



# UGI Corporation (UGI)

Updated February 8<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$41	<b>5 Year CAGR Estimate:</b>	11.7%	<b>Market Cap:</b>	\$8.8 B
<b>Fair Value Price:</b>	\$48	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	03/14/23
<b>% Fair Value:</b>	85%	<b>5 Year Valuation Multiple Estimate:</b>	3.4%	<b>Dividend Payment Date:</b>	04/01/23
<b>Dividend Yield:</b>	3.5%	<b>5 Year Price Target</b>	\$63	<b>Years Of Dividend Growth:</b>	35
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## Overview & Current Events

UGI Corporation is a gas and electric utility that operates in Pennsylvania, in addition to a large energy distribution business that serves the entire US and other parts of the world. It was founded in 1882 and has paid consecutive dividends since 1885. Its market capitalization is \$8.8 billion. The company operates in four reporting segments: AmeriGas, UGI International, Midstream & Marketing, and UGI Utilities.

On February 1<sup>st</sup>, 2023 UGI reported financial results for the fiscal quarter ended December 31, 2022. Management reported Q1 GAAP diluted earnings per share of \$(4.54) and adjusted diluted EPS of \$1.14, compared to GAAP diluted EPS of \$(0.46) and adjusted diluted EPS of \$0.93 in the prior-year period. Q1 reportable segments earnings before interest expense and income taxes ("EBIT") were \$411 million compared to \$348 million in the prior-year period. The company continued to have a strong balance sheet, with available liquidity of approximately \$1.2 billion. Management progressed its renewables strategy with commitments to fully fund renewable natural gas projects in New York and South Dakota, bringing its total renewables investment to over \$450 million to date. The company also received a rating upgrade to "AAA" in the MSCI ESG rating assessment in December 2022.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.59	\$1.92	\$2.01	\$2.05	\$2.29	\$2.74	\$2.28	\$2.67	\$2.96	\$2.90	<b>\$3.12</b>	<b>\$4.08</b>
<b>DPS</b>	\$0.74	\$0.79	\$0.89	\$0.93	\$0.96	\$1.03	\$1.21	\$1.31	\$1.37	\$1.43	<b>\$1.44</b>	<b>\$1.73</b>
<b>Shares<sup>1</sup></b>	171.7	172.4	172.4	173.0	173.2	173.8	209.0	208.4	209.8	209.7	<b>209.6</b>	<b>212</b>

We see 5.5% annualized growth over the next half decade. UGI completes acquisitions periodically, further bolstering future growth. It does not buy back stock, but these initiatives should be enough to drive earnings-per-share growth over the long-term. Keep in mind that results are non-linear thanks to the weather, so UGI will almost certainly not achieve steady growth, but will go through stops and starts. Long-term, however, the growth story remains intact.

Management is dedicated to continuing the long streak of paying dividends and the 35 years of consecutive increases.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	15	16.4	15.4	15.8	17.7	19.3	20.8	20.2	12.9	13.2	<b>13.1</b>	<b>15.5</b>
<b>Avg. Yld.</b>	3.1%	2.5%	2.9%	2.9%	2.4%	2.0%	2.6%	2.4%	3.6%	3.7%	<b>3.5%</b>	<b>2.7%</b>

Today's price-to-earnings multiple stands at 13.1 times our expected 2023 earnings-per-share. However, we are forecasting a reversion to the mean at 15.5 as the stock remains undervalued. Dividend stocks, and utilities in particular, have been assigned rising valuations in recent years due to persistently low interest rates, but UGI is currently trading below its historical price-to-earnings levels, giving it additional upside potential from valuation multiple expansion. We note the current valuation is near the lowest point of the past decade.

<sup>1</sup> 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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## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	46.5%	41.1%	44.3%	45.4%	41.9%	37.6%	53.1%	49.1%	46.3%	49.3%	<b>46.2%</b>	<b>42.4%</b>

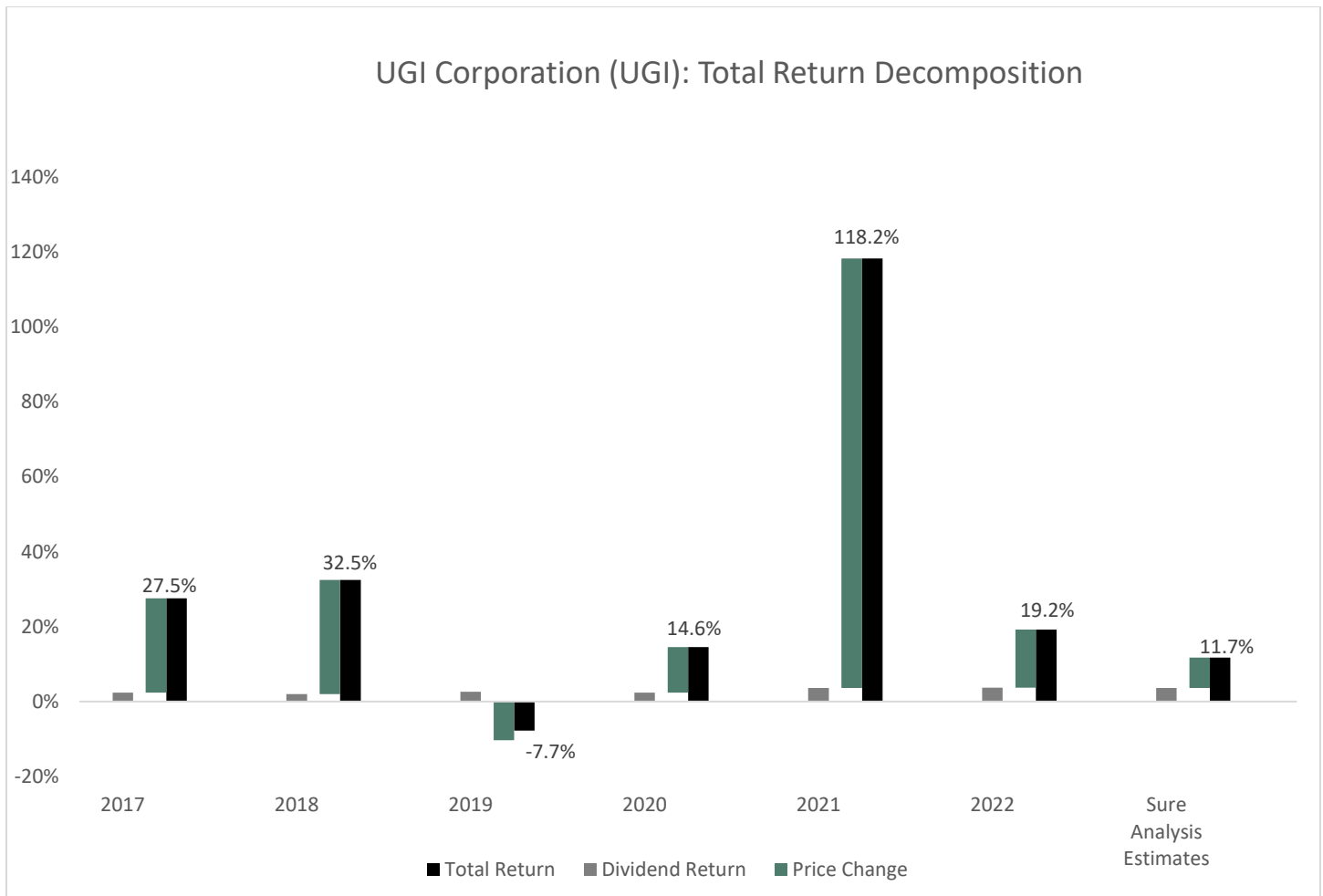
UGI's main competitive advantage is in its highly diversified business model. It has electric and gas utilities, propane distribution that covers a wide geographic area and diverse customer base, as well as a variety of other energy generation and distribution activities. This allows it to not only weather downturns in any particular business, but provides several avenues for growth as well. UGI's strong performance during the Great Recession illustrates this.

The payout ratio is quite reasonable today given the company weathered the COVID-19 recession well. We expect a sub-50% payout ratio for the foreseeable future, indicating excellent dividend safety.

### Final Thoughts & Recommendation

UGI is a Dividend Champion that offers strong future annualized total return potential of 11.7% due to the combination of strong growth, an attractive dividend yield, and some multiple expansion. As a utility, it should be well-positioned to weather a recession and its well-covered and growing dividend yield is attractive for dividend growth investors. As a result, we rate it a Buy.

### Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	7,195	8,277	6,691	5,686	6,121	7,651	7,320	6,559	7,447	10,106
<b>Gross Profit</b>	2,870	3,102	2,955	3,248	3,283	3,576	2,997	3,410	4,833	4,133
<b>Gross Margin</b>	39.9%	37.5%	44.2%	57.1%	53.6%	46.7%	40.9%	52.0%	64.9%	40.9%
<b>SG&amp;A Exp.</b>	1,692	1,753	1,774	1,882	1,868	2,013	1,963	1,911	2,014	2,028
<b>D&amp;A Exp.</b>	363	363	374	401	416	455	448	484	502	518
<b>Operating Profit</b>	812	979	810	969	1,011	1,116	591	1,020	2,317	1,614
<b>Operating Margin</b>	11.3%	11.8%	12.1%	17.0%	16.5%	14.6%	8.1%	15.6%	31.1%	16.0%
<b>Net Profit</b>	278	337	281	365	437	719	256	532	1,467	1,073
<b>Net Margin</b>	3.9%	4.1%	4.2%	6.4%	7.1%	9.4%	3.5%	8.1%	19.7%	10.6%
<b>Free Cash Flow</b>	316	549	673	406	326	511	373	447	791	(88)
<b>Income Tax</b>	163	235	178	221	178	33	93	135	522	313

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	10009	10093	10514	10847	11582	11981	13347	13985	16723	17575
<b>Cash &amp; Equivalents</b>	389	420	370	503	558	453	447	336	855	405
<b>Accounts Receivable</b>	746	685	620	552	627	752	641	652	880	1,127
<b>Inventories</b>	366	423	240	210	279	318	230	241	469	665
<b>Goodwill &amp; Int. Ass.</b>	3,482	3,410	3,564	3,569	3,719	3,674	4,165	4,195	4,353	4,112
<b>Total Liabilities</b>	6,461	6,430	6,942	7,252	7,841	7,881	9,520	9,848	11,192	11,501
<b>Accounts Payable</b>	472	460	393	391	440	562	439	475	837	891
<b>Long-Term Debt</b>	3,837	3,722	3,857	4,087	4,539	4,590	6,600	6,381	6,816	7,000
<b>Shareholder's Equity</b>	2,493	2,659	2,692	2,844	3,163	3,681	3,817	4,128	5,309	5,904
<b>LTD/E Ratio</b>	1.54	1.40	1.43	1.44	1.43	1.25	1.73	1.55	1.23	1.15

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	2.8%	3.4%	2.7%	3.4%	3.9%	6.1%	2.0%	3.9%	9.6%	6.3%
<b>Return on Equity</b>	11.8%	13.1%	10.5%	13.2%	14.5%	21.0%	6.8%	13.4%	31.1%	19.1%
<b>ROIC</b>	3.9%	4.6%	3.8%	4.8%	5.5%	8.5%	2.7%	5.1%	12.8%	8.4%
<b>Shares Out.</b>	171.7	172.4	172.4	173.0	173.2	173.8	209.0	208.4	209.1	209.7
<b>Revenue/Share</b>	41.52	47.24	38.09	32.38	34.55	43.25	40.42	31.25	35.11	46.83
<b>FCF/Share</b>	1.82	3.13	3.83	2.31	1.84	2.89	2.06	2.13	3.73	(0.41)

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

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