

UGI Corporation (UGI)

\$33.77 (As of 08/25/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

UGI Corp.'s fiscal third-quarter 2020 earnings surpassed estimates while its revenues missed the same. The company's buyouts will curb competition while customer additions will boost its performance in the long term. Considering the impact of the COVID-19 outbreak, it slashed its capital expenditure guidance for fiscal 2020. The company exited the fiscal third quarter with substantial liquidity to meet near-term obligations. UGI Corp.'s steady performance enables it to pay regular dividends to its shareholders. In the past three months, its shares have outperformed the industry. However, the company is exposed to several regulatory and environmental uncertainties in domestic and international operations. Also, fixed-price contracts and any disruption in the supply of propane might affect its profitability as it has limited suppliers.

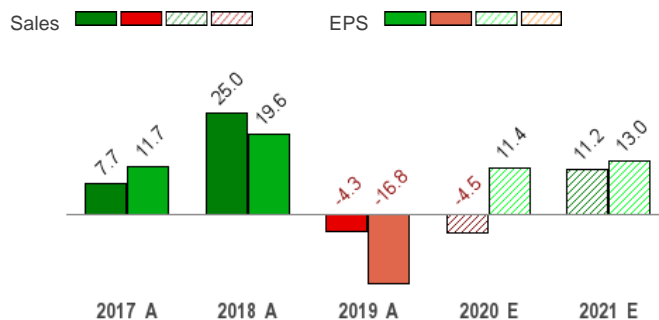
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.14 - \$21.75
20 Day Average Volume (sh)	897,042
Market Cap	\$7.0 B
YTD Price Change	-25.2%
Beta	0.93
Dividend / Div Yld	\$1.32 / 3.9%
Industry	Utility - Gas Distribution
Zacks Industry Rank	Bottom 33% (170 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	153.3%
Last Sales Surprise	-21.0%
EPS F1 Est- 4 week change	12.9%
Expected Report Date	11/09/2020
Earnings ESP	0.0%
P/E TTM	13.8
P/E F1	13.3
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,207 E	2,690 E	1,582 E	1,297 E	7,775 E
2020	2,007 A	2,229 A	1,199 A	1,236 E	6,991 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	\$1.98 E	\$0.07 E	-\$0.36 E	\$2.87 E
2020	\$1.17 A	\$1.56 A	\$0.08 A	-\$0.38 E	\$2.54 E
2019	\$0.81 A	\$1.43 A	\$0.13 A	-\$0.37 A	\$2.28 A

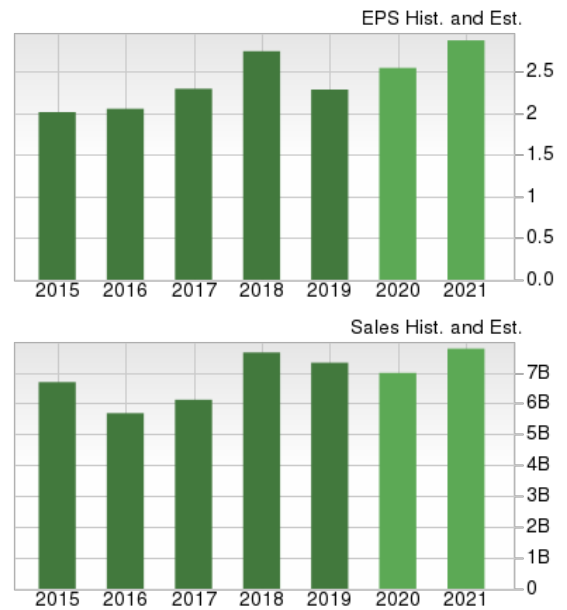
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/25/2020. The reports text is as of 08/26/2020.

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. Also, in the fiscal third quarter, the company's brand Cynch added 38,000 customers.

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

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. Shares of UGI Corporation have gained 4.6% in the past three months against the Zacks Gas Distribution industry's decline of 5.6%.

- ▲ 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. Free cash flow of the company in the fiscal third quarter improved 19% from the same period a year ago.

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. The company's current dividend yield is 3.85% compared with the industry yield of 3.47%. In the first nine months of fiscal 2020, it paid \$204.4 million to its shareholders compared with \$142.8 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 third quarter on the back of favorable weather and high natural gas gathering margins. Midstream & Marketing reported EBIT of \$20.4 million in the quarter, significantly higher than \$4.3 million in the year-ago quarter. UGI Appalachia was the factor for the uptick.

Moreover, the company completed the buyout of GHI Energy, LLC., a renewable natural gas company operating in California, in the third quarter of fiscal 2020. This will enable it to expand its product offering and support its aim to grow in a way that is environmentally-friendly.

Along with acquisitions, the company decided to dispose its 5.97% ownership interest in the Conemaugh coal-fired generating station to reduce the total Scope I direct emissions by more than 30%.

- ▲ The company exited the fiscal third quarter with \$1.6 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.

As of Jun 30, 2020, the company had long-term debt of \$5,961.4 million up from \$4,291.7 million as of Jun 30, 2019. Also, its times interest earned ratio is pegged at 2.65 in the fiscal third quarter, up from 2.28 in the fiscal second quarter. The ratio of more than 1 indicates that the company will be able to meet its debt obligations in the near future without any trouble. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, the company's improving current ratio is reassuring for investors.

Reasons To Sell:

- ▼ 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 in the propane supply chain 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.
-

Last Earnings Report

UGI Corp's Q3 Earnings Beat Estimates, Revenues Miss

UGI Corp delivered third-quarter fiscal 2020 adjusted earnings of 8 cents per share. The Zacks Consensus Estimate was of a loss of 15 cents per share. The bottom line, however, decreased 38.5% from the prior-year quarter's figure of 13 cents per share.

The company generated GAAP earnings of 41 cents per share in the reported quarter against the year-ago quarter's GAAP loss of a cent.

Quarter Ending **06/2020**

Report Date	Aug 03, 2020
Sales Surprise	-21.04%
EPS Surprise	153.33%
Quarterly EPS	0.08
Annual EPS (TTM)	2.44

Revenue Update

Revenues of \$1,199.3 million in the fiscal third quarter missed the Zacks Consensus Estimate of \$1,519 million by 21%. Also, the top line declined 12.1% from the year-ago quarter's figure of \$1,363.7 million.

Segmental Revenues

AmeriGas Propane: Revenues of \$450.9 million in the quarter under review were down 5.8% from year-ago quarter's number.

UGI International: Revenues summed \$371.5 million, down 23.7% from the year-ago quarter's figure.

Midstream & Marketing: Revenues of \$222.5 million in the reported quarter fell 16.8% year over year.

UGI Utilities: Revenues of \$179.1 million were up 9.3% from the year-ago quarter's reported figure.

Corporate & Other: This segment incurred a loss of \$24.7 million, narrower than the loss of \$32.8 million in third-quarter fiscal 2019.

Operational Highlights

Colder-than-normal weather in the company's domestic business areas along with cost-management efforts supported the results, thereby offsetting the negative impact of waning demand from the commercial group due to COVID-19 pandemic.

As of Jun 30, the company's total available liquidity was \$1.6 billion, up from \$1.2 billion at the end of Mar 31, 2020.

Total interest expenses of \$80.8 million were up 33.6% from the prior-year quarter's figure.

Guidance

The company raised fiscal 2020 adjusted earnings per share outlook to \$2.45-\$2.55 including the negative impact of COVID-19 and a tax benefit.

Recent News

UGI Corp Arm Buys GHI Energy, Expands Clean Energy Business- Jul 9, 2020

UGI Corporation's subsidiary, UGI Energy Services, LLC, has completed the acquisition of a Houston-based renewable natural gas (RNG) company, GHI Energy, LLC. The acquired entity being one of the leading RNG marketers in California is primarily focused on providing RNG to vehicle fleets by coordinating supply from a portfolio of sources across the country.

Valuation

UGI Corporation shares are down 25.2% in the year to date period, and down 29% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 28.8% and 14% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 24.9% and sector is down 9.5%.

The S&P 500 index is up 7% in the year to date period and 20.3% in the past year.

The stock is currently trading at 11.90X of forward 12 months earnings, which compares to 13.98X for the Zacks sub-industry, 12.62X for the Zacks sector and 23.12X 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 \$35 price target reflects 12.33X 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	11.9	13.98	12.62	23.12
	5-Year High	21.87	23.03	15.28	23.12
	5-Year Low	8.13	12.59	11.3	15.25
	5-Year Median	18.35	20.39	13.72	17.58
P/S F12M	Current	0.91	1.74	2.68	3.77
	5-Year High	1.42	2.3	3.29	3.77
	5-Year Low	0.61	1.02	1.75	2.53
	5-Year Median	1.18	1.69	2.07	3.05
P/B TTM	Current	1.7	1.62	4.19	4.66
	5-Year High	2.5	2.68	4.29	4.66
	5-Year Low	1.2	1.41	2.01	2.83
	5-Year Median	2.12	2.21	2.64	3.76

As of 8/25/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Atmos Energy Corporation (ATO)	Neutral	3
DTE Energy Company (DTE)	Neutral	3
Alliant Energy Corporation (LNT)	Neutral	3
MDU Resources Group, Inc. (MDU)	Neutral	3
Sempra Energy (SRE)	Neutral	3
Southwest Gas Corporation (SWX)	Neutral	3
ONEOK, Inc. (OKE)	Underperform	4
Pacific GasElectric Co. (PCG)	Underperform	4

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	UGI	X Industry	S&P 500	DTE	MDU	OKE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	2	-	-	3	3	4
VGM Score	B	-	-	C	A	C
Market Cap	7.04 B	3.78 B	23.77 B	22.54 B	4.75 B	12.11 B
# of Analysts	1	3	14	6	1	5
Dividend Yield	3.91%	3.51%	1.65%	3.46%	3.51%	13.72%
Value Score	B	-	-	B	B	A
Cash/Price	0.08	0.07	0.07	0.03	0.01	0.08
EV/EBITDA	11.27	10.58	13.35	11.98	9.34	9.75
PEG Ratio	NA	2.94	3.03	3.09	2.96	3.56
Price/Book (P/B)	1.70	1.70	3.17	1.90	1.64	1.94
Price/Cash Flow (P/CF)	6.84	8.54	12.81	9.04	8.03	6.42
P/E (F1)	13.30	16.11	21.72	17.51	14.80	21.36
Price/Sales (P/S)	1.07	1.63	2.47	1.90	0.86	1.39
Earnings Yield	7.52%	6.13%	4.45%	5.71%	6.76%	4.70%
Debt/Equity	1.44	0.97	0.75	1.47	0.81	2.30
Cash Flow (\$/share)	4.94	4.07	6.93	12.95	2.95	4.25
Growth Score	C	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	5.02%	7.73%	10.41%	6.30%	13.22%	19.23%
Proj. EPS Growth (F1/F0)	11.40%	1.18%	-4.92%	6.08%	-5.33%	-58.44%
Curr. Cash Flow Growth	-8.47%	10.67%	5.20%	7.70%	20.75%	11.06%
Hist. Cash Flow Growth (3-5 yrs)	3.86%	8.55%	8.50%	4.88%	7.61%	22.18%
Current Ratio	0.95	0.79	1.33	0.83	1.40	1.71
Debt/Capital	59.04%	49.25%	44.20%	59.49%	44.78%	69.72%
Net Margin	7.16%	7.55%	10.25%	10.13%	6.50%	7.13%
Return on Equity	13.19%	9.37%	14.66%	10.50%	12.52%	18.28%
Sales/Assets	0.47	0.27	0.51	0.28	0.71	0.40
Proj. Sales Growth (F1/F0)	-4.50%	-1.09%	-1.45%	-2.62%	0.00%	-10.74%
Momentum Score	C	-	-	F	D	D
Daily Price Chg	-1.52%	-0.85%	-0.03%	-0.82%	0.89%	0.00%
1 Week Price Chg	-2.75%	-2.75%	-1.45%	-1.60%	-2.61%	-8.85%
4 Week Price Chg	1.38%	-2.85%	3.76%	2.07%	9.17%	-2.85%
12 Week Price Chg	2.46%	-7.47%	5.99%	5.97%	6.71%	-31.21%
52 Week Price Chg	-28.98%	-24.77%	4.07%	-10.28%	-10.17%	-60.10%
20 Day Average Volume	897,042	324,790	1,880,903	859,216	1,163,562	4,865,507
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	12.89%	0.31%	1.03%	1.39%	0.00%	-6.37%
(F1) EPS Est 12 week change	12.89%	-0.28%	3.40%	2.45%	0.00%	-13.78%
(Q1) EPS Est Mthly Chg	0.00%	-2.03%	0.00%	-6.04%	NA	-6.42%

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	B
Growth Score	C
Momentum Score	C
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.