Star Group, L.P. (SGU)

Updated August 9th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$12	**5 Year CAGR Estimate:**	6.3%	**Market Cap:**	$348 M
Fair Value Price:	$10	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	10/27/2023[1]
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-12.6%	**Dividend Payment Date:**	11/08/2023
Dividend Yield:	5.4%	**5 Year Price Target**	$12.60	**Years Of Dividend Growth:**	10
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Star Group, L.P. is a home heating oil and propane distributor and services provider. The company was founded in 1995 as Star Gas Partners, L.P. and changed its name to Star Group, L.P. in October 2017. The company's Petro Holdings subsidiary provides heating oil and propane to 416,000 customers in the US Northeast and Mid-Atlantic regions. In addition, the company also sells diesel and gasoline to customers across the United States. Star Group, L.P. is the largest retail distributor of home heating oil in the nation, giving it a competitive advantage in the market. The company has a strong market position in the home heating oil and propane distribution industry and has maintained a steady market share in recent years. The company operates in two revenue segments: Home Heating Oil and Propane, and Other Products and Services, including commercial heating and HVAC services, equipment installations, and repair and maintenance services.

On August 2nd, 2023, the company announced its Q3 results of fiscal year 2023, reporting non-GAAP EPS of -$0.67. The company reported revenues of $300.1 million for the quarter, down 31.7% year-over-year, reflecting a drop in both average selling prices and overall volume sold.

Due to the impact of warmer weather, net customer attrition, and other variables, the volume of home heating oil and propane sold during the fiscal 2023 third quarter declined by 10.6 million gallons, or 26.2%, to 30.1 million gallons. According to data from the National Oceanic and Atmospheric Administration, temperatures in Star's operational regions were 12.3% warmer in the third quarter of fiscal 2023 than in the third quarter of fiscal 2022 and 19.4% warmer than average.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.47	$0.57	$0.59	$0.70	$0.46	$0.89	$0.35	$1.07	$1.82	$0.85	***$0.90***	***$1.15***
DPS	$0.33	$0.35	$0.37	$0.40	$0.43	$0.46	$0.49	$0.52	$0.56	$0.60	***$0.65***	***$0.79***
Shares	59.4	57.5	57.3	57.0	55.9	54.8	50.8	45.7	40.6	37.4	***29.0***	***22.6***

Despite rising share prices and profits, the situation for Star Group is difficult due to rapidly rising commodity prices and a decline in client base. The financial success of Star Group depends heavily on the weather, which is directly correlated to its performance. In addition, Star Group has suffered because of the war in Ukraine's influence on rising energy commodity prices. The variation in the price of the underlying commodity itself is typically what causes SGU's free cash flow to fluctuate since the company must use more working capital to purchase inventory when oil prices are higher.

Considering the seasonality of this business, and the limited growth prospects of the industry, we forecast an EPS of 5.0%, below the company's historical averages. The consistent share count reduction throughout the past years has decently rewarded investors with higher earnings yield. Therefore, the company will continue its share repurchase program at the same pace, leading to our EPS estimate of $1.15 by 2028. Star Group's DPS had a nine-year and five-year CAGR of 6.9% and 18.1%, respectively. Its stock offers a fair dividend yield and consistent buybacks that significantly reduce the number of outstanding shares.

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[1] The ex-dividend and dividend payment dates are estimated based on historical data.

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	2023	2028
Avg. P/E	10.5	10.2	12.8	11.8	16.6	15.0	11.9	10.2	14.3	8.9	***13.3***	***11.0***
Avg. Yld.	6.7%	5.8%	4.5%	4.5%	4.1%	4.8%	5.1%	5.8%	5.3%	6.1%	***5.4%***	***6.3%***

Star Group is trading at a forward P/E of 13.3, higher than its ten-year and five-year average P/E of around 12.0. Considering the seasonality of Star Group's industry, we believe a P/E of 11.0 better reflects the company's risk/reward profile, suggesting a target price of $12.60, slightly above the stock's current levels. Over the past ten years, SGU has offered investors above-average dividend yield, but the recent momentum in stock price has decreased the yield below its long-term average of 5.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

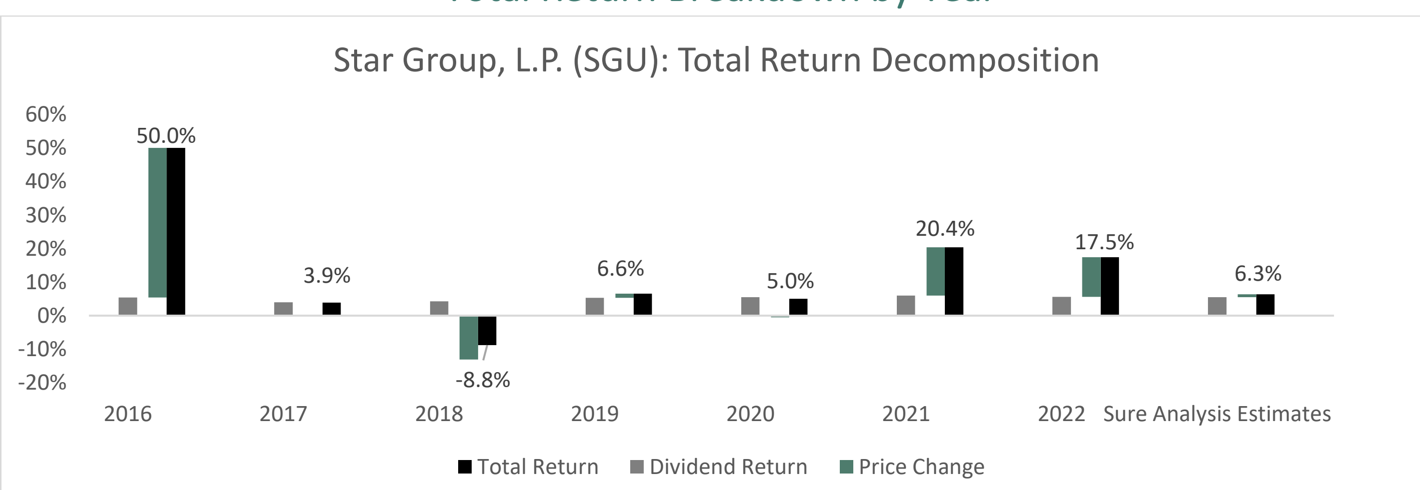
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	70%	61%	63%	57%	93%	52%	140%	49%	31%	71%	***72%***	***68%***

The domestic home heating market is incredibly fragmented, and SGU has the choice to counteract the ongoing attrition of customers by making selected acquisitions of rival businesses. Since the rivals are mainly small firms, SGU can be selective at good valuation points. Moreover, Star Group, L.P. is relatively leveraged, with a debt-to-equity ratio of 150.7%, cash reserves of $22.6 million, and total long-term debt of $143.5 million. Lastly, the company relies on rolling lines of credit to cover financial deficits as commodity prices increase, product utilization reduces, and net consumers shrink. SGU is considered a prominent player in the sector, and its size gives the company a substantial competitive advantage. The acquisition strategy will support its growth and dominance in the sector by buying smaller firms during bad times.

Final Thoughts & Recommendation

The amount of oil and gas consumers use will decrease as the temperature warms and revenue is expected to decline over the next quarters. While, the company has little control over pricing volatility or the environment, it is making great efforts to create value, boost customer loyalty, and save costs overall. However, at current prices, we consider SGU as fairly valued. This leads to our hold rating that is premised upon the 6.3% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 5.0% and 5.4% dividend yield, offset by a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,742	1,962	1,674	1,161	1,324	1,678	1,754	1,467	1,497	2,007
Gross Profit	336	385	446	366	381	432	455	440	444	452
Gross Margin	19.3%	19.6%	26.6%	31.5%	28.8%	25.7%	25.9%	30.0%	29.7%	22.5%
SG&A Exp.	18	23	44	23	25	24	28	25	25	25
D&A Exp.	19	23	27	28	29	33	34	36	34	34
Operating Profit	67	80	93	66	49	50	57	92	91	73
Op. Margin	3.9%	4.1%	5.6%	5.7%	3.7%	3.0%	3.3%	6.3%	6.1%	3.6%
Net Profit	28	33	34	40	26	49	18	56	88	35
Net Margin	1.6%	1.7%	2.0%	3.5%	2.0%	2.9%	1.0%	3.8%	5.9%	1.8%
Free Cash Flow	12	86	127	92	9	44	86	162	54	15
Income Tax	20	25	33	34	20	8	8	21	34	14

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	633	685	686	692	674	730	753	839	854	912
Cash & Equivalents	85	49	101	139	52	15	5	57	5	15
Acc. Receivable	96	124	89	79	97	133	120	84	100	138
Inventories	68	59	56	46	60	56	65	50	61	84
Goodwill & Int.	268	310	318	310	331	327	352	331	349	339
Total Liabilities	373	412	396	391	368	420	492	583	576	655
Accounts Payable	19	22	25	26	27	36	34	31	37	49
Long-Term Debt	124	125	100	92	76	101	153	123	119	184
Total Equity	259	273	290	301	306	310	261	256	278	258

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.4%	5.0%	5.0%	5.9%	3.8%	7.0%	2.4%	7.0%	10.4%	4.0%
Return on Equity	10.7%	12.4%	12.2%	13.7%	8.6%	16.0%	6.2%	21.6%	32.9%	13.2%
ROIC	22.4%	26.4%	30.5%	42.2%	31.1%	55.7%	13.9%	40.5%	72.7%	23.3%
Shares Out.	59.4	57.5	57.3	57.0	55.9	54.8	50.8	45.7	40.6	37.4
Revenue/Share	29.32	34.13	29.23	20.37	23.68	30.64	34.52	32.14	36.92	53.67
FCF/Share	0.21	1.50	2.22	1.61	0.16	0.80	1.69	3.54	1.33	0.41

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