



Star Group, L.P. (SGU)

Updated December 11th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$12.00	5 Year CAGR Estimate:	8.2%	Market Cap:	\$324.9M
Fair Value Price:	\$10.40	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	01/20/2025 ¹
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.0%	Dividend Payment Date:	01/31/2025 ²
Dividend Yield:	5.8%	5 Year Price Target	\$13.90	Years Of Dividend Growth:	13
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Star Group, L.P. (SGU) 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 US Northeast and Mid-Atlantic customers. In addition, the company also sells diesel and gasoline to customers across the United States. Star Group, L.P. is the nation's largest home heating oil retail distributor, giving it a competitive advantage. 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 December 4th, 2024, the company announced its Q4 results for the fiscal year 2024, reporting non-GAAP EPS of -\$1.00. For the quarter ending September 30, 2024, revenue dropped 10% to \$240.3 million, reflecting a slight dip in volumes sold and lower selling prices for petroleum products. However, growth in service and installation revenue partially offset the decline. Home heating oil and propane volumes slid by 1.5% to 18.5 million gallons, primarily due to net customer attrition despite contributions from acquisitions. Net losses widened by \$15.4 million to \$35.1 million, driven largely by a \$28.4 million unfavorable shift in derivative valuations. Nonetheless, operational efficiencies led to a \$1.7 million improvement in Adjusted EBITDA loss, highlighting the company's proactive measures.

For fiscal 2024, Star's revenue fell 9.6% to \$1.8 billion, mirroring lower wholesale costs and slightly reduced volumes. Yet, Adjusted EBITDA grew by \$14.7 million to \$111.6 million, thanks to higher margins and profitability in service and installations, along with contributions from acquisitions. Full-year net income improved to \$35.2 million despite the headwinds of derivative losses and a 2.2% drop in home heating oil and propane volumes. CEO Jeff Woosnam expressed confidence heading into the heating season, emphasizing cost containment, customer service excellence, and acquisition strategies. Although customer attrition rose slightly to 4.2%, Star's strategic focus positions it well for continued growth in fiscal 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$0.59	\$0.70	\$0.46	\$0.89	\$0.35	\$1.07	\$1.82	\$0.85	\$0.81	\$0.90	\$0.95	\$1.16
DPS	\$0.37	\$0.40	\$0.43	\$0.46	\$0.49	\$0.52	\$0.56	\$0.60	\$0.64	\$0.68	\$0.69	\$0.84
Shares³	57.3	57.0	55.9	54.8	50.8	45.7	40.6	37.4	35.7	35.3	27.1	20.8

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 influence of the war in Ukraine on rising energy

¹ The ex-dividend date is estimated based on historical data.

² The dividend payment date is estimated based on historical data.

³ Shares in millions.

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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 4.0%, in line with 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 \$1.16 by 2030. Star Group's DPS had a 10-year and five-year CAGR of 4.8% and 60.4%, respectively. The stock offers a high dividend yield and consistent buybacks that significantly reduce the number of outstanding shares.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	13.8	12.8	22.7	10.8	27.2	8.4	5.8	11.6	15.2	13.0	12.6	12.0
Avg. Yld.	4.5%	4.5%	4.1%	4.8%	5.1%	5.8%	5.3%	6.1%	5.2%	5.8%	5.8%	6.1%

Star Group is trading at a forward P/E of 12.6, higher than its five-year average P/E of 10.8. Considering the seasonality of Star Group's industry, we believe a P/E of 12.0 better reflects the company's risk/reward profile, suggesting a target price of \$13.90 by 2030.

Safety, Quality, Competitive Advantage, & Recession Resiliency

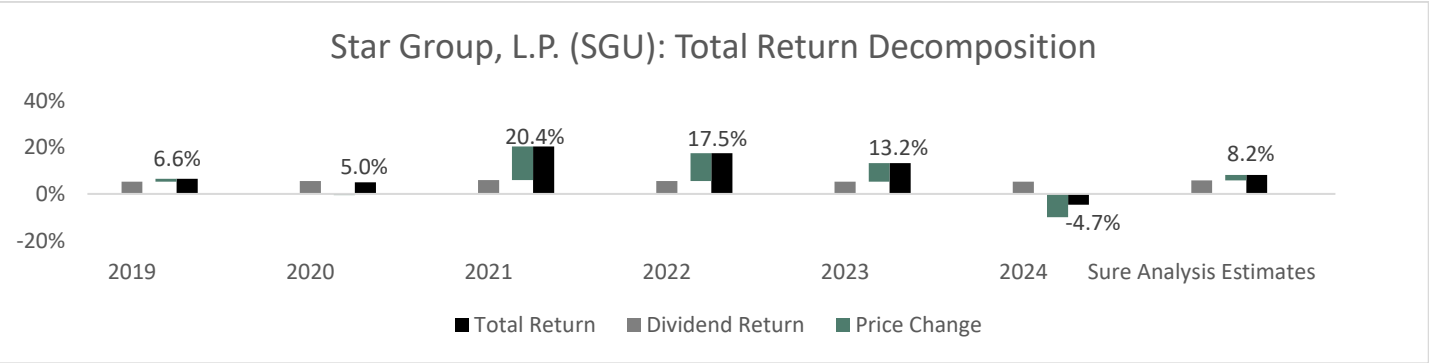
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	63%	57%	93%	52%	140%	49%	31%	71%	79%	76%	73%	73%

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, Star Group can be selective at good valuation points. Moreover, Star Group is relatively leveraged, with a total debt-to-equity ratio of 115%, cash reserves of \$117 million, and total debt of \$304 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 increase as the temperature cools and revenue should rise over the next several quarters. While the company has little control over pricing volatility or the environment, Star Group is making great efforts to create value, boost customer loyalty, and save costs overall. Therefore, we maintain our rating of hold, premised upon the 8.2% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 4.0%, a dividend yield of 5.8%, and a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,962	1,674	1,161	1,324	1,678	1,754	1,467	1,497	2,007	1,953
Gross Profit	385	446	366	381	432	455	440	444	452	438
Gross Margin	19.6%	26.6%	31.5%	28.8%	25.7%	25.9%	30.0%	29.7%	22.5%	22.4%
SG&A Exp.	23	44	23	25	24	28	25	25	25	26
D&A Exp.	23	27	28	29	33	34	36	34	34	33
Operating Profit	80	93	66	49	50	57	92	91	73	59
Op. Margin	4.1%	5.6%	5.7%	3.7%	3.0%	3.3%	6.3%	6.1%	3.6%	3.0%
Net Profit	33	34	40	26	49	18	56	88	35	32
Net Margin	1.7%	2.0%	3.5%	2.0%	2.9%	1.0%	3.8%	5.9%	1.8%	1.6%
Free Cash Flow	86	127	92	9	44	86	162	54	15	115
Income Tax	25	33	34	20	8	8	21	34	14	14

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	685	686	692	674	730	753	839	854	912	875
Cash & Equivalents	49	101	139	52	15	5	57	5	15	45
Acc. Receivable	124	89	79	97	133	120	84	100	138	114
Inventories	59	56	46	60	56	65	50	61	84	56
Goodwill & Int.	310	318	310	331	327	352	331	349	339	338
Total Liabilities	412	396	391	368	420	492	583	576	655	612
Accounts Payable	22	25	26	27	36	34	31	37	49	36
Long-Term Debt	125	100	92	76	101	153	123	119	184	148
Total Equity	273	290	301	306	310	261	256	278	258	264

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.0%	5.0%	5.9%	3.8%	7.0%	2.4%	7.0%	10.4%	4.0%	3.6%
Return on Equity	12.4%	12.2%	13.7%	8.6%	16.0%	6.2%	21.6%	32.9%	13.2%	12.3%
ROIC	26.4%	30.5%	42.2%	31.1%	55.7%	13.9%	40.5%	72.7%	23.3%	19.2%
Shares Out.	57.5	57.3	57.0	55.9	54.8	50.8	45.7	40.6	37.4	36
Revenue/Share	34.13	29.23	20.37	23.68	30.64	34.52	32.14	36.92	53.67	54.71
FCF/Share	1.50	2.22	1.61	0.16	0.80	1.69	3.54	1.33	0.41	3.21

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

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