# Genesis Energy (GEL)

*Updated May 18th, 2023 by Aristofanis Papadatos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $10.3 | **5 Year CAGR Estimate:** | 13.0% | **Market Cap:** | $1.3 B |
| **Fair Value Price:** | $12.5 | **5 Year Growth Estimate:** | 5.0% | **Ex-Dividend Date:** | 7/27/2023[1] |
| **% Fair Value:** | 82% | **5 Year Valuation Multiple Estimate:** | 3.9% | **Dividend Payment Date:** | 8/11/2023 |
| **Dividend Yield:** | 5.8% | **5 Year Price Target** | $16 | **Years Of Dividend Growth:** | 0 |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | B | **Rating:** | Hold |

## Overview & Current Events

Genesis Energy is a diversified midstream energy limited partnership, which generates 42% of its operating income from offshore pipeline transportation, 44% from sodium minerals and sulfur services, 3% from onshore facilities and 11% from marine transportation. It has a market capitalization of $1.3 billion.

Genesis Energy has dramatically underperformed the market in the last five years, as shares have fallen -54% whereas the S&P has rallied 53%. 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 consuming 85% of 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 faced a fierce downturn in 2020-2021 due to the pandemic, which severely hurt the oil segment and the sodium business. The MLP cut its quarterly distribution by -73% in 2020, from $0.55 to $0.15.

In early May, Genesis Energy reported (5/4/23) financial results for the first quarter of fiscal 2023. The offshore pipeline segment remained in recovery mode and the marine transportation began to recover from the pandemic. Genesis Energy narrowed its loss per unit from -$0.04 in the prior year's quarter to -$0.01. It also posted distributable cash flow of $77.7 million and thus it achieved a strong distribution coverage ratio of 4.2. Management expects sustained strong volumes in the Gulf of Mexico and thus it still expects EBITDA of $780-$810 million this year, implying 11% growth at the mid-point. Genesis Energy has no debt maturities until 2025. Nevertheless, the hefty loss in 2020, which was ~39% of the current market cap, is a reminder of the excessive risk of Genesis Energy during downturns.

## Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **DCF/U** | $1.68 | $2.07 | $2.18 | $2.81 | $2.52 | -$4.22 | $2.93 | $2.08 | $1.66 | $2.88 | ***$2.50*** | ***$3.19*** |
| **DPU** | $2.07 | $2.29 | $2.47 | $2.72 | $2.65 | $2.10 | $2.20 | $1.00 | $0.60 | $0.60 | ***$0.60*** | ***$0.60*** |
| **Shares[2]** | 84.0 | 90.1 | 103.0 | 113.4 | 121.5 | 122.6 | 122.6 | 122.6 | 122.6 | 122.6 | ***122.6*** | ***150.0*** |

Genesis Energy has failed to grow its DCF per unit consistently 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 $4.1 billion, which is triple the current market cap, and a somewhat high leverage ratio (net debt/EBITDA) of 4.0. 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 from the pandemic, we expect 5.0% growth of 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.

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[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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## Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| P/DCF | 31.3 | 20.5 | 16.9 | 12.9 | 8.9 | --- | 7.3 | 3.8 | 5.7 | 3.7 | ***4.1*** | ***5.0*** |
| Avg. Yld. | 4.2% | 4.4% | 5.7% | 8.1% | 8.8% | 9.4% | 9.4% | 12.5% | 6.3% | 5.6% | ***5.8%*** | ***3.8%*** |

Genesis Energy is currently trading at a P/DCF ratio of 4.1, which is lower than its historical 5-year average of 5.1. As Genesis Energy currently has a high debt load, we assume a fair DCF multiple of 5.0. If the stock trades at this valuation level in five years, it will enjoy a 3.9% annualized gain in its returns.

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

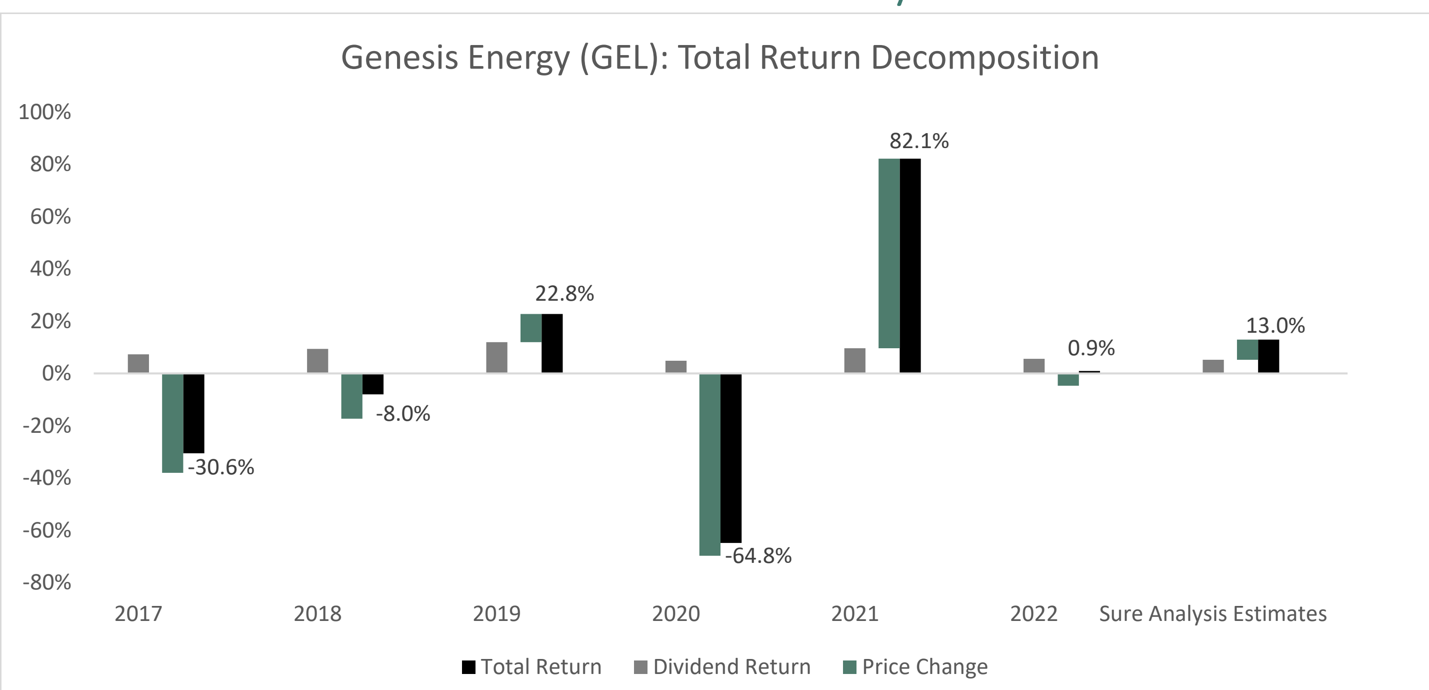
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 87.7% | 78.7% | 37.6% | 66.2% | 65.0% | 38.2% | 75.1% | 48.0% | 36.1% | 20.8% | ***24.0%*** | ***18.8%*** |

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 any downturn in its business, such as a recession.

## Final Thoughts & Recommendation

Due to its 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, the stock can offer a 13.0% average annual return over the next five years thanks to its 5.8% distribution, 5.0% growth and a 3.9% valuation tailwind. Nevertheless, it will be highly vulnerable in the event of another downturn, such as a recession. We rate the stock as a hold only for those who realize its risk and can stomach high stock price volatility.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 4,135 | 3,846 | 2,247 | 1,712 | 2,028 | 2,913 | 2,481 | 1,825 | 2,125 | 2,789 |
| Gross Profit | 158 | 183 | 222 | 252 | 247 | 321 | 325 | 114 | 137 | 342 |
| Gross Margin | 3.8% | 4.8% | 9.9% | 14.7% | 12.2% | 11.0% | 13.1% | 6.2% | 6.4% | 12.3% |
| SG&A Exp. | 47 | 51 | 65 | 46 | 66 | 67 | 53 | 57 | 61 | 67 |
| D&A Exp. | 65 | 91 | --- | --- | --- | --- | --- | --- | 310 | 296 |
| Operating Profit | 111 | 133 | 139 | 206 | 164 | 259 | 273 | 57 | 76 | 275 |
| Operating Margin | 2.7% | 3.4% | 6.2% | 12.1% | 8.1% | 8.9% | 11.0% | 3.1% | 3.6% | 9.9% |
| Net Profit | 86 | 106 | 423 | 113 | 83 | (6) | 96 | (417) | (165) | 75 |
| Net Margin | 2.1% | 2.8% | 18.8% | 6.6% | 4.1% | -0.2% | 3.9% | -22.8% | -7.8% | 2.7% |
| Free Cash Flow | (205) | (152) | (206) | (180) | 73 | 195 | 219 | 153 | 37 | (90) |
| Income Tax | 1 | 3 | 4 | 3 | (4) | 1 | 1 | 1 | 2 | 3 |

## Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 2,862 | 3,211 | 5,460 | 5,703 | 7,137 | 6,479 | 6,598 | 5,934 | 5,906 | 6,366 |
| Cash & Equivalents | 9 | 9 | 11 | 7 | 9 | 10 | 29 | 27 | 20 | 8 |
| Accounts Receivable | 368 | 272 | 220 | 225 | 495 | 323 | 417 | 392 | 400 | 722 |
| Inventories | 85 | 47 | 44 | 99 | 89 | 74 | 65 | 100 | 78 | 78 |
| Goodwill & Int. Ass. | 388 | 408 | 548 | 530 | 507 | 465 | 441 | 431 | 429 | 429 |
| Total Liabilities | 1,764 | 1,981 | 3,439 | 3,583 | 4,423 | 4,037 | 4,376 | 4,325 | 3,926 | 4,591 |
| Accounts Payable | 316 | 245 | 141 | 120 | 271 | 127 | 219 | 198 | 264 | 428 |
| Long-Term Debt | 1,284 | 1,581 | 2,922 | 3,091 | 3,698 | 3,432 | 3,429 | 3,394 | 2,980 | 3,464 |
| Shareholder's Equity | 1,098 | 1,229 | 2,029 | 2,130 | 2,723 | 2,453 | 2,225 | 1,610 | 1,426 | 1,465 |

## Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 3.5% | 3.5% | 9.7% | 2.0% | 1.3% | -0.1% | 1.5% | -6.7% | -2.8% | 1.2% |
| Return on Equity | 8.6% | 9.1% | 25.9% | 5.4% | 3.4% | -0.2% | 4.1% | -21.7% | -10.9% | 5.2% |
| Shares Out. | 84.0 | 90.1 | 103.0 | 113.4 | 121.5 | 122.6 | 122.6 | 122.6 | 122.6 | 2.1% |
| Revenue/Share | 49.25 | 42.71 | 21.81 | 15.10 | 16.69 | 23.76 | 20.24 | 14.89 | 17.34 | 122.58 |
| FCF/Share | -2.44 | -1.69 | -2.00 | -1.59 | 0.60 | 1.59 | 1.79 | 1.25 | 0.30 | 22.75 |

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