

UGI Corporation (UGI)

\$41.70 (As of 02/14/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 11/12/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: C

Summary

In first-quarter fiscal 2020, UGI Corporation delivered mixed results. The company's earnings beat the Zacks Consensus Estimate, while revenues missed the same. In the past 12 months, shares of the company have underperformed the industry. It 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. It is exposed to several regulatory and environmental uncertainties, which is likely to increase expenses. However, the acquisition of Columbia Midstream and the AmeriGas Partners will boost the company's performance in the long term. It is adding more customers to its customer base on a continuous basis. After adding 14,000 customers in fiscal 2019, it added another 4000 customers in fiscal first quarter.

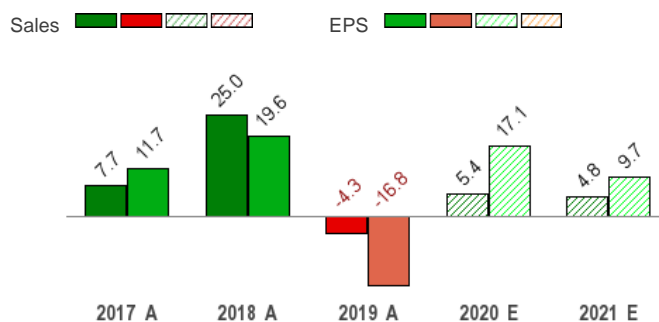
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.49 - \$40.52
20 Day Average Volume (sh)	1,693,957
Market Cap	\$8.7 B
YTD Price Change	-7.7%
Beta	0.52
Dividend / Div Yld	\$1.30 / 3.1%
Industry	Utility - Gas Distribution
Zacks Industry Rank	Top 33% (84 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.7%
Last Sales Surprise	-4.9%
EPS F1 Est- 4 week change	-0.9%
Expected Report Date	NA
Earnings ESP	-11.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,089 E
2020	2,007 A	2,820 E	1,548 E	1,237 E	7,716 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	\$1.90 E	\$0.15 E	-\$0.29 E	\$2.93 E
2020	\$1.17 A	\$1.75 E	\$0.02 E	-\$0.19 E	\$2.67 E
2019	\$0.81 A	\$1.43 A	\$0.13 A	-\$0.37 A	\$2.28 A

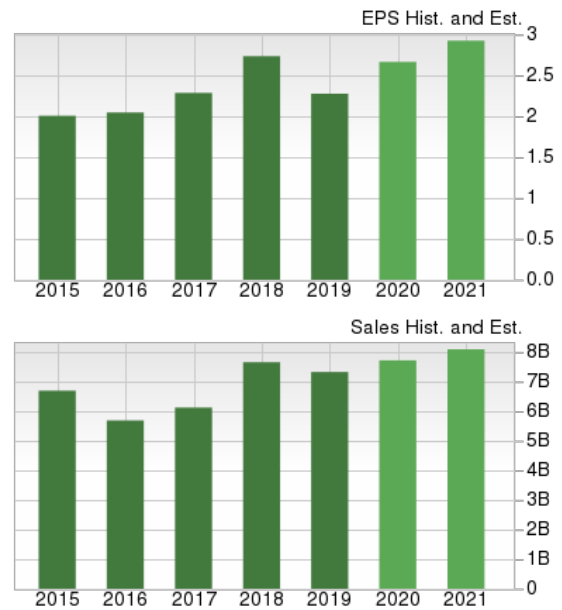
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

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 21.9% in the past 12 months against the Zacks Gas Distribution industry's rise of 15.8%. 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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Risks

- The acquisitions of Columbia Midstream Group, LLC ("CMG") from TC Energy Corporation (TRP) completed in August 2019. UGI Corporation's midstream and marketing had a successful fiscal first quarter due to this acquisition. The additional fee based revenue has increased the EBIT by 45% compared with prior-year figure.

The company expects that these assets will bring more profit in the future. The company also expects that its midstream activities in northeastern and central Pennsylvania will continue to contribute in its growth

Moreover, the buyout of AmeriGas Partners, L.P in the third quarter of fiscal 2019. 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 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.

Continuing the trend, it has added 4,000 new residential heating and commercial customers in fiscal first quarter. In the said quarter, the company invested \$151.8 million. To strengthen the existing infrastructure, the company expects to invest nearly \$850 million in fiscal 2020.

These investments include LNG storage and vaporization facility in Bethlehem, which is expected to be online later this year. UGI Energy Services has completed Auburn IV expansion project on Nov 1, 2019. The \$50-million project has expanded capacity on the Auburn system over 40% to 150,000 dekatherms per day.

- 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 first-quarter fiscal 2020, UGI Corporation returned \$67.9 million compared with \$45.3 million in fiscal first quarter.

Last Earnings Report

UGI Corp's Q1 Earnings Beat Estimates, Revenues Miss

UGI Corporation delivered first-quarter fiscal 2020 adjusted earnings \$1.17 per share, which beat the Zacks Consensus Estimate of \$1.02 by 14.7%. The bottom line increased 44.4% from the prior-year quarter's figure of 81 cents.

The company generated GAAP earnings of \$1 in the reported quarter compared with the year-ago quarter's GAAP earnings of 36 cents.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	-4.94%
EPS Surprise	14.71%
Quarterly EPS	1.17
Annual EPS (TTM)	2.36

Revenues

Revenues of \$2,006.6 million in the quarter missed the Zacks Consensus Estimate of \$2,111 million by 4.9%. The top line declined 8.7% from the year-ago quarter's figure of \$2,200.2 million.

Segment Revenues

AmeriGas Propane: The segment generated revenues of \$730.4 million in the quarter under review, down 11% from year-ago quarter's tally.

UGI International: This segment generated revenues of \$651.4 million, down 8.3% from year-ago quarter's figure.

Midstream & Marketing: This segment generated revenues of \$372.5 million in the quarter under review, down 19% from year-ago quarter's figure

UGI Utilities: This segment generated revenues of \$329.3 million in the quarter under review, up from year-ago quarter's reported figure of \$322.7 million.

Corporate & Other: This segment incurred a loss of \$77 million narrower than a loss of \$112.8 million incurred in fiscal first-quarter 2019.

Operational Highlights

Despite weather that was 10.3% warmer than normal and 2.7% warmer than the prior-year period, LPG retail volume increased 3.7% year over year or 246.4 million gallons reflecting strong bulk volumes associated with crop drying.

Total interest expenses amounted to \$84.1 million, up 39.7% from the prior-year quarter's tally.

On October 11, 2019, Gas Utility's new base rates went into effect. In the quarter under review, Auburn IV expansion completed and placed into service on Nov 1.

Valuation

UGI Corporation shares are down 14.1% in the last six months period, and down 21.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 8.9% and 13% in the last six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 15.8% and 7.3%, respectively.

The S&P 500 index is up 17.2% in the last six months period and 23.6% in the past year.

The stock is currently trading at 15.06X of forward 12 months earnings, which compares to 20.99X for the Zacks sub-industry, 14.51X for the Zacks sector and 19.36X 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 18.35X. Our underperform recommendation indicates that the stock will perform worse than the market. Our \$35 price target reflects 12.68X 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	15.06	20.99	14.51	19.36
	5-Year High	21.87	23.03	15.36	19.36
	5-Year Low	13.55	16.66	12.58	15.18
	5-Year Median	18.35	20.42	13.84	17.47
P/S F12M	Current	1.11	2.34	3.09	3.58
	5-Year High	1.42	2.34	3.31	3.58
	5-Year Low	0.61	1.01	1.71	2.54
	5-Year Median	1.18	1.64	1.98	3
P/B TTM	Current	2.18	2.76	4.32	4.36
	5-Year High	2.5	2.76	4.32	4.42
	5-Year Low	1.45	1.53	2.02	2.85
	5-Year Median	2.12	2.18	2.58	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 33% (84 out of 255)



Top Peers

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

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	UGI Underperform	X Industry	S&P 500	AEE Neutral	DTE Neutral	PCG Neutral
VGM Score	A	-	-	D	A	B
Market Cap	8.70 B	4.77 B	24.61 B	21.35 B	25.76 B	8.57 B
# of Analysts	2	2	13	5	4	1
Dividend Yield	3.12%	2.60%	1.78%	2.28%	3.02%	0.00%
Value Score	C	-	-	C	C	A
Cash/Price	0.05	0.01	0.04	0.00	0.00	0.32
EV/EBITDA	12.74	14.12	14.06	11.94	12.69	-1.21
PEG Ratio	1.95	3.22	2.09	4.05	3.37	1.59
Price/Book (P/B)	2.17	2.17	3.29	2.60	2.18	0.95
Price/Cash Flow (P/CF)	8.44	12.40	13.65	11.27	10.35	1.64
P/E (F1)	15.62	20.78	19.21	25.08	20.21	3.98
Price/Sales (P/S)	1.22	2.05	2.70	3.55	2.03	0.52
Earnings Yield	6.40%	4.66%	5.19%	3.99%	4.95%	25.12%
Debt/Equity	1.46	1.00	0.71	1.05	1.36	0.21
Cash Flow (\$/share)	4.94	3.40	6.92	7.70	12.95	9.87
Growth Score	A	-	-	C	A	D
Hist. EPS Growth (3-5 yrs)	6.69%	6.00%	10.85%	8.26%	7.49%	4.54%
Proj. EPS Growth (F1/F0)	17.11%	9.37%	7.17%	5.49%	5.24%	1.50%
Curr. Cash Flow Growth	-8.47%	7.46%	8.56%	12.97%	7.70%	7.61%
Hist. Cash Flow Growth (3-5 yrs)	3.86%	7.61%	8.36%	8.12%	4.88%	9.17%
Current Ratio	0.81	0.80	1.23	0.65	0.77	1.79
Debt/Capital	59.27%	49.45%	42.91%	51.33%	57.57%	17.31%
Net Margin	5.67%	8.72%	11.81%	13.34%	9.23%	-66.15%
Return on Equity	11.37%	9.06%	16.86%	10.10%	10.52%	18.81%
Sales/Assets	0.55	0.35	0.54	0.22	0.33	0.20
Proj. Sales Growth (F1/F0)	5.40%	4.63%	3.85%	3.09%	5.48%	4.68%
Momentum Score	C	-	-	D	A	A
Daily Price Chg	0.19%	0.79%	0.06%	1.21%	0.35%	-3.34%
1 Week Price Chg	1.73%	1.08%	2.47%	1.89%	0.75%	14.07%
4 Week Price Chg	-6.46%	1.62%	0.59%	9.57%	0.83%	28.27%
12 Week Price Chg	-4.58%	7.78%	6.98%	15.43%	8.63%	131.10%
52 Week Price Chg	-21.37%	5.88%	16.62%	25.73%	12.42%	4.72%
20 Day Average Volume	1,693,957	336,592	2,020,569	1,377,664	1,087,262	12,329,674
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.38%	0.00%
(F1) EPS Est 4 week change	-0.93%	-0.06%	-0.05%	-0.43%	0.66%	0.00%
(F1) EPS Est 12 week change	-3.26%	-0.04%	-0.17%	-0.57%	0.99%	2.26%
(Q1) EPS Est Mthly Chg	-7.92%	0.00%	-0.24%	0.22%	NA	0.00%

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	C
Growth Score	A
Momentum Score	C
VGM Score	A

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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