



# Suburban Propane (SPH)

Updated November 26<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$16.65	<b>5 Year CAGR Estimate:</b>	7.6%	<b>Market Cap:</b>	\$1,050 M
<b>Fair Value Price:</b>	\$16.25	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	01/31/23 <sup>1</sup>
<b>% Fair Value:</b>	102%	<b>5 Year Valuation Multiple Estimate:</b>	-0.5%	<b>Dividend Payment Date:</b>	02/08/23
<b>Dividend Yield:</b>	7.8%	<b>5 Year Price Target</b>	\$17	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Suburban Propane has been in operation since 1928 and became a Master Limited Partnership in 1996. The partnership services most of the U.S. with propane and other energy sources, with propane making up around 90% of total revenue. It has a market capitalization of \$1,050 million and should generate about \$1.3 billion in revenue this year. The partnership has about 3,200 employees in 41 states, serving approximately 1 million customers.

Suburban reported fourth quarter earnings on November 10<sup>th</sup>, 2022, and results were weaker than expected. Earnings fell well short of expectations despite revenue rising 14% year-over-year to \$238 million.

Adjusted EBITDA during the quarter was \$2.8 million, this was up from \$0.3 million in the year-ago period.

Retail propane gallons sold were 61.4 million, which was down 1.5% year-over-year. For the year, retail gallons sold were 401.3 million, down 4.4% year-over-year. This was due to unseasonably warm and inconsistent temperatures throughout the heating season. Average temperatures were 10% warmer than normal, and comparable to the prior year. However, they were 2% warmer during the heating season, resulting in lower demand.

Average propane prices were up 39% year-over-year. Gross margin was \$789 million, down 1.7% year-over-year.

We expect \$3.25 in cash flow per share for this year as an initial estimate.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>CF/S</b>	\$3.58	\$3.82	\$3.59	\$2.36	\$2.72	\$3.28	\$3.66	\$2.86	\$3.65	\$2.79	<b>\$3.25</b>	<b>\$3.42</b>
<b>DPS</b>	\$3.50	\$3.50	\$3.54	\$3.55	\$3.26	\$2.40	\$2.40	\$1.80	\$1.26	\$1.30	<b>\$1.30</b>	<b>\$1.44</b>
<b>Shares<sup>2</sup></b>	58	61	61	61	61	62	62	63	63	63	<b>63</b>	<b>64</b>

Cash flow has been predictably volatile during the past decade as it is all down to the weather for Suburban. It relies heavily upon heating demand so when temperatures are warmer than normal – as they have been for the past four years – results suffer. We forecast 1% average annual growth for the next five years as Suburban grapples with weather-related volumes but produces higher margins. Weather patterns deteriorated for Suburban during the most recent heating season, which is critical for earnings. Shareholders would do well to monitor Suburban's results on a quarterly basis for commentary from management on this key variable. We note that the partnership has been able to maintain earnings despite poor weather conditions.

Suburban cut its distribution in fiscal 2018 after it became clear it was unsustainable, and again in fiscal 2020. However, we see a payout of \$1.44 per share by fiscal 2028 as the partnership's fundamentals appear to be stabilizing. Cash flow should cover the distribution in the coming years, so another cut should not be necessary. Of course, Suburban should have been able to cover the distribution prior to 2020's cut, so we continue to be cautious despite the increase in the payout that we're forecasting.

<sup>1</sup> Estimated date

<sup>2</sup> In millions

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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/CF	7.5	7.3	7.3	9.9	8.0	7.1	6.2	6.2	4.2	5.4	5.1	5.0
Avg. Yld.	7.9%	7.8%	8.5%	11.6%	12.1%	10.3%	10.5%	10.2%	8.2%	8.6%	7.8%	8.4%

Suburban's valuation remains very low, and we see the stock as fairly valued today. A 0.5% annual headwind from the slightly declining valuation could detract from returns going forward, as shares trade for 5.1 times CF/S. That compares to our fair value estimate of 5 times CF. We see the yield potentially rising slightly in the coming years given a potentially rising distribution.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	277%	98%	92%	99%	150%	120%	73%	63%	35%	47%	40%	42%

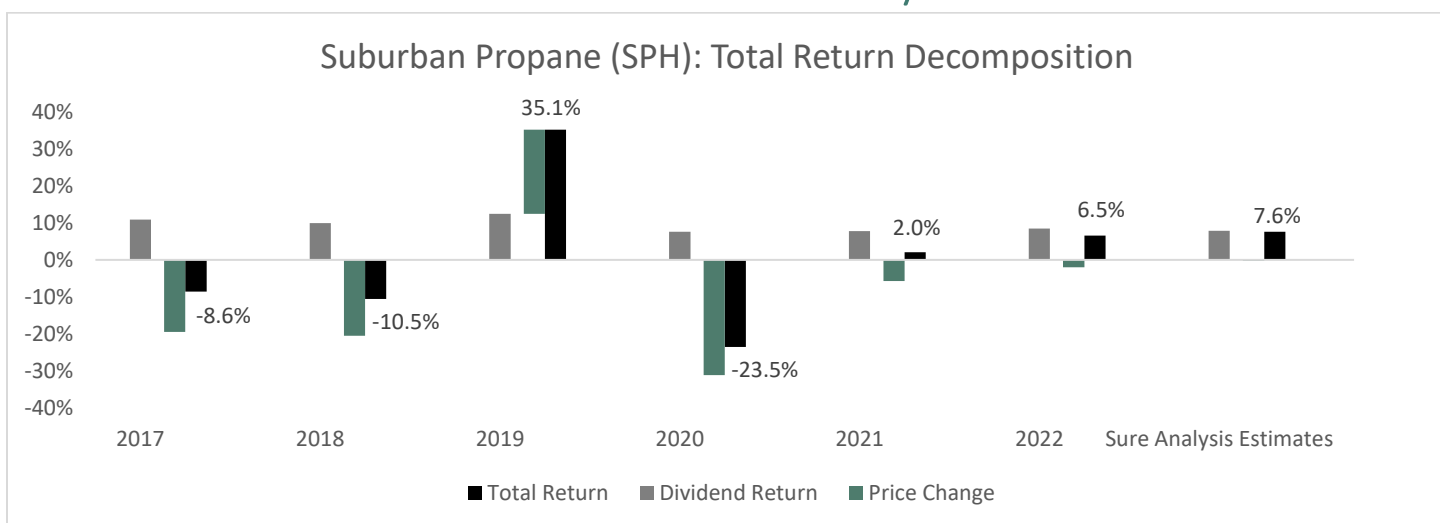
Suburban's payout ratio is very reasonable against its cash flow per share. Over time, we expect that to rise given that we see the distribution rising.

Suburban's main competitive advantages are its switching costs as well as its entrenched position in its service areas. It has a long operating history in the Northeast and that has allowed it to expand to other parts of the U.S., providing additional buying and distribution leverage. It is not beholden to economic conditions, so recessions are not a concern, but the weather is always a factor. It is not immune to competition as a natural gas distribution utility could encroach on Suburban's core business, especially if propane became significantly more expensive than natural gas. Suburban will likely need to continue acquiring smaller propane competitors to sustain its volumes as organic sales should continue to decline. This adds acquisition and integration risks to the operation as well.

## Final Thoughts & Recommendation

Overall, Suburban appears to be a reasonably attractive investment with its forecast annual returns of 7.6% thanks to its huge yield of 7.8% and 0.5% headwind from the valuation, as well as 1% growth. The distribution should be safe at its current levels for the foreseeable future, offering income investors the chance to grab a sizable yield. Suburban is not without risks, but the current stock price and distribution seem to be pricing in these risks. Following results for fiscal 2022, we now rate the stock a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,704	1,938	1,417	1,046	1,188	1,344	1,268	1,108	1,289	1,501
Gross Profit	842	858	824	684	711	752	746	725	803	789
Gross Margin	49.4%	44.2%	58.1%	65.4%	59.9%	55.9%	58.8%	65.4%	62.3%	52.6%
SG&A Exp.	65	65	68	61	57	66	71	66	74	82
D&A Exp.	130	136	133	130	128	125	121	117	105	59
Operating Profit	177	190	178	81	129	163	151	140	213	206
Operating Margin	10.4%	9.8%	12.5%	7.7%	10.8%	12.1%	11.9%	12.7%	16.5%	13.7%
Net Profit	79	95	84	14	38	77	69	61	123	140
Net Margin	4.6%	4.9%	6.0%	1.4%	3.2%	5.7%	5.4%	5.5%	9.5%	9.3%
Free Cash Flow	186	195	283	119	136	178	192	177	197	176
Income Tax	1	1	1	1	0	(1)	1	(0)	1	0

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,728	2,609	2,486	2,282	2,171	2,101	1,998	2,047	2,052	2,104
Cash & Equivalents	107	93	152	37	3	5	2	3	6	4
Accounts Receivable	95	97	60	54	66	71	59	55	71	79
Inventories	78	91	48	45	53	59	45	47	62	67
Goodwill & Int. Ass.	1,504	1,447	1,395	1,371	1,315	1,269	1,227	1,188	1,146	1,153
Total Liabilities	1,599	1,588	1,587	1,574	1,618	1,607	1,575	1,685	1,626	1,606
Accounts Payable	53	49	35	32	39	38	34	32	39	35
Long-Term Debt	1,245	1,243	1,241	1,225	1,272	1,255	1,227	1,210	1,118	1,077
Shareholder's Equity	1,129	1,021	898	708	553	494	424	362	425	498

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.8%	3.5%	3.3%	0.6%	1.7%	3.6%	3.3%	3.0%	6.0%	6.7%
Return on Equity	7.1%	8.8%	8.8%	1.8%	6.0%	14.6%	15.0%	15.5%	31.2%	30.3%
Shares Out.	58	61	61	61	61	62	62	63	63	64
Revenue/Share	29.07	31.90	23.26	17.10	19.30	21.74	20.33	17.66	20.36	23.45
FCF/Share	3.18	3.22	4.65	1.95	2.20	2.87	3.08	2.82	3.11	2.75

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

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