock is suitable only for investors who can stomach extreme volatility.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	8190	16964	48335	55691	36096	31792	40523	54087	54213	38,954
Gross Profit	3021	3876	5755	7277	7428	8099	9557	12429	14486	9,789
Gross Margin	36.9%	22.8%	11.9%	13.1%	20.6%	25.5%	23.6%	23.0%	26.7%	25.1%
SG&A Exp.	253	527	533	611	548	656	599	702	694	711
Operating Profit	1237	1360	2072	2840	2626	2891	3760	5779	7351	5,860
Operating Margin	15.1%	8.0%	4.3%	5.1%	7.3%	9.1%	9.3%	10.7%	13.6%	15.0%
Net Profit	310	304	196	633	1189	995	954	1694	3592	(648)
Net Margin	3.8%	1.8%	0.4%	1.1%	3.3%	3.1%	2.4%	3.1%	6.6%	-1.7%
Free Cash Flow	(432)	(2193)	(1086)	(2206)	(6094)	(4449)	(4015)	99	2043	2,231
Income Tax	17	54	93	357	(123)	(258)	(1833)	4	195	237

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	20897	48904	50330	64279	71189	78925	86246	88246	98880	95,144
Cash & Equivalents	126	372	590	847	606	467	336	419	291	367
Acc. Receivable	680	3057	3658	3378	2400	3557	4504	4009	5038	3,875
Inventories	328	1522	1807	1467	1636	2055	2022	1677	1935	1,739
Goodwill & Int. Ass.	3111	8725	8158	13447	12904	11182	10884	10885	11321	8,137
Total Liabilities	13509	32554	34051	41965	47591	56494	56266	57396	65035	63,756
Accounts Payable	512	3107	3834	3349	2274	3502	4685	3493	4118	2,809
Long-Term Debt	11371	22053	23199	30485	36968	44052	44084	46028	51054	51,438
Total Equity	53	2113	1078	664	(932)	(1694)	(1196)	20559	21827	18,529

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.6%	0.9%	0.4%	1.1%	1.8%	1.3%	1.2%	1.9%	3.8%	-0.7%
Return on Equity	357.0%	28.1%	12.3%	72.7%	---	---	---	17.5%	16.9%	-3.2%
Shares Out.	892	1,120	1,123	1,081	1,047	1,047	1,079	2,619	2,650	-1.0%
Revenue/Share	9.18	15.90	43.09	51.06	33.91	29.48	35.21	37.01	20.55	14.45
FCF/Share	(0.48)	(2.06)	(0.97)	(2.02)	(5.73)	(4.12)	(3.49)	0.07	0.77	14.45

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

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