



Superior Plus Corporation (SUUIF)

Updated February 20th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$7.83	5 Year CAGR Estimate:	6.2%	Market Cap:	\$1.58 B
Fair Value Price:	\$7.90	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	02/27/23
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.2%	Dividend Payment Date:	03/15/23
Dividend Yield:	6.9%	5 Year Price Target	\$7.90	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

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. The company is the dominant distributor in Canada (30% of EBITDA), has significant operations in the U.S. (60% of EBITDA), and is also a propane wholesaler (10% of EBITDA). Superior Plus generates around \$3.8 billion in annual revenues, and is based in Toronto, Canada. This report is in US dollars unless otherwise noted.

On February 16th, 2023, Superior Plus reported its Q4-2022 and full-year results for the period ending December 31st, 2022. In Q4, the company generated an adjusted EBITDA of 135.7 million, a \$30 million increase compared to the prior-year quarter. The increase was due to lower Adjusted EBITDA from all three segments following several acquisitions over the past four quarters. Adjusted operating cash flow per share totaled \$0.25, compared to \$0.45 last year, primarily due to transaction, restructuring, and other costs related to the company's recent acquisitions, as well as a higher share count. For the year, AOCF per share was \$0.91, down from \$1.22 in fiscal 2021, for the same reasons.

Management introduced its FY2023 outlook, expecting adjusted EBITDA to be in the range of C\$585 million to C\$635 million, suggesting a 35.6% increase year-over-year in its midpoint. We have set our FY2023 CFPS/share estimate at \$1.00, which takes into account the recent dilution and the possibility for more costs to accrue amid further acquisitions.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
CFPS	\$1.52	\$1.63	\$1.23	\$0.86	\$1.17	\$1.28	\$1.63	\$1.21	\$1.22	\$0.91	\$1.00	\$1.00
DPS	\$0.58	\$0.55	\$0.56	\$0.54	\$0.55	\$0.56	\$0.54	\$0.57	\$0.57	\$0.54	\$0.54	\$0.54
Shares¹	123	126	129	142	143	158	175	176	176	195	195	230

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 in CAD terms, even as their coverage ratio has remained high (a >2.0 average through 2022) in order to deleverage. Last year, management updated its Total Debt to Adjusted EBITDA target from around 3.0X to 3.5X to a range of 3.5X to 4.0X to allow for greater flexibility to execute on acquisitions. The ratio remains relatively high, currently at 4.1X. Hence, the lack of dividend increases may be due to management being cautious. Considering the 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 exchange rates between US dollars and CAD dollars add to the overall uncertainty. We note that the company cut the dividend in half in 2012, despite it being a pretty good year for the business. In addition, even though it had close to a 2.8x coverage in 2019, Superior Plus did not increase its dividend. It has remained stable since, at C\$0.06 per month. We conclude that paying a growing dividend is not especially high on the company's priority list.

¹ 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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/CF	7.2	6.7	7.4	10.1	8.1	6.4	5.2	7.0	11.5	9.3	7.8	7.9
Avg. Yld.	5.4%	5.1%	6.2%	6.2%	5.9%	6.8%	6.4%	5.5%	4.0%	6.2%	6.9%	6.8%

For the table above, we note that CFPS and DPS have been currency adjusted to be consistent with the share price, which is US dollars denominated. SUUIF's current P/CF stands at 7.8X based on our estimates for fiscal 2023, which is more or less in line with its historical average. We believe that a multiple of 7.9X, which is also Superior's decade-average multiple, makes for a fair valuation. Brookfield's investment in 2020 and the company's promising acquisitions lately could deserve a higher multiple, but continuous dilution and a high leverage pose risks we can't ignore. The 6.9% yield is quite hefty, and notably higher than the stock's past decade average of 5.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

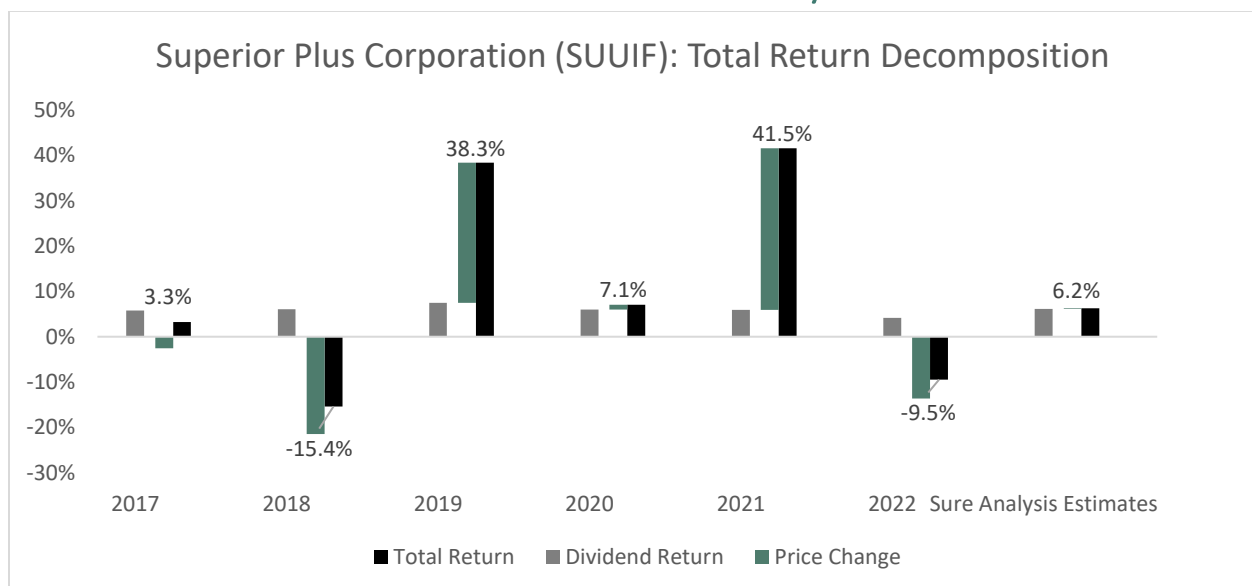
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	38%	34%	46%	63%	47%	44%	33%	47%	47%	59%	54%	54%

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. Still, we appreciate management's reporting consistency, prudent leverage management, and commitment to growing the business.

Final Thoughts & Recommendation

Superior Plus has guided for another year of robust adjusted EBITDA this year, boosted by its acquisition spree. However, we remain concerned with regard to further dilution moving forward, as well as the company's high leverage in a rising-rates environment. The monthly dividend is attractive, but the lack of dividend growth is rather uninspiring. Assuming constant CFPS and payouts, and relatively stable valuation assumptions, we forecast annualized returns of 6.2% in the medium-term. We continue to rate Superior Plus a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3625	3644	3601	1765	1528	1840	2113	2150	1787	1908
Gross Profit	847	844	835	516	496	567	732	914	820	728
Gross Margin	23.4%	23.2%	23.2%	29.2%	32.4%	30.8%	34.6%	42.5%	45.9%	38.2%
SG&A Exp.	619	634	598	410	359	380	473	515	423	400
D&A Exp.	114	100	92	100	91	87	154	190	199	160
Operating Profit	158	150	164	60	89	137	133	231	184	108
Operating Margin	4.4%	4.1%	4.6%	3.4%	5.8%	7.4%	6.3%	10.7%	10.3%	5.7%
Net Profit	90	51	52	21	222	-22	-26	107	56	146
Net Margin	2.5%	1.4%	1.4%	1.2%	14.6%	-1.2%	-1.2%	5.0%	3.1%	7.7%
Free Cash Flow	230	104	125	130	37	82	121	216	182	101
Income Tax	9	6	14	-1	28	111	0	19	54	4.6

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2043	2011	1822	1544	1370	1858	2683	2785	3001	2792
Cash & Equivalents	8	8	3	0	4	25	18	20	19	22
Accounts Receivable	390	450	369	270	180	253	281	252	212	235
Inventories	215	194	159	127	75	109	108	89	97	87
Goodwill & Int. Ass.	230	200	183	157	171	470	1119	1125	1238	1381
Total Liabilities	1666	1504	1348	1030	682	1241	1883	1990	1997	1763
Accounts Payable	237	282	241	174	135	189	212	235	221	233
Long-Term Debt	1166	982	861	612	392	837	1314	1297	1225	1142
Shareholder's Equity	376	507	474	514	689	617	799	795	744	771
LTD/E Ratio	3.10	1.94	1.82	1.19	0.57	1.36	1.64	1.63	1.65	1.48

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.3%	2.5%	2.7%	1.2%	15.3%	-1.3%	-1.2%	3.9%	1.9%	5.0%
Return on Equity	25.0%	11.6%	10.5%	4.2%	37.0%	-3.3%	-3.7%	13.5%	7.3%	19.3%
ROIC	5.7%	3.4%	3.6%	1.7%	20.2%	-1.7%	-1.5%	5.1%	2.6%	6.6%
Shares Out.	112	123	126	129	142	143	158	175	190	206
Revenue/Share	32.40	28.27	27.12	13.68	10.33	12.89	13.36	12.29	9.42	9.26
FCF/Share	2.05	0.80	0.94	1.01	0.25	0.57	0.77	1.24	0.96	0.49

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

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