Energy Transfer LP (ET)

Updated August 14th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$13	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$40.1 B
Fair Value Price:	$12	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	8/11/23
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.6%	**Dividend Payment Date:**	8/21/23
Dividend Yield:	9.5%	**5 Year Price Target**	$13	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

On October 19th, 2018, Energy Transfer Equity, LP (previously ETE) and Energy Transfer Partners, LP (previously ETP) announced the completion of a merger with ETE buying ETP. As part of the merger, ETE changed its name to "Energy Transfer LP" and the common units began trading under the "ET" symbol. The combined firm owns and operates one of the largest and most diversified portfolios of energy assets in the United States. Operations include natural gas transportation and storage along with crude oil, natural gas liquids and refined product transportation and storage totaling 83,000 miles of pipelines. Energy Transfer, a $40.1 billion market capitalization company, also owns the Lake Charles LNG Company and stakes in Sunoco LP (SUN) and USA Compression Partners (USAC). On December 7th, 2021, Energy Transfer completed the acquisition of Enable Midstream Partners (ENBL) in a $7 billion stock-for-stock deal.

In early August, Energy Transfer reported (8/2/23) financial results for the second quarter of fiscal 2023. It grew its volumes in all segments and achieved record NGL fractionation volumes, NGL transportation volumes, midstream gathered volumes and interstate natural gas transportation volumes. However, due to higher capital expenses and increased interest expense, distributable cash flow decreased -17% over the prior year's quarter. Energy Transfer posted a healthy distribution coverage ratio of 1.6 and raised the quarterly distribution by 1%, on top of the distribution hikes in each of the six previous quarters. It thus now offers an annualized distribution of $1.24, marginally higher than the pre-pandemic level, which corresponds to an annual yield of 9.5%. Thanks to strong demand for its networks, Energy Transfer reiterated its guidance for adjusted annual EBITDA of $13.1-$13.4 billion.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
CF/S	$1.31	$2.12	$3.12	$3.20	$3.38	$2.06	$2.20	$2.13	$2.90	$2.40	***$2.45***	***$2.70***
DPS	$0.67	$0.80	$1.08	$1.14	$1.15	$1.22	$1.22	$1.07	$0.61	$0.87	***$1.24***	***$1.37***
Units[1]	1,123	1,081	1,047	1,047	1,079	2,619	2,650	2,699	2,831	3,103	***3,150***	***3,500***

Energy Transfer operates a "toll booth" model of transporting energy, with natural gas being particularly interesting. Eventually the world may move away from fossil fuels, but this is not the case for the foreseeable future. Moreover, all the environmental policies are positive for natural gas, which is considered a cleaner and environmentally friendly fuel. In the last decade, U.S. electricity production has shifted dramatically from coal to natural gas.

Energy Transfer has a healthy backlog, with the expectation to spend $1.6-$1.8 billion in growth capital expenditures this year. A great portion of these capital expenses are for projects that are expected to begin delivering cash flows until the end of the year. The growth projects and the acquisitions of Energy Transfer will be significant growth drivers, but its results will be burdened by its high net debt load ($55.9 billion) and its increased share count. Energy Transfers' investments prime the MLP for growth in a positive scenario but render it vulnerable to downturns. We expect 2% average annual growth in cash flow per share over the next five years.

[1] Units in millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg P/DCF	15.6	13.5	4.4	6.0	5.1	6.4	5.3	3.6	3.1	4.6	***5.3***	***4.9***
Avg. Yld.	4.3%	3.1%	4.0%	8.6%	6.5%	9.2%	10.5%	14.1%	6.8%	7.9%	***9.5%***	***10.3%***

The average price-to-cash flow ratio of Energy Transfer has dramatically decreased in recent years due to its excessive debt load. The stock is currently trading at a cash flow multiple of 5.3, which is higher than the 7-year average cash flow multiple of 4.9. If the stock trades at its average valuation level in 2028, it will incur a -1.6% annual valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

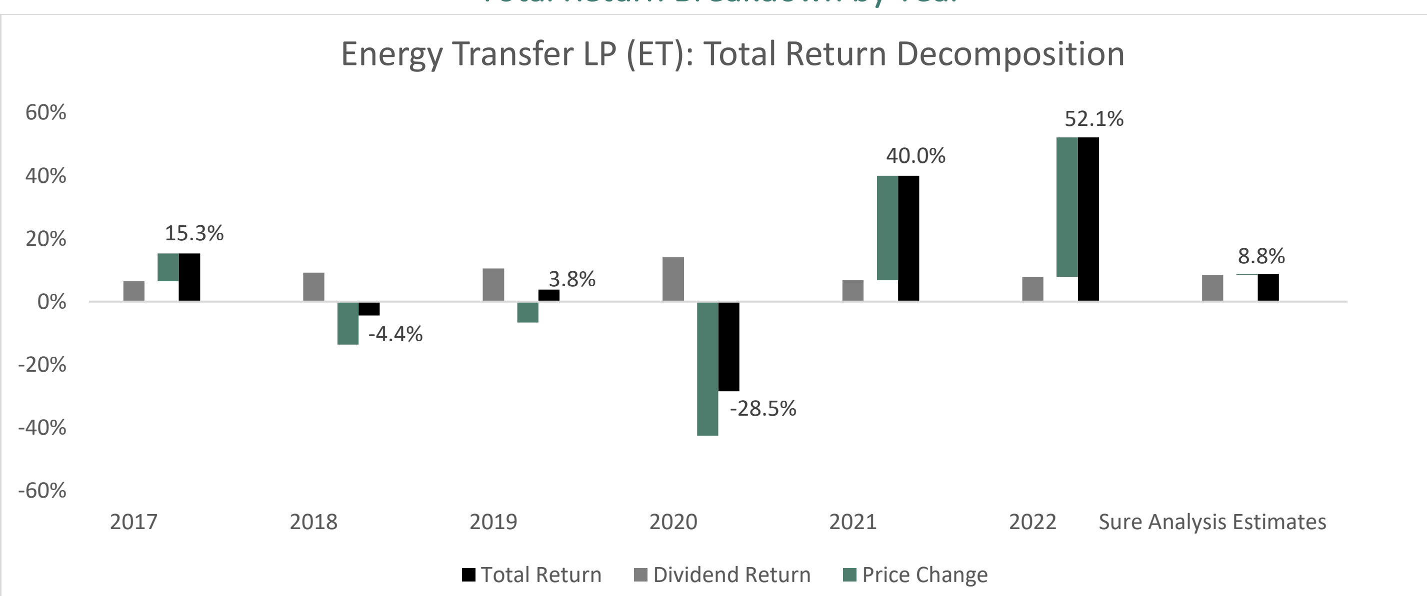
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	51%	38%	35%	36%	34%	59%	56%	50%	21%	36%	***51%***	***51%***

Energy Transfer has been trying to offer extremely generous distributions to its shareholders and at the same time it has been investing excessive amounts in growth projects and acquisitions. Unfortunately, it is impossible to achieve these without a price. The price is the leveraged balance sheet, which renders the MLP vulnerable to any unforeseen downturn. When the pandemic struck, Energy Transfer was forced to cut its distribution by -50% due to its high leverage. Moreover, the stock plunged -70% in less than three months due to investors' aversion to the risk of the stock. Income-oriented investors who are attracted by the high distribution yield of the MLP should be well aware of its risk and its volatility. With that said, the distribution has been restored to the pre-pandemic level and is currently well covered by cash flows, with a coverage ratio of 1.6. Therefore, in the absence of another downturn, the 9.5% forward distribution yield should be considered safe.

Final Thoughts & Recommendation

Energy Transfer is a risky bet due to its weak balance sheet. However, the pandemic has subsided and thus the stock could offer an 8.8% average annual return over the next five years thanks to its 9.5% distribution yield and 2% growth in cash flow per share, partly offset by a -1.6% valuation headwind. The stock maintains its hold rating, but it is suitable only for investors who can stomach extreme 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	48335	55691	36096	31792	40523	54087	54213	38,954	67,417	89,876
Gross Profit	5755	7277	7428	8099	9557	12429	14486	9,789	13,205	13,480
Gross Margin	11.9%	13.1%	20.6%	25.5%	23.6%	23.0%	26.7%	25.1%	19.6%	15.0%
SG&A Exp.	533	611	548	656	599	702	694	711	818	1,018
Operating Profit	2072	2840	2626	2891	3760	5779	7351	5,860	8,813	8,124
Operating Margin	4.3%	5.1%	7.3%	9.1%	9.3%	10.7%	13.6%	15.0%	13.1%	9.0%
Net Profit	196	633	1189	995	954	1694	3592	(648)	5,470	4,756
Net Margin	0.4%	1.1%	3.3%	3.1%	2.4%	3.1%	6.6%	-1.7%	8.1%	5.3%
Free Cash Flow	(1086)	(2206)	(6094)	(4449)	(4015)	99	2043	2,231	8,340	5,670
Income Tax	93	357	(123)	(258)	(1833)	4	195	237	184	204

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	50330	64279	71189	78925	86246	88246	98880	95,144	105,963	105,643
Cash & Equivalents	590	847	606	467	336	419	291	367	336	257
Acc. Receivable	3658	3378	2400	3557	4504	4009	5038	3,875	7,654	8,466
Inventories	1807	1467	1636	2055	2022	1677	1935	1,739	2,014	2,461
Goodwill & Int. Ass.	8158	13447	12904	11182	10884	10885	11321	8,137	8,389	7,981
Total Liabilities	34051	41965	47591	56494	56266	57396	65035	63,756	65,835	64,491
Accounts Payable	3834	3349	2274	3502	4685	3493	4118	2,809	6,834	6,952
Long-Term Debt	23199	30485	36968	44052	44084	46028	51054	51,438	49,702	48,262
Total Equity	1078	664	(932)	(1694)	(1196)	20559	21827	18,529	31,300	33,025

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.4%	1.1%	1.8%	1.3%	1.2%	1.9%	3.8%	-0.7%	5.4%	4.5%
Return on Equity	12.3%	72.7%	---	---	---	17.5%	16.9%	-3.2%	22.0%	14.8%
Shares Out.	1,123	1,081	1,047	1,047	1,079	2,619	2,650	2,699	2,831	3,087
Revenue/Share	43.09	51.06	33.91	29.48	35.21	37.01	20.55	14.45	24.61	29.12
FCF/Share	(0.97)	(2.02)	(5.73)	(4.12)	(3.49)	0.07	0.77	0.83	3.04	1.84

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