



UGI Corporation (UGI)

Updated February 15th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$24.2	5 Year CAGR Estimate:	9.3%	Market Cap:	\$5.1 B
Fair Value Price:	\$28.2	5 Year Growth Estimate:	1.2%	Ex-Dividend Date:	3/14/24
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	4/01/24
Dividend Yield:	6.2%	5 Year Price Target	\$30	Years Of Dividend Growth:	36
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

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 \$5.1 billion. The company operates in four reporting segments: AmeriGas, UGI International, Midstream & Marketing, and UGI Utilities.

UGI Corporation's Q1 2024 earnings showed a positive trend with an adjusted EPS of \$1.20, up from \$1.14 the previous year, indicating a robust start to the fiscal year. This performance was driven by strong results from UGI International and its natural gas businesses, despite challenges faced by AmeriGas. The company continued its strategic focus on customer growth and infrastructure investment within its regulated utilities, adding over 3,500 customers. Moreover, UGI made progress in exiting non-core energy marketing businesses in Europe, aligning with its strategic goals.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.92	\$2.01	\$2.05	\$2.29	\$2.74	\$2.28	\$2.67	\$2.96	\$2.90	\$2.84	\$2.82	\$3.00
DPS	\$0.79	\$0.89	\$0.93	\$0.96	\$1.03	\$1.21	\$1.31	\$1.37	\$1.43	\$1.47	\$1.50	\$1.60
Shares¹	172.4	172.4	173.0	173.2	173.8	209.0	208.4	209.8	209.7	210.9	209.6	212

We see 1.2% 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. Moreover, UGI is currently undergoing a strategic review that could significantly impact our estimates, but for now we see the regulated utility business growing at a strong clip while the remainder of the business will likely continue to suffer from meaningful headwinds. Management is dedicated to continuing the long streak of paying dividends and the 36 years of consecutive increases.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.4	15.4	15.8	17.7	19.3	20.8	20.2	12.9	13.2	8.2	8.6	10.0
Avg. Yld.	2.5%	2.9%	2.9%	2.4%	2.0%	2.6%	2.4%	3.6%	3.7%	6.5%	6.2%	5.3%

Today's price-to-earnings multiple stands at 8.6 times our expected 2024 earnings-per-share. However, we are forecasting a reversion to our fair value estimate of 10 as the stock remains undervalued. Dividend stocks, and utilities in particular, have seen their valuation multiples contract due to rapidly rising interest rates, but UGI is currently trading significantly below its historical price-to-earnings levels, giving it additional upside potential from valuation multiple expansion. We note the current valuation is near its lowest point of the past decade.

¹ 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	41.1%	44.3%	45.4%	41.9%	37.6%	53.1%	49.1%	46.3%	49.3%	51.8%	53.2%	53.3%

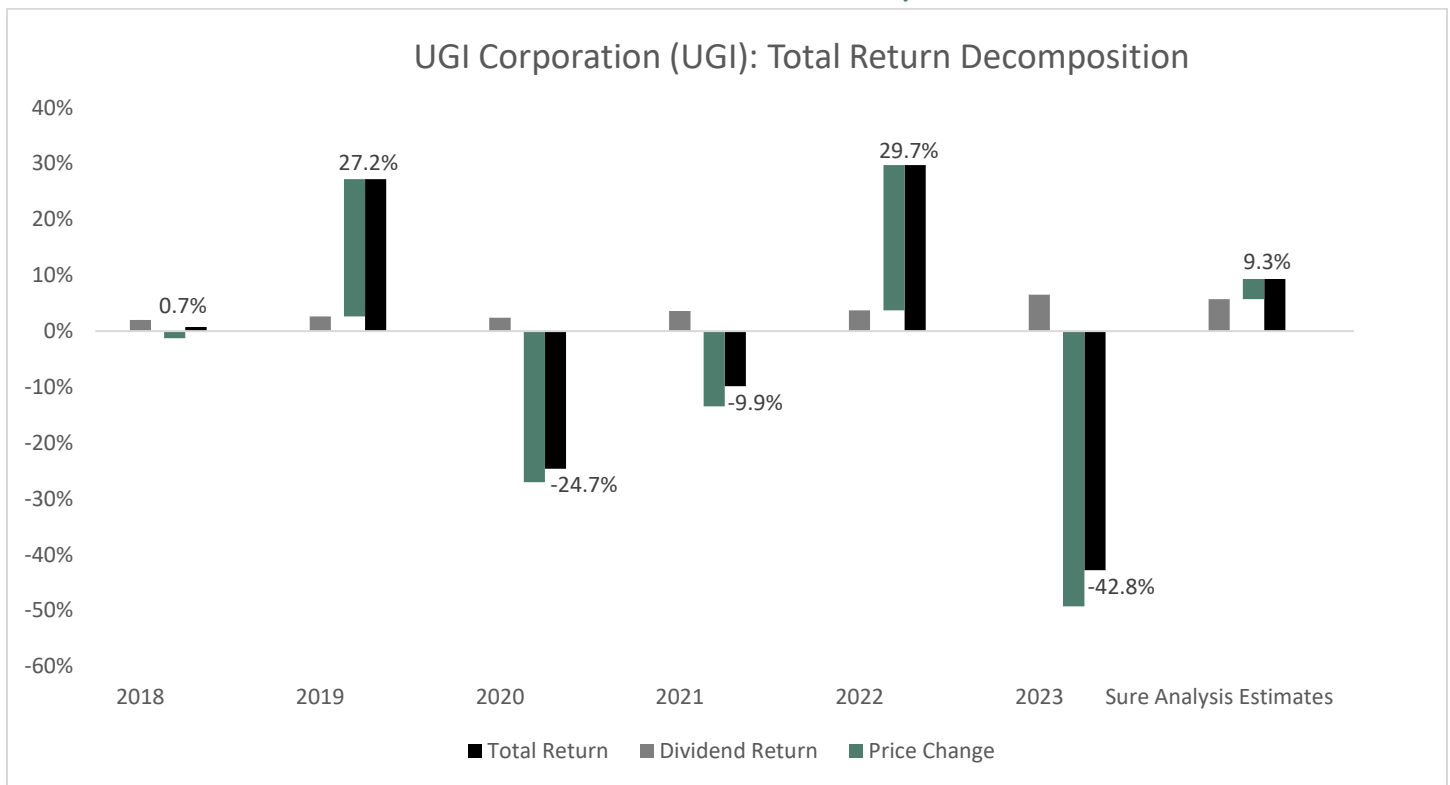
UGI’s main competitive advantage is in its highly diversified business model. It has electric and gas utilities, propane distribution that covers a wide geographic area and diverse customer base, as well as a variety of other energy generation and distribution activities. This allows it to not only weather 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 ~50% payout ratio for the foreseeable future, indicating excellent dividend safety.

Final Thoughts & Recommendation

UGI is a Dividend Aristocrat that offers solid future annualized total return potential of 9.3% due to the combination of slight growth, an attractive dividend yield, and expected 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 Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	8,277	6,691	5,686	6,121	7,651	7,320	6,559	7,447	10,106	8,928
Gross Profit	3,102	2,955	3,248	3,283	3,576	2,997	3,410	4,833	4,133	1,991
Gross Margin	37.5%	44.2%	57.1%	53.6%	46.7%	40.9%	52.0%	64.9%	40.9%	22.3%
SG&A Exp.	1,753	1,774	1,882	1,868	2,013	1,963	1,911	2,014	2,028	2,158
D&A Exp.	363	374	401	416	455	448	484	502	518	532
Operating Profit	979	810	969	1,011	1,116	591	1,020	2,317	1,619	(658)
Operating Margin	11.8%	12.1%	17.0%	16.5%	14.6%	8.1%	15.6%	31.1%	16.0%	-7.4%
Net Profit	337	281	365	437	719	256	532	1,467	1,073	(1,502)
Net Margin	4.1%	4.2%	6.4%	7.1%	9.4%	3.5%	8.1%	19.7%	10.6%	-16.8%
Free Cash Flow	549	673	406	326	511	373	447	791	(88)	133
Income Tax	235	178	221	178	33	93	135	522	313	(335)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	10,093	10,514	10,847	11,582	11,981	13,347	13,985	16,723	17,575	15,401
Cash & Equivalents	420	370	503	558	453	447	336	855	405	241
Accounts Receivable	685	620	552	627	752	641	652	880	1,127	878
Inventories	423	240	210	279	318	230	241	469	665	433
Goodwill & Int. Ass.	3,410	3,564	3,569	3,719	3,674	4,165	4,195	4,353	4,112	3,470
Total Liabilities	6,430	6,942	7,252	7,841	7,881	9,520	9,848	11,192	11,501	11,007
Accounts Payable	460	393	391	440	562	439	475	837	891	613
Long-Term Debt	3,722	3,857	4,087	4,539	4,590	6,600	6,381	6,816	7,000	7,249
Shareholder's Equity	2,659	2,692	2,844	3,163	3,681	3,817	4,128	5,309	5,904	4,219
LTD/E Ratio	1.40	1.43	1.44	1.43	1.25	1.73	1.55	1.23	1.15	1.65

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.4%	2.7%	3.4%	3.9%	6.1%	2.0%	3.9%	9.6%	6.3%	-9.1%
Return on Equity	13.1%	10.5%	13.2%	14.5%	21.0%	6.8%	13.4%	31.1%	19.1%	-29.7%
ROIC	4.6%	3.8%	4.8%	5.5%	8.5%	2.7%	5.1%	12.8%	8.4%	-12.2%
Shares Out.	172.4	172.4	173.0	173.2	173.8	209.0	208.4	209.8	209.7	209.5
Revenue/Share	47.24	38.09	32.38	34.55	43.25	40.42	31.25	35.11	46.83	42.55
FCF/Share	3.13	3.83	2.31	1.84	2.89	2.06	2.13	3.73	(0.41)	0.63

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

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