



Genesis Energy (GEL)

Updated February 21st, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$11	5 Year CAGR Estimate:	6.9%	Market Cap:	\$1.4 B
Fair Value Price:	\$9.30	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	4/28/2022 ¹
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Dividend Payment Date:	5/13/2022
Dividend Yield:	5.5%	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 48% of its operating income from offshore pipeline transportation, 29% from sodium minerals and sulfur services, 17% from onshore facilities and 6% from marine transportation. It has a market capitalization of \$1.4 billion.

Genesis Energy has dramatically underperformed the market in the last five years, as shares have fallen -77% whereas the S&P has rallied 91%. 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 eight years. Moreover, it has diluted its unit holders, as it has increased its unit count by 56% in the last nine 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 downturn due to the pandemic, which has severely hurt the oil market and the sodium business. The MLP cut its quarterly distribution by -73% in 2020, from \$0.55 to \$0.15.

In mid-February, Genesis Energy reported (2/17/22) financial results for the fourth quarter of fiscal 2021. The MLP began to recover from the pandemic, with increased volumes in its offshore pipeline transportation division as well as in its soda business. Nevertheless, it still posted a loss per unit of -\$0.71, as it has a long way to go to return to pre-pandemic volume levels. On the bright side, Genesis Energy posted distributable cash flow of \$51.5 million and thus achieved a distribution coverage ratio of 2.8. The pandemic has begun to subside and thus we believe that the worse is behind this MLP. Management expects a continued recovery in volumes in the Gulf of Mexico and in soda business. Nevertheless, the hefty loss in 2020, which was ~36% of its current market cap, is a stern reminder of the excessive risk of Genesis Energy in the event of a prolonged downturn.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCF/U	\$1.94	\$1.68	\$2.07	\$2.18	\$2.81	\$2.52	-\$4.22	\$2.93	\$2.08	\$1.66	\$1.85	\$2.48
DPU	\$1.87	\$2.07	\$2.29	\$2.47	\$2.72	\$2.65	\$2.10	\$2.20	\$1.00	\$0.60	\$0.60	\$0.60
Shares²	78.4	84.0	90.1	103.0	113.4	121.5	122.6	122.6	122.6	122.6	122.6	150.0

Genesis Energy has failed to grow its DCF per unit over the last decade, mostly due to its poor investments and the impact of the pandemic on its business. The MLP has net debt of \$3.8 billion, which is nearly 3 times the current market cap, and a markedly high leverage ratio (net debt/EBITDA) of 5.0. Due to its high leverage, the MLP was forced to sell a 36% stake in its CHOPS oil pipeline system in 2021 and used the proceeds to pay debt and become compliant with the requirements of its lenders. Due to an expected recovery off this year's low comparison base, we expect 6.0% growth of

¹ Estimated date.

² 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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DCF per unit on average over the next five years. 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 for the stock.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/DCF	18.4	31.3	20.5	16.9	12.9	8.9	---	7.3	3.8	5.7	5.9	5.0
Avg. Yld.	6.0%	4.2%	4.4%	5.7%	8.1%	8.8%	9.4%	9.4%	12.5%	6.3%	5.5%	4.8%

Genesis Energy is currently trading at a P/DCF ratio of 5.9, which is lower than its historical 5-year average of 6.4.

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 2027, the stock could incur a -3.4% annualized drag due to P/DCF contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

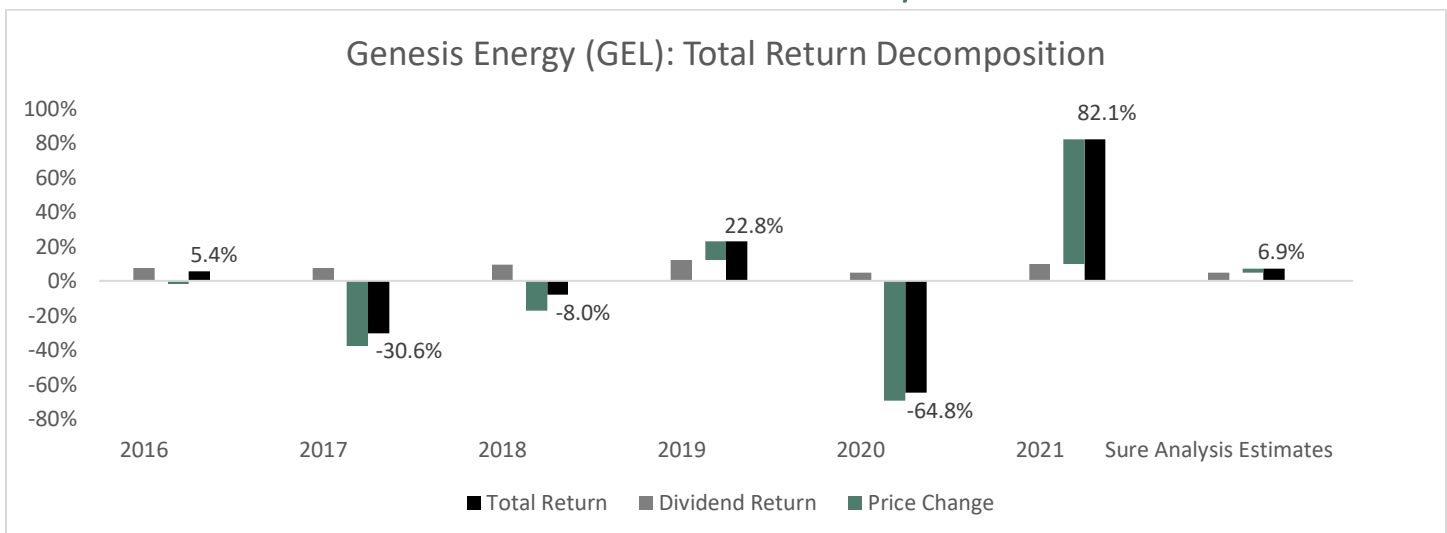
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	77.0%	87.7%	78.7%	37.6%	66.2%	65.0%	38.2%	75.1%	48.0%	36.1%	32.4%	24.2%

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 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. However, thanks to an expected recovery from the pandemic, the stock has rallied 59% in 12 months. This is a confirmation that Genesis Energy is a leveraged bet for a sharp recovery from the pandemic. We expect the stock to offer a 6.9% average annual return over the next five years. However, it will be highly vulnerable if the downturn persists beyond 2022. We rate the stock as a hold only for those who realize its risk, can stomach high stock price volatility and are confident in a swift recovery from the pandemic.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.0%	3.5%	3.5%	9.7%	2.0%	1.3%	-0.1%	1.5%	-6.7%
Return on Equity	11.3%	8.6%	9.1%	25.9%	5.4%	3.4%	-0.2%	4.1%	-21.7%
Shares Out.	78.4	84.0	90.1	103.0	113.4	121.5	122.6	122.6	122.6
Revenue/Share	42.97	49.25	42.71	21.81	15.10	16.69	23.76	20.24	14.89
FCF/Share	0.55	-2.44	-1.69	-2.00	-1.59	0.60	1.59	1.79	1.25

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

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