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## Gas and Electric Utilities

Price:	\$49.42
Fair Value Estimate:	\$65.00
52-Week Range:	\$48.77 - \$59.31
Market Cap (MM):	8,614
Shr.O/S-Diluted (mm):	174.3
Average Daily Volume:	1,170,465
Dividend:	\$1.30
Yield:	2.6%

FYE: Sept	2018A	2019E	2020E
EPS:	\$2.74A	\$2.43E	\$3.10E
Prior EPS:		\$2.46	NC
P/E Ratio:	18.0x	20.3x	15.9x

## Quarterly EPS:

Q1	\$1.01A	\$0.81A	\$0.94E
Q2	\$1.69A	\$1.43A	\$1.84E
Q3	\$0.09A	\$0.19A	\$0.18E
Q4	\$(0.04)A	\$0.00E	\$0.14E
EPS: Adjusted			

August 6, 2019

## UGI Corporation

(UGI) - BUY

## UGI: Reaction to FY3Q19 Results Creates Buying Opportunity; Reiterate BUY Rating, \$65 Fair Value

## PORTFOLIO MANAGER BRIEF

UGI's adjusted FY3Q19 EPS results fell short of consensus expectations, and the shares are trading off on the news. The market reaction makes no sense to us; the company reiterated full year FY19 adjusted EPS guidance of \$2.40 - \$2.60, and we highlight that the consensus estimate going into the quarter was \$2.37, below the guidance range. Reiterating the guidance range with one quarter remaining should have a positive impact on share prices.

That aside, UGI shares have had a tough year thus far in FY19, but the near term future looks particularly bright. With a settlement agreement on its PA rate case, the closing of the Columbia Midstream acquisition, the impending closing of the AmeriGas transaction and a robust CAPEX profile, UGI is set to grow earnings meaningfully in the coming years. Pending release of the 10Q's, we've made only minor adjustments to our forward estimates, and reiterate our BUY rating and \$65 Fair Value on UGI shares.

## ANALYST NOTES

- FY3Q19 Results Below Expectations - Much Ado about Nothing. FY3Q and FY4Q are seasonally weak periods for gas utilities, and UGI is no exception. Forecasting results in those periods is decidedly difficult, and sellside models (including ours) got it wrong this quarter. Adjusted EPS of \$0.13 was below the consensus estimate of \$0.19, but we note that the company reiterated its full year adjusted EPS guidance of \$2.40 to \$2.60 with one quarter remaining in the fiscal year. With consensus forecasting \$2.37 for FY19 prior to FY3Q19's results, we suspect FY4Q #'s will be going up to offset the shortfall in FY3Q. We've seen this very scenario - sellside off on 3Q results, then raise 4Q estimates - countless times in the past.
- FY20; the Strongest Growth Prospects for UGI We've Ever Seen. FY19 has certainly had its share of puts and takes for UGI thus far. Weather has been unfavorable, and that's had a material, negative impact at the bottom line. The PENNEAST pipeline project unfolded slower than expected, and then there was the strategic review of what to do with AmeriGas. In our view, all those items pressured share prices lower, but we now see a path to higher earnings for an extended period of time. As the company enters FY20 in less than 2 months, it will have Columbia Midstream's operations, AmeriGas tucked into its corporate structure (with unitholder approval) and new rate benefits once PAPUC finalizes its Settlement Agreement. Additionally, UGI will be deploying capital across its business model, utilizing strong free cash flow from its operations. As to its



PENNEAST pipeline project, the company maintained its timeline guidance for the start of construction and in-service dates; all surveying has been completed, and now the focus shifts to regulatory approval. We note that while PENNEAST seems to get a significant amount of attention from investors, its potential impact to UGI's bottom line is relatively small, given the overall size of the company.

- **AmeriGas "Cynch" Service Offering Has Potential.** AmeriGas has started offering at-home delivery of propane cylinders in its home region of Philadelphia. The marketing blitz has been pronounced, featuring well-known Philadelphia Eagles radio voice Merrill Reese using his signature tagline of "its good!" in the radio spots. We certainly see the potential of home delivery for propane cylinders, given delivery of a large number of consumer products have already gone in that direction. Positive reception to the service was noted on the conference call; it's something we'll be watching closely in coming quarters in terms of overall impact on the cylinder exchange business.
- **Summary/Valuation.** UGI represents a strong growth platform anchored by regulated utility earnings for a P/E of 15x our FY20 adjusted EPS estimate of \$3.10. This compares very favorably against a peer group comprised predominately of gas utilities trading at 20x - 23x 2020 estimates. We expect strong earnings growth to drive 1) a better valuation multiple, and 2) provide fuel for future dividend increases. UGI's last dividend increase on 7/23 was 8.3%, and at the moment its yield is 2.78%, well above the 10-year T-Note. We reiterate our BUY rating and \$65 Fair Value, based on a group multiple P/E of 21x our 2020 EPS estimate of \$3.10.

Selected Integrated Electric/Gas Industry Comparables												
Peer Group Analysis												
Company Name	Ticker	8/5/2019 Price	Rating	Mkt. Cap (MM)	EPS 2019	EPS 2020	EPS 2021	P/E CY19E	P/E CY20E	P/E CY21E	Est LT EPS Growth	
Eversource Energy	ES	\$76.55	BUY	\$24,802	\$3.45	\$3.65	\$3.86	22.2x	20.9x	19.8x	6.0%	
Avangrid, Inc.	AGR	\$49.22	SELL	\$15,209	\$2.24	\$2.49	\$2.71	22.0x	19.8x	18.2x	7.3%	
UGI Corporation	UGI	\$49.42	BUY	\$8,616	\$2.54	\$3.10	N/A	19.4x	15.9x	-	8.9%	
Chesapeake Utilities Corporation	CPK	\$90.80	NEUTRAL	\$1,469	\$3.74	\$3.97	\$4.12	24.3x	22.9x	22.0x	7.5%	
Unitil Corporation	UTL	\$56.88	NEUTRAL	\$849	\$2.31	\$2.44	\$2.58	24.7x	23.3x	22.1x	4.2%	
<b>Group Average</b>								<b>22.5x</b>	<b>20.6x</b>	<b>20.5x</b>	<b>6.6%</b>	
Source: Janney Montgomery Scott, LLC, FactSet EPS's = consensus, Mkt's may differ materially												
Peer Group Analysis												
Company Name	Ticker	8/5/2019 Price	Rating	Mkt. Cap (MM)	P/E Multiple CY20	Target Multiple (Low)	Target Multiple (High)	Price Range (Low)	Price Range (High)	Fair Value	Upside Potential	Yield
Eversource Energy	ES	\$76.55	BUY	\$24,802	20.9x	18.0x	21.0x	\$69.43	\$81.00	\$80.00	5%	2.8%
Avangrid, Inc.	AGR	\$49.22	SELL	\$15,209	19.8x	16.0x	21.0x	\$43.36	\$66.91	\$46.00	-7%	3.6%
UGI Corporation	UGI	\$49.42	BUY	\$8,616	19.4x	16.0x	21.0x	\$49.63	\$65.13	\$65.00	32%	2.6%
Chesapeake Utilities Corporation	CPK	\$90.80	NEUTRAL	\$1,489	22.9x	20.0x	23.0x	\$82.45	\$94.82	\$95.00	5%	1.8%
Unitil Corporation	UTL	\$56.88	NEUTRAL	\$849	23.3x	20.0x	23.0x	\$51.50	\$59.23	\$60.00	6%	2.6%
<b>Group Average</b>												<b>2.7%</b>
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.

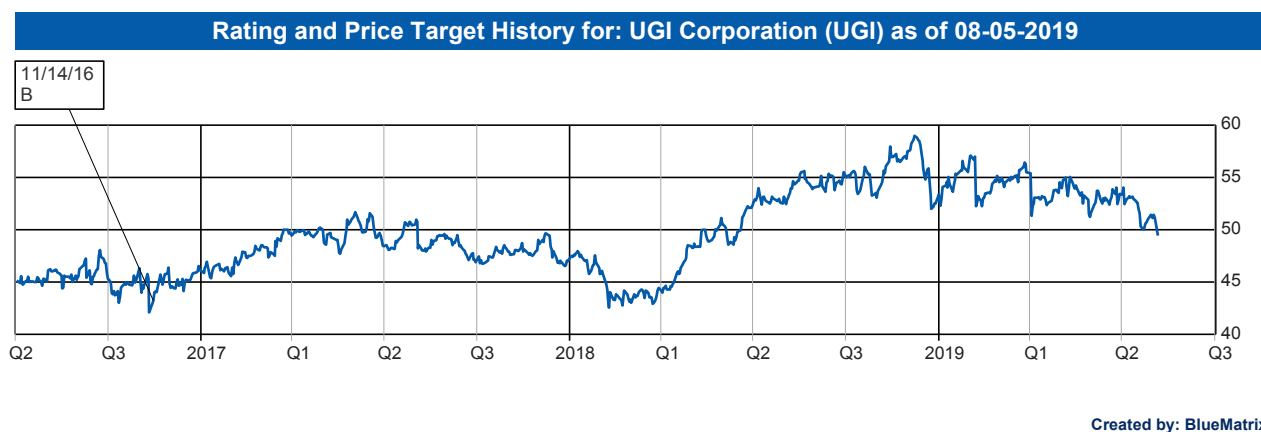
### Definition of Ratings

**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
<b>BUY [B]</b>	179	55.59	40	22.35
<b>NEUTRAL [N]</b>	142	44.10	14	9.86
<b>SELL [S]</b>	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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