



Michael Gaugler

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Gas and Electric Utilities

Price:	\$52.90
Fair Value Estimate:	\$65.00
52-Week Range:	\$50.31 - \$59.31
Market Cap (MM):	9,214
Shr.O/S-Diluted (mm):	174.2
Average Daily Volume:	1,202,484
Dividend:	\$1.20
Yield:	2.3%

FYE: Sept	2018A	2019E	2020E
EPS:	\$2.74A	\$2.46E	\$3.10E
Prior EPS:		NC	NC
P/E Ratio:	19.3x	21.5x	17.1x

Quarterly EPS:

Q1	\$1.01A	\$0.81A	\$0.94E
Q2	\$1.69A	\$1.43A	\$1.84E
Q3	\$0.09A	\$0.26E	\$0.18E
Q4	\$(0.04)A	\$(0.04)E	\$0.14E

EPS: Adjusted

July 8, 2019

UGI Corporation

(UGI) - BUY

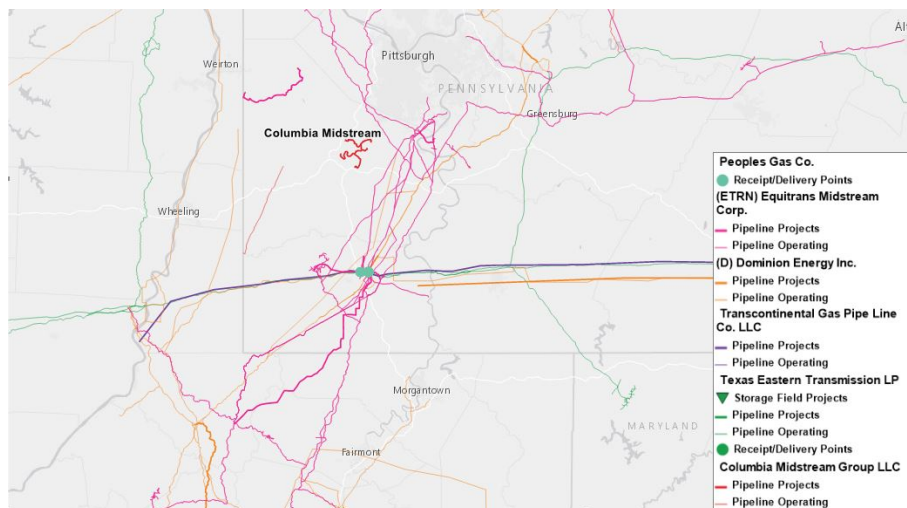
UGI: Midstream Portfolio Expanding Across Pennsylvania (And Beyond); Maintain BUY Rating, \$65 Fair Value

PORTFOLIO MANAGER BRIEF

UGI's recently announced acquisition of Columbia Midstream Group, LLC (CMG) is both strategic and timely. The asset purchases include gas gathering, one processing plant, and 240 miles of pipeline, providing the company with a sizable midstream presence in western Pennsylvania and now across the entire state. Given company guidance that the transaction will be neutral to EPS in FY20 and accretive in FY21, we're making no changes to our estimates at this time. We maintain our BUY rating and \$65 Fair Value, based on a P/E of 21x our FY20 adjusted EPS estimate of \$3.10.

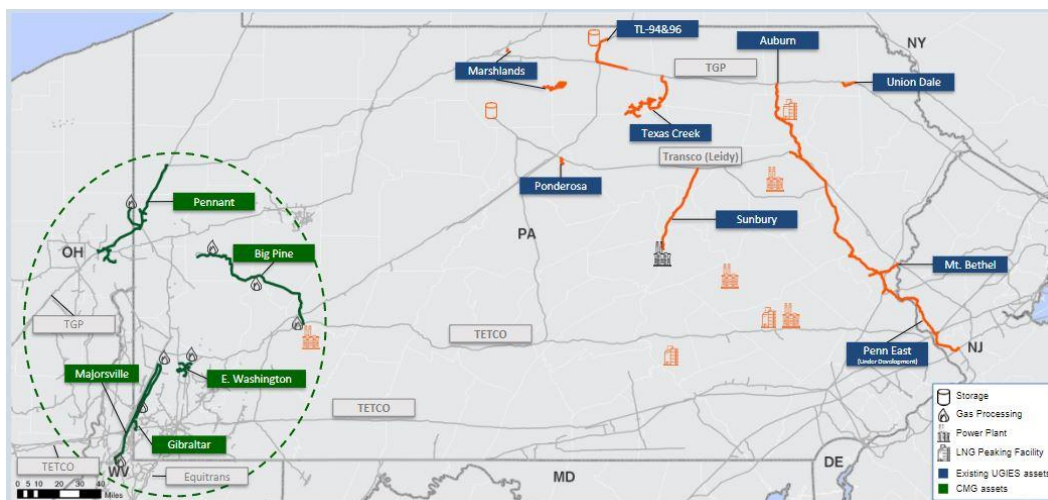
ANALYST NOTES

CMG Acquisition Provides Substantial Opportunities & Optionality. Beyond adding both wet and dry gas gathering assets across PA, WV and OH, the acquisition also includes 240 miles of pipeline, with a large majority in the very busy southwestern PA area around the city of Pittsburgh. In Exhibit #1, CMG pipeline assets are shown in red just south of our text marker; note that not only are Tetco, Transco, Dominion and Equitrans pipelines close by, but so is Peoples Gas, which is being acquired by Aqua America. On the call to discuss the transaction, UGI indicated it was looking at additional compression and new paths to other pipelines to increase output; we see several scenarios that could keep the company busy for quite awhile just in this area. Exhibit #1



We consider the CMG assets as very complimentary to UGI’s existing midstream assets. Our mapping utility didn’t pick up all of the pipeline assets in southwestern PA, so for Exhibit 2 we’re using the map provided by the company in its presentation. Two things immediately stand out to us: first is that UGI will shortly have midstream assets around most of the populated areas of Pennsylvania. Second is that the CMG assets to the north of Pittsburgh push into the State of Ohio, where natural gas generation is really ramping up (see Exhibit #3). Ohio is trying to save two nuclear stations (the 908MW Davis-Besse and 1,268MW Perry) but regardless of the legislative outcome, Ohio is going to need more natural gas for generation; the only question is “How much?”

EXHIBIT #2 – UGI MIDSTREAM GEOGRAPHIC FOOTPRINT



Source: SNL

EXHIBIT #3 – OHIO NATURAL GAS POWER STATION ADDITIONS

WWW.ENERGYINDEPTH.ORG

10 FACILITIES

Natural Gas Power Plants Bring Major Investment, Jobs to Ohio

9,000+ MW

\$9+ Billion

7,000+ Jobs

Project	County	State	Status	MW	Estimated Investment (in millions)	Estimated Jobs During Construction
Lordstown Energy Center	Trumbull	OH	Operational	940	\$890	900
Oregon Clean Energy Center	Lucas	OH	Operational	870	\$800	900
Carroll County Energy	Carroll	OH	Operational	742	\$889	700
Middletown Energy Center	Butler	OH	Operational	475	\$645	350
South Field Energy	Columbiana	OH	<u>Under construction</u>	1,182	<u>\$1,300</u>	1,000
Hannibal Port Power Project	Monroe	OH	Under construction	485	\$500	350
Guernsey Power Station	Guernsey	OH	<u>Construction tentatively to begin March 2019</u>	1,650	\$1,400	500
Harrison Power Project	Harrison	OH	<u>Permits issued</u>	1,050	\$900	600
Oregon Energy Center	Lucas	OH	Permits issued	960	\$880	1,000
Trumbull Energy Center	Trumbull	OH	Permits issued	940	\$865	900
Ohio Totals (10 facilities)				9,294	\$9,069	7,200

As we continue to look at the UGI opportunity set, we note that its soon-to-be southern-most pipeline assets look to be about 50 miles from the northern-most point of the Mountain Valley Pipeline (Exhibit #4). That's tantalizingly close to a major north-south pipeline that seems to grow in size frequently. Ultimately, how much the company can capitalize on (and monetize) its opportunity set will all depend on how much gas it can squeeze out of its system and where it can obtain the most favorable terms for that supply. CMG produces 2.7M MMBtu/day, which UGI expects to increase with both extensions to wellheads and additional compression. Currently 65% is under take-or-pay contracts with a weighted average life of 9 years; 95% of CMG's 2019 revenue is expected be derived under take-or-pay. We also note that a mere 100 miles (or so) to the northeast lies some of the best Marcellus Shale gas producing areas. A future pipeline to connect it all wouldn't be out of the question, in our opinion. Looking back again at Exhibit #2, such a project could potentially be built northeast from the CMG assets or directly east using some pre-existing right-of-ways, perhaps to the Sunbury Pipeline.

EXHIBIT #4 – COLUMBIA MIDSTREAM / MOUNTAIN VALLEY PIPELINES



Source: SNL

Acquisition Requires no Equity. UGI is buying CMG for \$1.275B in cash, to be funded by a combination of debt and available liquidity. Consolidated pro-forma leverage is expected to be between 4.3x and 4.4x at closing, falling to 3.5x by the end of 2021. CMG's EBITDA run rate appears to be roughly \$100MM, which should increase materially as UGI deploys \$300MM to \$500MM over the next 5 years at what it expects to be attractive returns.

Summary/Valuation – UGI has been one of our favorite names through the years, given its opportunity set both domestically and internationally. There have been occasional speed bumps along the way; unfavorable weather patterns in recent years have been annoying both in the AmeriGas and International segments, and also the delays in getting to the construction phase of the PennEast Pipeline. Through it all, the company has continued to perform well, and its simplified corporate structure in 2020 should bring additional investor interest. As we look beyond 2020, the opportunities to deploy capital across the asset base will likely be the strongest ever in the company's history, which should drive continued earnings growth, higher returns and multiple expansion.

In terms of valuation, the shares have not performed well in calendar 2019, at a time when the utility peer group (with a few exceptions) has moved substantially higher. As we see it, UGI shares now represent the best value in our utility coverage universe, and they are our top pick. We reiterate our BUY rating and \$65 Fair Value, based on a P/E of 21x our aforementioned FY20 EPS estimate of \$3.10. From the last closing price of \$52.90, that represents 23% upside in a peer group where many names are trading at elevated multiples and carrying non-buy ratings.

Selected Integrated Electric/Gas Industry Comparables

Peer Group Analysis Company Name		7/5/2019		Mkt. Cap	EPS	EPS	EPS	P/E	P/E	P/E	Est LT EPS
	Ticker	Price	Rating	(MM)	2019	2020	2021	CY19E	CY20E	CY21E	Growth
Eversource Energy	ES	\$76.99	BUY	\$24,722	\$3.47	\$3.66	\$3.87	22.2x	21.0x	19.9x	6.0%
Avangrid, Inc.	AGR	\$51.09	SELL	\$15,787	\$2.25	\$2.48	\$2.72	22.7x	20.6x	18.8x	7.3%
UGI Corporation	UGI	\$52.90	BUY	\$9,214	\$2.58	\$3.12	N/A	20.5x	16.9x	--	8.0%
Chesapeake Utilities Corporation	CPK	\$94.86	NEUTRAL	\$1,555	\$3.74	\$3.97	\$4.12	25.4x	23.9x	23.0x	7.5%
Unitil Corporation	UTL	\$60.54	NEUTRAL	\$903	\$2.29	\$2.42	\$2.56	26.5x	25.0x	23.7x	4.0%
Group Average								23.5x	21.5x	21.3x	6.6%

Source: Janney Montgomery Scott, LLC, FactSet
EPS #'s = consensus; JMS #'s may differ materially

Peer Group Analysis Company Name		7/5/2019		Mkt. Cap	P/E	Target	Target	Price	Price	Fair	Upside	Yield
	Ticker	Price	Rating	(MM)	Multiple	Multiple	Multiple	Range	Range	Value	Potential	
					CY20	(Low)	(High)	(Low)	(High)			
Eversource Energy	ES	\$76.99	BUY	\$24,722	21.0x	18.0x	21.0x	\$69.71	\$81.33	\$80.00	4%	2.8%
Avangrid, Inc.	AGR	\$51.09	SELL	\$15,787	20.6x	16.0x	21.0x	\$43.56	\$57.18	\$46.00	-10%	3.4%
UGI Corporation	UGI	\$52.90	BUY	\$9,214	20.5x	16.0x	21.0x	\$49.96	\$65.58	\$65.00	23%	2.3%
Chesapeake Utilities Corporation	CPK	\$94.86	NEUTRAL	\$1,555	23.9x	20.0x	23.0x	\$82.45	\$94.82	\$95.00	0%	1.7%
Unitil Corporation	UTL	\$60.54	NEUTRAL	\$903	25.0x	20.0x	23.0x	\$51.10	\$58.77	\$60.00	-1%	2.4%
Group Average												2.5%

Source: Janney Montgomery Scott, LLC, FactSet

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Michael Gaugler, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from UGI Corporation in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

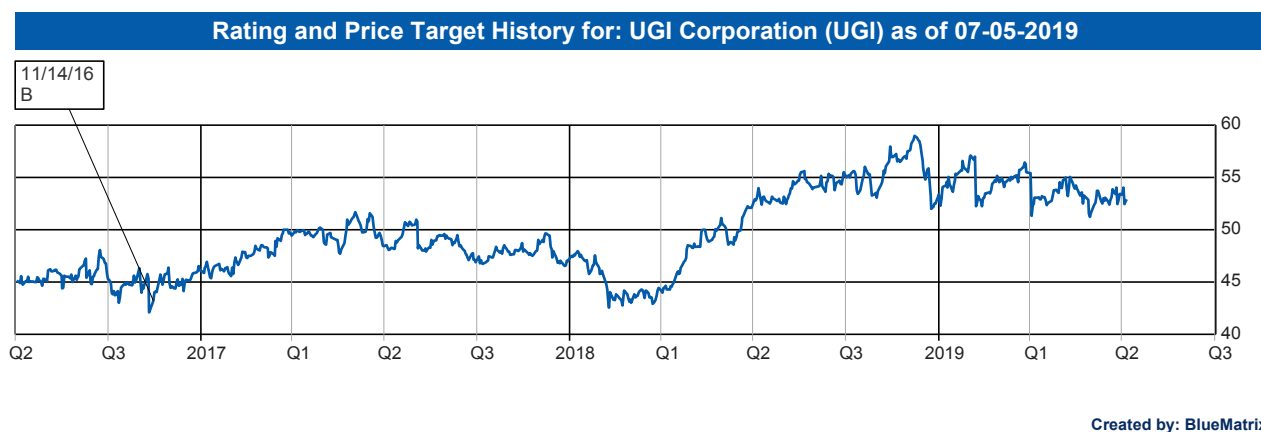
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 06/30/2019

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	179	55.59	40	22.35
NEUTRAL [N]	142	44.10	14	9.86
SELL [S]	1	0.31	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

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