



Energy Transfer LP (ET)

Updated February 12th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	3.8%	Market Cap:	\$68.8 B
Fair Value Price:	\$14	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/7/25
% Fair Value:	148%	5 Year Valuation Multiple Estimate:	-7.6%	Dividend Payment Date:	2/19/25
Dividend Yield:	6.5%	5 Year Price Target	\$17	Years Of Dividend Growth:	4
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 \$68.8 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 mid-February, Energy Transfer reported (2/11/25) financial results for the fourth quarter of fiscal 2024. The MLP continued to grow its volumes in all the segments. As a result, adjusted EBITDA grew 8% over the prior year’s quarter. Energy Transfer maintained 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 twelve previous quarters. It thus now offers an annualized distribution of \$1.30, which is higher than the pre-pandemic level and corresponds to an annual yield of 6.5%. Thanks to strong growth in the demand for its networks, Energy Transfer provided positive guidance for 2025, expecting adjusted EBITDA \$16.1-\$16.5 billion. This guidance implies 5% growth at the mid-point. Management also provided guidance for growth capital expenses of \$5.0 billion in 2025. This bodes well for the future growth of the company.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
CF/S	\$3.12	\$3.20	\$3.38	\$2.06	\$2.20	\$2.13	\$2.90	\$2.40	\$2.88	\$2.44	\$2.70	\$3.45
DPS	\$1.08	\$1.14	\$1.15	\$1.22	\$1.22	\$1.07	\$0.61	\$0.87	\$1.24	\$1.28	\$1.30	\$1.44
Units¹	1,047	1,047	1,079	2,619	2,650	2,699	2,831	3,103	3,295	3,450	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 \$5.0 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 Transfer’s investments prime the MLP for growth in a positive scenario but render it vulnerable to downturns. The MLP has grown its cash flow per share by 3.0% per year on average over the last six years but we expect 5% average annual growth in cash flow per share over the next five years, given the increased amount of investment.

¹ Units 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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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg P/DCF	4.4	6.0	5.1	6.4	5.3	3.6	3.1	4.6	4.5	6.6	7.4	5.0
Avg. Yld.	4.0%	8.6%	6.5%	9.2%	10.5%	14.1%	6.8%	7.9%	9.5%	8.0%	6.5%	8.3%

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 7.4, which is higher than the 9-year average cash flow multiple of 5.0. If the stock trades at its average valuation level in 2030, it will incur a -7.6% annual valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

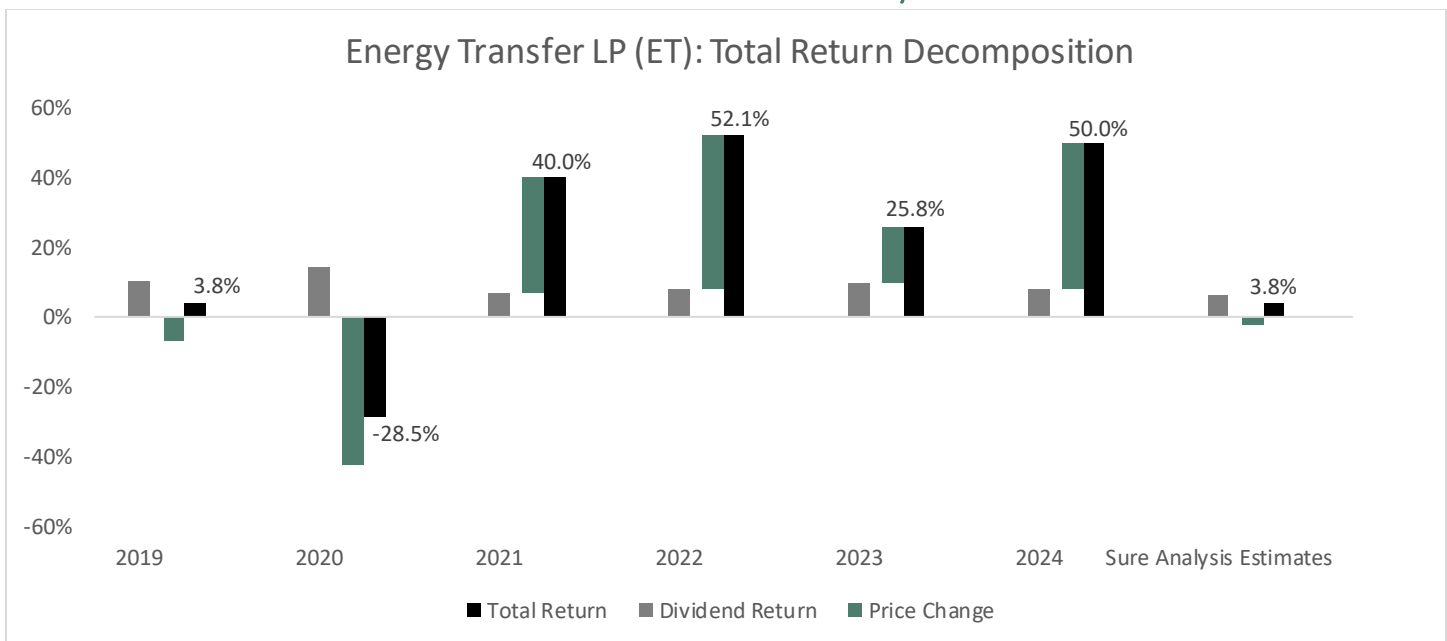
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	35%	36%	34%	59%	56%	50%	21%	36%	43%	52%	48%	42%

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 6.5% forward distribution yield should be considered safe.

Final Thoughts & Recommendation

Energy Transfer is a risky bet due to its weak balance sheet and its 43% rally in the last 12 months. The stock could offer a 3.8% average annual return over the next five years thanks to its 6.5% distribution yield and 5% growth in cash flow per share, partly offset by a -7.6% 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	36096	31792	40523	54087	54213	38,954	67,417	89,876	78,586	82,671
Gross Profit	7428	8099	9557	12429	14486	9,789	13,205	13,480	13,660	15,531
Gross Margin	20.6%	25.5%	23.6%	23.0%	26.7%	25.1%	19.6%	15.0%	17.4%	18.8%
SG&A Exp.	548	656	599	702	694	711	818	1,018	985	1,177
Operating Profit	2626	2891	3760	5779	7351	5,860	8,813	8,124	8,307	9,190
Operating Margin	7.3%	9.1%	9.3%	10.7%	13.6%	15.0%	13.1%	9.0%	10.6%	11.1%
Net Profit	1189	995	954	1694	3592	(648)	5,470	4,756	3,935	4,814
Net Margin	3.3%	3.1%	2.4%	3.1%	6.6%	-1.7%	8.1%	5.3%	5.0%	5.8%
Free Cash Flow	(6094)	(4449)	(4015)	99	2043	2,231	8,340	5,670	6,421	---
Income Tax	(123)	(258)	(1833)	4	195	237	184	204	303	541

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	71189	78925	86246	88246	98880	95,144	105,963	105,643	113,698	125,380
Cash & Equivalents	606	467	336	419	291	367	336	257	161	---
Acc. Receivable	2400	3557	4504	4009	5038	3,875	7,654	8,466	9,148	---
Inventories	1636	2055	2022	1677	1935	1,739	2,014	2,461	2,478	---
Goodwill & Int. Ass.	12904	11182	10884	10885	11321	8,137	8,389	7,981	10,258	9,874
Total Liabilities	47591	56494	56266	57396	65035	63,756	65,835	64,491	68,981	78,946
Accounts Payable	2274	3502	4685	3493	4118	2,809	6,834	6,952	6,684	---
Long-Term Debt	36968	44052	44084	46028	51054	51,438	49,702	48,262	52,388	59,752
Total Equity	(932)	(1694)	(1196)	20559	21827	18,529	31,300	33,025	36,682	35,118

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.8%	1.3%	1.2%	1.9%	3.8%	-0.7%	5.4%	4.5%	3.6%	4.0%
Return on Equity	---	---	---	17.5%	16.9%	-3.2%	22.0%	14.8%	9.2%	10.6%
Shares Out.	1,047	1,047	1,079	2,619	2,650	2,699	2,831	3,087	3,177	3,421
Revenue/Share	33.91	29.48	35.21	37.01	20.55	14.45	24.61	29.12	24.73	24.17
FCF/Share	(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.

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