

UGI Corporation (UGI)

\$44.13 (As of 01/14/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 11/12/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: D

Summary

In the past 12 months, shares of UGI Corporation have underperformed the industry. The company caters to its customers' propane requirement from a limited number of suppliers with fixed-price contracts. So any disruption in the supply of propane will affect business and profitability. The company is exposed to several regulatory and environmental uncertainties, which is likely to increase expenses. However, UGI Corporation is poised to benefit from long-term investment plans, which are aimed at strengthening existing businesses and expanding presence in the global markets. The acquisition of equity interests of Columbia Midstream and the remaining units of AmeriGas Partners are expected to boost earnings. The company completed its 135 consecutive years of dividend payment in fiscal 2019.

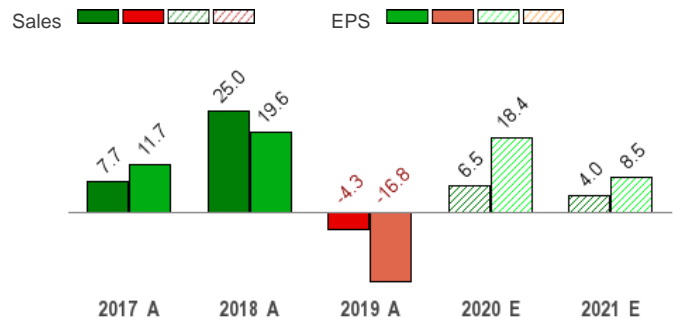
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.28 - \$40.52
20 Day Average Volume (sh)	1,300,547
Market Cap	\$9.2 B
YTD Price Change	-2.3%
Beta	0.51
Dividend / Div Yld	\$1.30 / 2.9%
Industry	Utility - Gas Distribution
Zacks Industry Rank	Bottom 19% (207 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1,750.0%
Last Sales Surprise	-4.4%
EPS F1 Est- 4 week change	-2.4%
Expected Report Date	02/05/2020
Earnings ESP	1.0%
P/E TTM	22.1
P/E F1	16.4
PEG F1	2.1
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,106 E
2020	2,165 E	2,834 E	1,555 E	1,243 E	7,797 E
2019	2,200 A	2,606 A	1,364 A	1,150 A	7,320 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.17 E	\$2.05 E	\$0.00 E	-\$0.29 E	\$2.93 E
2020	\$1.03 E	\$1.90 E	-\$0.05 E	-\$0.19 E	\$2.70 E
2019	\$0.81 A	\$1.43 A	\$0.13 A	-\$0.37 A	\$2.28 A

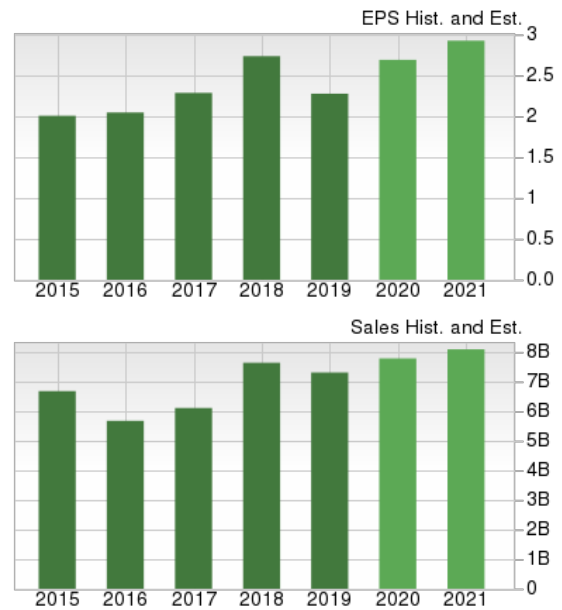
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/14/2020. The reports text is as of 01/15/2020.

Overview

UGI Corporation is a holding company, which distributes, stores, transports and markets energy products and related services through its subsidiaries. It is a domestic and international retail distributor of propane and butane liquefied petroleum gases (LPG); a provider of natural gas and electric service via regulated local distribution utilities; a generator of electricity; a regional marketer of energy commodities; an owner and manager of midstream assets; and a regional provider of heating, ventilation, air conditioning, refrigeration and electrical contracting services. The company was founded in 1882.

The **AmeriGas Propane** segment: In Aug 21, 2019, UGI Corporation completed the acquisition of 69.2 million units of AmeriGas Partners, L.P. This acquisition gave the company complete control over the partnership that serves nearly 1.7 million residential, commercial, industrial, agricultural, wholesale and motor fuel customers in 50 states from around 1,900 propane distribution locations. During fiscal 2019, the segment contributed \$2,682 million to total revenues. The **UGI International** segment conducts business of LPG Distribution in 17 European countries serving in excess of 500,000 customers. It also deals in an energy marketing business across France, Belgium, Netherlands and the UK. During fiscal 2019, the segment contributed \$2,372.2 million to total revenues. The **Midstream & Marketing** segment forms the company's retail energy marketing business and sells natural gas, liquid fuels and electricity to residential, commercial and industrial customers at 35,500 locations across the United States. During fiscal 2019, the segment contributed \$1,515.7 million to total revenues. The **UGI Utilities** segment provides gas and electric services to its customers. The company is providing natural gas distribution services in 44 eastern and central Pennsylvania counties through its distribution system. The company renders electric services via 2,200 miles of transmission and distribution lines plus 13 substations to its customers in parts of Luzerne and Wyoming counties in northeastern Pennsylvania. During fiscal 2019, the segment contributed \$1,048.6 million to total revenues. Revenues in the Corporate & Other segment declined \$298.1 million.



Reasons To Sell:

- ▼ Shares of UGI Corporation have lost 19.4% in the past 12 months compared with the Zacks Gas Distribution industry's rise of 16.6%. The Company purchases its propane requirement from a concentrated number of suppliers. Any disruption in the supply will affect business and profitability.

Amid such a scenario, any interruption from propane supplier will adversely impact the company's business and it might have to source propane from alternate suppliers at higher costs to fulfill its contractual obligations. This could impact the margins and affect earnings in the short run.

- ▼ The company focuses on construction of new pipeline and gathering systems to expand its midstream asset business. However, such construction activities are exposed to several regulatory and environmental uncertainties, which are beyond the control of the company. The capital project might not get completed within the scheduled time and can stretch the budget of the projects.
- ▼ Weather conditions have a significant impact on the demand for the company's energy products and services for heating and agricultural purposes. Warmer-than-normal heating season weather or unfavorable weather conditions may affect results of operations. Results in fiscal 2019 were affected by very warm weather in Europe and the dampening of pipeline capacity values over the course of the winter.

Moreover, the international business was affected by persistent warm and dry weather. This had a negative impact on the company's crop drying business in the fall and the bulk business throughout the winter.

Dependence on small group of suppliers, adverse weather condition and regulatory risk are headwinds for the company.

Risks

- UGI Corporation is well positioned to deliver fiscal 2020 earnings per share in the range of \$2.60-\$2.90. The acquisitions of Columbia Midstream Group, LLC ("CMG") Energy Corporation (TRP) completed in August. Acquired five Columbia asset networks have significantly expanded the company's midstream activities in the Marcellus. The company witnessed strong throughput across these networks in August through October. It intends to execute a range of expansion projects on those five systems over the next three to five years.

Moreover, it completed the buyout of AmeriGas Partners, L.P in the fiscal third quarter. This enables the company to enhance its cash flow to pay debts and fund capital investments in its natural gas business.

- The company has added 14,000 new residential heating and commercial customers in fiscal 2019. In fiscal 2019 the company invested \$355 million to address the infrastructural need for various capital projects and completed acquisition in order to curb competition, to increase safety and reliability of its natural gas production and storage facilities plus replacing aging infrastructure for modernizing the system.

To strengthen the existing infrastructure, the company expects to invest nearly \$1.8 billion for utilities over the next four years. These investments include LNG storage and vaporization facility investments in Bethlehem, PA and investments on expansion opportunities on newly-acquired CMG systems.

- UGI Energy Services has completed Auburn IV expansion project on November 1. The \$50-million project has expanded capacity on the Auburn system by 30% to 150,000 dekatherms per day. This investment on the largest Northeast Marcellus system is supported by a 10-year take-or-pay contract.

UGI Corporation's midstream team has also been active in adding gathering system infrastructure to support new well pad developments on Texas Creek and Marshlands projects. It expects to invest approximately \$50 million in the Eastern Marcellus in fiscal 2020 with very attractive returns.

- Consistent performance of the company has enabled it to reward shareholders through raise in annual dividend rates and share repurchase. With two dividend increases in fiscal 2019, UGI Corporation's CAGR for dividend growth over the past decade is 9.4% and with the completion of this year the company now paid a dividend for 135 consecutive years.
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Last Earnings Report

UGI Corp's Earnings Miss Estimates in Fiscal 2019

UGI Corporation delivered fiscal 2019 adjusted earnings \$2.28 per share, which missed the Zacks Consensus Estimate of \$2.35 by 3%. The bottom line also declined 16.8% from the prior-year's figure of \$2.74.

The company reported GAAP earnings of \$1.41 in fiscal 2019 compared with \$4.06 in fiscal 2018.

Revenues

Revenues of \$1,150.4 million missed the Zacks Consensus Estimate of \$1,204 million by 4.5%. The top line declined 9.6% from the year-ago quarter's figure of \$1,273.1 million.

In fiscal 2019, total revenues amounted to \$7,320.4 million down, 4.3% from \$7,651.2 million in fiscal 2018.

Segment Revenues

AmeriGas Propane: The segment generated revenues of \$411.5 million in the quarter under review, down 11.8% from year-ago quarter's tally.

UGI International: This segment generated revenues of \$391.7 million, down 14.2% from year-ago quarter's figure.

Midstream & Marketing: Revenues in the segment totaled \$246.6 million, down from \$264.7 million in the prior-year quarter.

UGI Utilities: This segment generated revenues of \$132.4 million in the quarter under review, up 5% from year-ago quarter's reported figure.

Corporate & Other: This segment incurred a loss of \$31.8 million compared with a loss of \$41.1 million in the prior-year quarter.

Operational Highlights

Total interest expenses amounted to \$76.1 million, up 32.8% from the prior-year quarter's tally.

The company completed the acquisition of Columbia Midstream Group and the AmeriGas Merger transaction in the quarter under review.

Midstream & Marketing segment completed its fourth expansion of the Auburn system in November 2019, expanded the Texas Creek gathering system in northern Pennsylvania, began construction of the Bethlehem LNG storage and vaporization facility as well as acquired South Jersey Energy Company's natural gas marketing business.

Guidance

The company expects fiscal 2020 adjusted earnings per share in the range of \$2.60-\$2.90, whose midpoint of \$2.75 is lower than the Zacks Consensus Estimate of \$3.04.

Quarter Ending **09/2019**

Report Date	Nov 11, 2019
Sales Surprise	-4.42%
EPS Surprise	-1,750.00%
Quarterly EPS	-0.37
Annual EPS (TTM)	2.00

Valuation

UGI Corporation shares are down 16.1% in the last six months period, and down 19.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 2.8% and 4.2% in the last six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 16.6% and 2.5%, respectively.

The S&P 500 index is up 9.9% in the last six months period and 24.7% in the past year.

The stock is currently trading at 15.97X of forward 12 months earnings, which compares to 20.2X for the Zacks sub-industry, 13.53X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.87X and as low as 13.55X, with a 5-year median of 18.41X. Our underperform recommendation indicates that the stock will perform worse than the market. Our \$38 price target reflects 13.76X of forward 12 months earnings.

The table below shows summary valuation data for UGI

Valuation Multiples - UGI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.97	20.2	13.53	18.96
	5-Year High	21.87	23.03	15.33	19.34
	5-Year Low	13.55	16.66	12.61	15.17
	5-Year Median	18.41	20.39	13.68	17.44
P/S F12M	Current	1.17	2.28	2.91	3.52
	5-Year High	1.42	2.28	3.26	3.52
	5-Year Low	0.61	0.98	1.7	2.54
	5-Year Median	1.18	1.6	1.95	3
P/B TTM	Current	2.41	2.66	4.06	4.49
	5-Year High	2.5	2.68	4.06	4.49
	5-Year Low	1.45	1.53	2.01	2.85
	5-Year Median	2.1	2.15	2.55	3.61

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (207 out of 254)



Top Peers

Ameren Corporation (AEE)	Neutral
Avangrid, Inc. (AGR)	Neutral
Atmos Energy Corporation (ATO)	Neutral
CMS Energy Corporation (CMS)	Neutral
DTE Energy Company (DTE)	Neutral
Alliant Energy Corporation (LNT)	Neutral
Pacific Gas & Electric Co. (PCG)	Neutral
CenterPoint Energy, Inc. (CNP)	Underperform

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	UGI Underperform	X Industry	S&P 500	AEE Neutral	DTE Neutral	PCG Neutral
VGM Score	D	-	-	C	C	B
Market Cap	9.22 B	4.57 B	24.31 B	19.09 B	24.66 B	6.31 B
# of Analysts	2	2	13	5	4	1
Dividend Yield	2.95%	2.81%	1.76%	2.55%	3.11%	0.00%
Value Score	D	-	-	C	C	A
Cash/Price	0.06	0.01	0.04	0.00	0.00	0.55
EV/EBITDA	13.10	13.44	14.08	11.04	13.09	-0.85
PEG Ratio	2.06	2.84	2.06	3.61	3.32	1.17
Price/Book (P/B)	2.01	2.07	3.33	2.33	2.26	0.70
Price/Cash Flow (P/CF)	8.94	11.93	13.62	10.08	10.25	1.21
P/E (F1)	16.45	20.10	18.86	22.33	19.95	2.93
Price/Sales (P/S)	1.26	1.94	2.65	3.18	1.86	0.38
Earnings Yield	6.10%	4.90%	5.27%	4.47%	5.01%	34.14%
Debt/Equity	1.51	0.99	0.72	1.05	1.28	0.21
Cash Flow (\$/share)	4.94	3.40	6.94	7.70	12.70	9.87
Growth Score	B	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	7.33%	5.57%	10.56%	8.26%	7.64%	4.54%
Proj. EPS Growth (F1/F0)	18.20%	9.92%	7.52%	6.53%	5.28%	1.50%
Curr. Cash Flow Growth	-8.47%	7.46%	14.88%	12.97%	10.89%	7.61%
Hist. Cash Flow Growth (3-5 yrs)	3.86%	6.65%	9.00%	8.12%	4.53%	9.17%
Current Ratio	0.77	0.77	1.23	0.65	0.77	1.79
Debt/Capital	60.16%	49.94%	42.99%	51.33%	56.15%	17.31%
Net Margin	3.50%	8.72%	11.14%	13.34%	8.24%	-66.15%
Return on Equity	8.83%	8.85%	17.16%	10.10%	9.93%	18.81%
Sales/Assets	0.58	0.35	0.55	0.22	0.36	0.20
Proj. Sales Growth (F1/F0)	6.51%	4.13%	4.18%	4.37%	5.16%	4.68%
Momentum Score	D	-	-	B	A	C
Daily Price Chg	-0.52%	0.00%	0.08%	-0.03%	0.52%	7.68%
1 Week Price Chg	-1.28%	-1.23%	0.39%	1.22%	-0.05%	-3.50%
4 Week Price Chg	-2.19%	0.22%	1.93%	2.65%	1.24%	9.26%
12 Week Price Chg	-9.14%	0.43%	6.50%	0.73%	0.99%	47.16%
52 Week Price Chg	-18.64%	8.40%	22.56%	17.52%	17.09%	72.50%
20 Day Average Volume	1,300,547	295,013	1,571,506	1,549,805	990,802	11,674,750
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.05%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.36%	0.00%	0.00%	0.10%	0.00%	7.96%
(F1) EPS Est 12 week change	-11.35%	0.41%	-0.52%	-0.43%	1.05%	-2.28%
(Q1) EPS Est Mthly Chg	-2.07%	-0.47%	0.00%	0.00%	NA	1.85%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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