Energy Transfer LP (ET)

Updated November 11th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$17	**5 Year CAGR Estimate:**	6.5%	**Market Cap:**	$59.2 B
Fair Value Price:	$15	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	11/8/24
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Dividend Payment Date:**	11/19/24
Dividend Yield:	7.6%	**5 Year Price Target**	$16	**Years Of Dividend Growth:**	3
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 over 130,000 miles of pipelines. Energy Transfer, a $59.2 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 acquired Enable Midstream Partners (ENBL) in a $7 billion stock-for-stock deal.

In early November, Energy Transfer reported (11/6/24) results for the third quarter of fiscal 2024. It grew its volumes in all the segments and achieved record crude oil transportation volumes as well as NGL transportation and fractionation volumes. As a result, adjusted EBITDA grew 12% over the prior year's quarter. Energy Transfer posted a healthy distribution coverage ratio of 1.8 and raised the quarterly distribution by 0.8%, on top of the distribution hikes in each of the eleven previous quarters. It thus now offers an annualized distribution of $1.29, slightly higher than the pre-pandemic level, which corresponds to an annual yield of 7.6%. Thanks to strong growth in the demand for its networks, Energy Transfer reaffirmed its strong guidance for 2024, expecting adjusted EBITDA $15.3-$15.5 billion. This guidance implies 13% growth at the mid-point. We have kept our forecast intact, in line with the guidance and the performance in the first nine months of the year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
CF/S	$2.12	$3.12	$3.20	$3.38	$2.06	$2.20	$2.13	$2.90	$2.40	$2.88	***$3.10***	***$3.42***
DPS	$0.80	$1.08	$1.14	$1.15	$1.22	$1.22	$1.07	$0.61	$0.87	$1.24	***$1.29***	***$1.42***
Units[1]	1,081	1,047	1,047	1,079	2,619	2,650	2,699	2,831	3,103	3,295	***3,450***	***4,000***

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 about $2.9 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 next 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 ($67.5 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg P/DCF	13.5	4.4	6.0	5.1	6.4	5.3	3.6	3.1	4.6	4.5	***5.5***	***4.8***
Avg. Yld.	3.1%	4.0%	8.6%	6.5%	9.2%	10.5%	14.1%	6.8%	7.9%	9.5%	***7.6%***	***8.7%***

The average price-to-cash flow ratio of Energy Transfer has dramatically decreased since 2012-2014 due to its excessive debt load. The stock is currently trading at a cash flow multiple of 5.5, which is higher than the 9-year average cash flow multiple of 4.8. If the stock trades at its average valuation level in 2029, it will incur a -2.6% annual valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

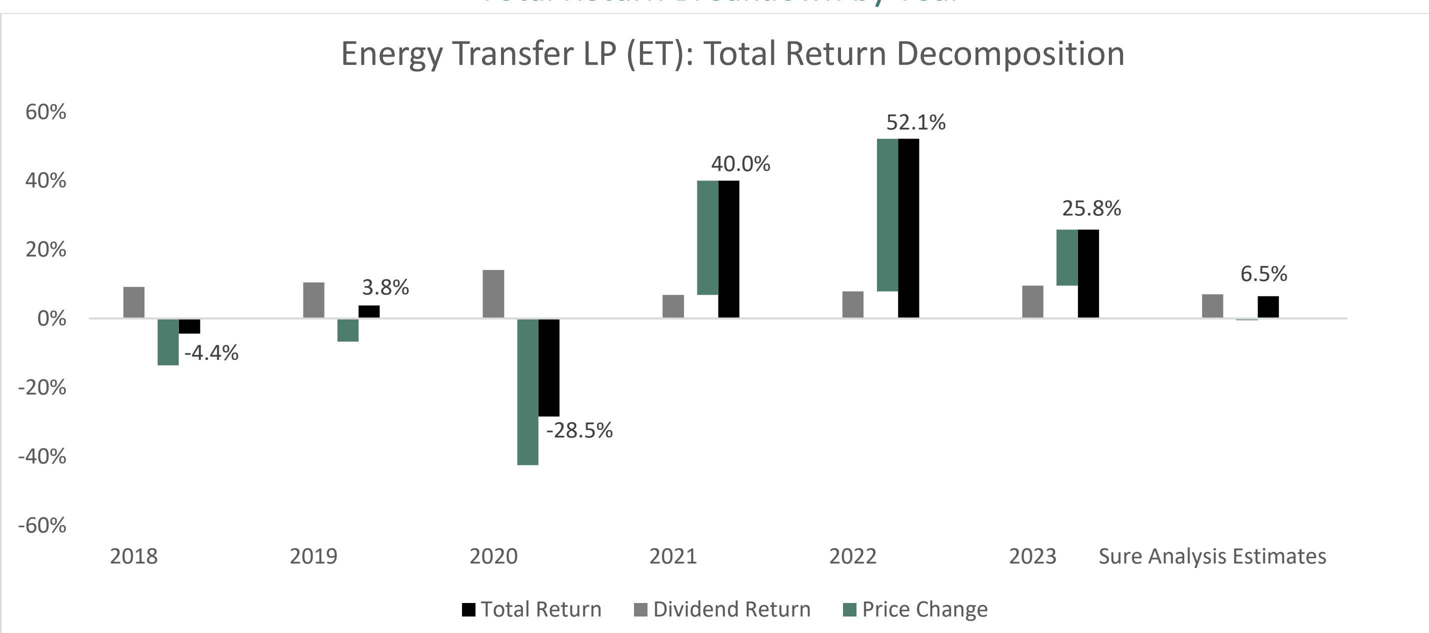
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	38%	35%	36%	34%	59%	56%	50%	21%	36%	43%	***42%***	***42%***

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 above the pre-pandemic level and is currently well covered by cash flows, with a coverage ratio of 1.8. Therefore, in the absence of another downturn, the 7.6% 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 a 6.5% average annual return over the next five years thanks to its 7.6% distribution yield and 2% growth in cash flow per share, partly offset by a -2.6% 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



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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	55691	36096	31792	40523	54087	54213	38,954	67,417	89,876	78,586
Gross Profit	7277	7428	8099	9557	12429	14486	9,789	13,205	13,480	13,660
Gross Margin	13.1%	20.6%	25.5%	23.6%	23.0%	26.7%	25.1%	19.6%	15.0%	17.4%
SG&A Exp.	611	548	656	599	702	694	711	818	1,018	985
Operating Profit	2840	2626	2891	3760	5779	7351	5,860	8,813	8,124	8,307
Operating Margin	5.1%	7.3%	9.1%	9.3%	10.7%	13.6%	15.0%	13.1%	9.0%	10.6%
Net Profit	633	1189	995	954	1694	3592	(648)	5,470	4,756	3,935
Net Margin	1.1%	3.3%	3.1%	2.4%	3.1%	6.6%	-1.7%	8.1%	5.3%	5.0%
Free Cash Flow	(2206)	(6094)	(4449)	(4015)	99	2043	2,231	8,340	5,670	6,421
Income Tax	357	(123)	(258)	(1833)	4	195	237	184	204	303

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	64279	71189	78925	86246	88246	98880	95,144	105,963	105,643	113,698
Cash & Equivalents	847	606	467	336	419	291	367	336	257	161
Acc. Receivable	3378	2400	3557	4504	4009	5038	3,875	7,654	8,466	9,148
Inventories	1467	1636	2055	2022	1677	1935	1,739	2,014	2,461	2,478
Goodwill & Int. Ass.	13447	12904	11182	10884	10885	11321	8,137	8,389	7,981	10,258
Total Liabilities	41965	47591	56494	56266	57396	65035	63,756	65,835	64,491	68,981
Accounts Payable	3349	2274	3502	4685	3493	4118	2,809	6,834	6,952	6,684
Long-Term Debt	30485	36968	44052	44084	46028	51054	51,438	49,702	48,262	52,388
Total Equity	664	(932)	(1694)	(1196)	20559	21827	18,529	31,300	33,025	36,682

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.1%	1.8%	1.3%	1.2%	1.9%	3.8%	-0.7%	5.4%	4.5%	3.6%
Return on Equity	72.7%	---	---	---	17.5%	16.9%	-3.2%	22.0%	14.8%	9.2%
Shares Out.	1,081	1,047	1,047	1,079	2,619	2,650	2,699	2,831	3,087	3,177
Revenue/Share	51.06	33.91	29.48	35.21	37.01	20.55	14.45	24.61	29.12	24.73
FCF/Share	(2.02)	(5.73)	(4.12)	(3.49)	0.07	0.77	0.83	3.04	1.84	2.02

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