

UGI Corporation (UGI)

\$28.53 (As of 05/14/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: F

Summary

In the fiscal second quarter, UGI Corp delivered better-than-expected earnings, while revenues were lower than expectations. The strategic acquisitions will boost its performance in the long term. Considering the impact of the COVID-19 outbreak, the company slashed capital expenditures guidance to \$730 million from \$850 million for fiscal 2020. The company exited the fiscal second quarter with \$1.2 billion liquidity. In the past 12 months, shares of the company have underperformed the industry. It caters to its customers' propane requirements from a limited number of suppliers, with fixed-price contracts. Therefore, any disruption in the supply of propane will affect its business and profitability. The company is exposed to several regulatory and environmental uncertainties.

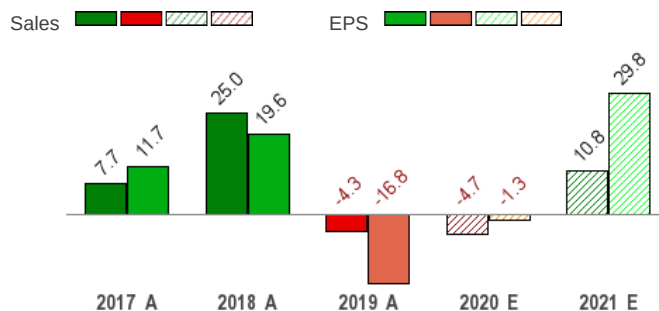
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$54.48 - \$21.75
20 Day Average Volume (sh)	1,629,596
Market Cap	\$5.9 B
YTD Price Change	-36.8%
Beta	0.94
Dividend / Div Yld	\$1.32 / 4.6%
Industry	Utility - Gas Distribution
Zacks Industry Rank	Top 11% (29 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.0%
Last Sales Surprise	-3.9%
EPS F1 Est- 4 week change	-13.5%
Expected Report Date	08/03/2020
Earnings ESP	0.0%
P/E TTM	11.5
P/E F1	12.7
PEG F1	NA
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,140 E	2,779 E	1,555 E	1,262 E	7,735 E
2020	2,007 A	2,229 A	1,468 E	1,186 E	6,979 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	\$1.18 E	\$1.96 E	\$0.06 E	-\$0.30 E	\$2.92 E
2020	\$1.17 A	\$1.56 A	-\$0.15 E	-\$0.32 E	\$2.25 E
2019	\$0.81 A	\$1.43 A	\$0.13 A	-\$0.37 A	\$2.28 A

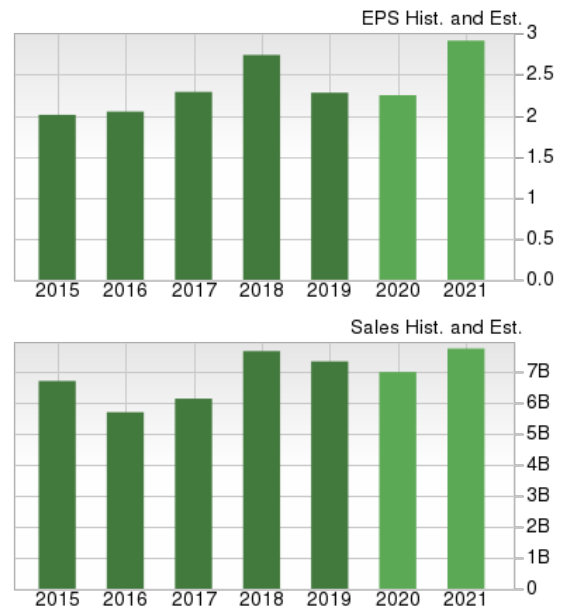
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/14/2020. The reports text is as of 05/15/2020.

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 Buy:

- ▲ The company has added 14,000 new residential heating and commercial customers in fiscal 2019 and has 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.

Despite of the coronavirus outbreak, the company has delivered outstanding results in the second quarter. However, it reported lower sales volume in the domestic and international LPG business. Considering the impact of the COVID-19 outbreak, the company slashed capital expenditures guidance to \$730 million from \$850 million for fiscal 2020. The company is pushing some of its capital projects to fiscal 2021 to cope with unprecedented challenges related to the pandemic.

Systematic capital expenditures, acquisitions, customer additions and regular dividend payment are tailwinds for the company.

- ▲ 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.

The company returned \$199.5 million as dividend payments to common stock holders in fiscal 2019, higher than \$176.9 million returned in fiscal 2018. In April, the company has increased its quarterly dividend to 33 cents per share. This is the 33rd consecutive year of dividend increase. In the first six months of fiscal 2020, the company has paid \$135.6 million to its shareholders compared with \$90.5 million in the year ago period.

- ▲ The acquisitions of Columbia Midstream Group, LLC ("CMG") from TC Energy Corporation (TRP) completed in August 2019. Now known as UGI Appalachia, it continued to perform very well in the second quarter despite unfavorable weather and low natural gas prices. Midstream & Marketing reported EBIT of \$79 million in the quarter, higher than \$53 million in year-ago quarter. UGI Appalachia was the factor for the uptick.

Moreover, the buyout of AmeriGas Partners, L.P in the third quarter of fiscal 2019 enables the company to enhance its cash flow to pay debts and fund capital investments in its natural gas business. The company is entering into a cash generation period with greater capacity due to historically low commodity prices in the first two quarters and also benefited from incremental cash generated through AmeriGas merger and the acquisition of UGI Appalachia.

- ▲ The company exited the fiscal second quarter with \$1.2 billion liquidity, which is adequate enough to meet its current debt obligations. Moreover, the company does not have significant long-term debt maturities until fiscal 2024.

The company's long-term debt amounted to \$5,800 million in the fiscal second quarter compared with \$5,828 million in first-quarter fiscal 2020. However, its times interest earned ratio is pegged at 2.3 in the fiscal second quarter compared with 3 in the fiscal first quarter. Even if the ratio is down sequentially the ratio at the end of fiscal second quarter indicates that the firm will be able to meet debt obligations in the near future without any difficulties.

Reasons To Sell:

- ▼ Shares of UGI Corporation have lost 47.4% in the past 12 months compared with the Zacks Gas Distribution industry's decline of 25.9%. 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.

Dependence on small group of suppliers and regulatory risk are headwinds for the company.

- ▼ 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.
 - ▼ Energy efficiency and technology advances as well as price induced customer conservation may lower demand for energy products and services. Prices for LPG and natural gas are subject to volatile fluctuations in response to changes in supply and other market conditions. During periods of high energy commodity costs, prices generally increase and may lead to customer conservation and attrition. Fall in demand may lead to lower revenues and, lower net income which can adversely affect cash flows.
 - ▼ UGI Corporation operates LPG distribution and energy marketing businesses in Europe through its subsidiaries and continues to explore the expansion of its international businesses. As a result, the company faces risks in doing business abroad that they do not face domestically. The international operations could be impacted by risks related to costs, economic and political uncertainties as well as tariffs and other trade barriers etc.
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Last Earnings Report

UGI Corp's Q2 Earnings Beat Estimates, Revenues Miss

UGI Corporation delivered second-quarter fiscal 2020 adjusted earnings of \$1.56 per share, which beat the Zacks Consensus Estimate of \$1.50 by 4%. The bottom line increased 9% from the prior-year quarter's figure of \$1.43.

The company generated GAAP earnings of \$1.07 in the reported quarter compared with the year-ago quarter's GAAP earnings of \$1.38.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-3.85%
EPS Surprise	4.00%
Quarterly EPS	1.56
Annual EPS (TTM)	2.49

Revenues

Revenues amounted to \$2,228.9 million in the quarter, which missed the Zacks Consensus Estimate of \$2,318 million by 3.8%. The top line declined 14.5% from the year-ago quarter's figure of \$2,606.1 million.

Segment Revenues

AmeriGas Propane: The segment generated revenues of \$802 million in the quarter under review, down 17.5% from year-ago quarter's tally.

UGI International: Revenues in the segment amounted to \$703.4 million, down 10.2% from year-ago quarter's figure.

Midstream & Marketing: This segment generated revenues of \$422.2 million in the quarter under review, down 22.2% year over year.

UGI Utilities: This segment generated revenues of \$392.6 million in the quarter under review, down from year-ago quarter's reported figure of \$429.6 million.

Corporate & Other: This segment incurred a loss of \$91.3 million, which was narrower than a loss of \$120.7 million in second-quarter fiscal 2019.

Operational Highlights

Volumes in the quarter were significantly hurt due to warmer-than-normal weather in all service territories.

As of Mar 31, the company's total available liquidity was \$1.2 billion. In April, the company increased its dividend for the 33rd consecutive year.

Total interest expenses amounted to \$82.4 million, up 35.08% from the prior-year quarter's tally.

Guidance

The company slashed capital expenditures guidance to \$730 million from \$850 million for fiscal 2020 considering the impact of the COVID-19 outbreak.

It updated fiscal 2020 adjusted earnings per share guidance to \$2.45-\$2.55, prior to the COVID-19 impact. It now anticipates that the pandemic could negatively impact earnings by an additional 20-30 cents per share.

Recent News

UGI Corp Announces Liquidity Boosting Moves on COVID-19 Fears- Mar 26, 2020

UGI Corporation's subsidiary, UGI Utilities, recently announced that it has entered into a Note Purchase Agreement for a \$150 million private placement to reduce short-term borrowings. Another subsidiary, UGI Energy Services, has increased its Revolving Credit Facility by \$60 million to \$260 million and also extended the maturity of the credit facility to March 2025.

As of Feb 29, 2020, the company's total available liquidity balance was \$1.15 billion. Jointly these transactions have increased the company's short-term liquidity by nearly \$210 million.

Valuation

UGI Corporation shares are down 36.8% in the year to date period, and down 47.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 30.1% and 18.4% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 25.9% and 21.8%, respectively.

The S&P 500 index is down 11.4% in the year to date period and 1.2% in the past year.

The stock is currently trading at 10.34X of forward 12 months earnings, which compares to 13.89X for the Zacks sub-industry, 11.67X for the Zacks sector and 20.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.87X and as low as 8.13X, with a 5-year median of 18.35X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$30 price target reflects 10.75X 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	10.34	13.89	11.67	20.67
	5-Year High	21.87	23.03	15.32	20.79
	5-Year Low	8.13	12.59	11.38	15.19
	5-Year Median	18.35	20.39	13.78	17.45
P/S F12M	Current	0.8	1.61	2.5	3.22
	5-Year High	1.42	2.3	3.29	3.44
	5-Year Low	0.61	1.02	1.75	2.54
	5-Year Median	1.18	1.66	2.04	3.02
P/B TTM	Current	1.46	1.34	3.07	3.74
	5-Year High	2.5	2.68	4.05	4.55
	5-Year Low	1.2	1.18	2.01	2.84
	5-Year Median	2.12	2.21	2.6	3.65

As of 05/14/2020

Industry Analysis Zacks Industry Rank: Top 11% (29 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Atmos Energy Corporation (ATO)	Neutral	3
Chesapeake Utilities Corporation (CPK)	Neutral	3
MDU Resources Group, Inc. (MDU)	Neutral	3
ONEOK, Inc. (OKE)	Neutral	4
South Jersey Industries, Inc. (SJI)	Neutral	3
Spire Inc. (SR)	Neutral	3
Sempra Energy (SRE)	Neutral	2
Southwest Gas Corporation (SWX)	Neutral	3

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	UGI	X Industry	S&P 500	MDU	OKE	SRE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	2
VGM Score	B	-	-	C	D	B
Market Cap	5.94 B	3.61 B	18.95 B	4.04 B	12.71 B	35.20 B
# of Analysts	1	2.5	14	1	6	5
Dividend Yield	4.56%	3.36%	2.2%	4.12%	12.18%	3.47%
Value Score	A	-	-	C	C	B
Cash/Price	0.06	0.03	0.06	0.02	0.04	0.06
EV/EBITDA	10.25	10.39	11.58	8.63	10.09	12.65
PEG Ratio	NA	2.49	2.60	2.52	1.80	2.45
Price/Book (P/B)	1.45	1.67	2.59	1.42	2.29	1.77
Price/Cash Flow (P/CF)	5.78	8.20	10.20	6.83	7.23	9.63
P/E (F1)	12.43	16.77	19.00	12.59	10.81	16.77
Price/Sales (P/S)	0.88	1.50	1.93	0.74	1.34	3.21
Earnings Yield	7.89%	5.91%	5.05%	7.94%	9.25%	5.96%
Debt/Equity	1.42	1.02	0.75	0.89	2.56	1.02
Cash Flow (\$/share)	4.94	3.61	7.01	2.95	4.25	12.50
Growth Score	B	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	6.12%	6.12%	10.82%	11.99%	19.72%	5.80%
Proj. EPS Growth (F1/F0)	-1.32%	1.13%	-10.48%	-5.33%	-7.49%	5.81%
Curr. Cash Flow Growth	-8.47%	10.67%	5.68%	20.75%	11.06%	12.92%
Hist. Cash Flow Growth (3-5 yrs)	3.86%	7.61%	8.52%	7.61%	22.18%	8.55%
Current Ratio	0.89	0.81	1.27	1.67	1.36	0.45
Debt/Capital	58.65%	48.45%	44.25%	47.06%	71.92%	47.74%
Net Margin	5.69%	8.74%	10.54%	5.87%	8.40%	22.32%
Return on Equity	13.36%	8.89%	16.29%	11.47%	21.11%	11.30%
Sales/Assets	0.50	0.28	0.54	0.71	0.45	0.17
Proj. Sales Growth (F1/F0)	-4.67%	0.00%	-2.55%	0.00%	-5.15%	0.32%
Momentum Score	F	-	-	A	F	D
Daily Price Chg	-0.70%	0.00%	1.17%	4.73%	0.75%	1.77%
1 Week Price Chg	5.43%	3.60%	3.23%	3.60%	12.13%	3.59%
4 Week Price Chg	9.18%	-3.91%	1.06%	-9.84%	15.58%	2.45%
12 Week Price Chg	-30.42%	-22.79%	-22.80%	-37.42%	-60.38%	-24.74%
52 Week Price Chg	-47.39%	-23.03%	-12.40%	-20.51%	-54.91%	-7.94%
20 Day Average Volume	1,629,596	483,978	2,553,422	1,361,912	6,584,571	1,478,256
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-13.46%	-0.08%	-5.57%	0.00%	-18.75%	1.01%
(F1) EPS Est 12 week change	-15.73%	-1.40%	-16.22%	-8.57%	-25.04%	1.07%
(Q1) EPS Est Mthly Chg	NA%	-2.64%	-11.63%	NA	-19.50%	-2.64%

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	A
Growth Score	B
Momentum Score	F
VGM Score	B

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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