FitchRatings

RATING ACTION COMMENTARY

Fitch Revises UGI Utilities Rating Outlook to Negative; Affirms 'A-' IDR

Mon 14 Aug, 2023 - 2:03 PM ET

Fitch Ratings - New York - 14 Aug 2023: Fitch Ratings has affirmed UGI Utilities, Inc.'s (UGIU) Long-Term Issuer Default Rating (IDR) at 'A-'. The Rating Outlook has been revised to Negative from Stable.

The revised Outlook reflects linkage with corporate parent, UGI Corporation (UGI; not rated). Fitch believes unabated or worsening challenges at UGI's unregulated operations could lead to adverse credit rating action at UGIU in the coming 18 months-24 months under Fitch's parent and subsidiary rating linkage criteria.

UGIU's ratings are supported by the relatively low-risk business profile of its regulated, predominantly natural gas distribution operations, supportive regulation in Pennsylvania, healthy customer growth and solid FFO leverage for its rating category. FFO leverage is expected by Fitch to approximate 4.2x and 4.0x in 2023 and 2024, respectively, versus 3.8x in 2022, well-below the utility's 4.5x downgrade sensitivity and consistent with UGIU's current IDR.

In a constructive development from a credit perspective, Pennsylvania regulators approved a settlement of UGIU's natural gas base rate case, including a $49 million rate increase and authorization of a pilot weather normalization adjustment (WNA) rider in an order issued September 2022.

KEY RATING DRIVERS

Low Business Risk Profile: UGIU exhibits a low-risk business profile consisting of regulated natural gas and electric distribution operations. Over 95% of operating income is derived from UGIU's natural gas distribution segment with the remainder from the electric segment. UGIU has made significant progress modernizing its pipeline infrastructure, reducing operating risk. Approximately 92% of UGIU's gas mains are comprised of contemporary plastic and coated steel pipes, with 7% bare steel and 1% cast iron pipes. Cast iron pipes are expected to be fully replaced by March 2027, and bare steel pipes by September 2041.

Supportive Regulation: Fitch believes Pennsylvania utility regulation is constructive from a credit perspective. Utilities include fully projected test years in general rate cases. UGIU's natural gas distribution utility is eligible for pipe replacement ratemaking recovery between rate cases under the Distribution System Improvement Charge (DSIC). For the purposes of calculating quarterly adjustments to revenue collected under the DSIC, UGIU is allowed a 10.2% ROE. The utility also receives timely recovery of investments under the Growth Extension Tariff (GET Gas) program. Natural gas costs are passed through to customers via a purchased gas cost (PGC) tariff.

Recent Regulatory Developments: In a constructive development from a credit perspective, UGIU received a final order from the PAPUC authorizing a $49 million annual rate increase to be phased-in via an initial $38 million annual increase that went into effect Oct. 29, 2022 and an $11 million annual rate increase effective Oct. 1, 2023. The rate increase represents approximately 59% of the company's annual revenue increase request as originally filed. UGIU filed the rate case in January 2022, supporting an $83 million rate hike based on an 11.20% ROE a 55.1% equity ratio and a test YE Sept. 30, 2023.

The commission order, issued in September 2022, also approved a WNA rider pilot program, authorized implementation of a DSIC and prohibits the company from filing another rate case until Jan. 1, 2024. In addition, UGIU's electric utility filed a settlement in its electric base rate case with the PAPUC. If approved, the settlement would result in a base rate increase of $8.5 million. Fitch believes the settlement, if finalized would be a credit supportive development.

Weather Normalization Rider: The WNA rider is being implemented as a five-year pilot program beginning Nov. 1, 2022. Over the past several years, weather in UGIU's service territory has been warmer than normal which has negatively impacted utility volumes. In the winter of 2022-2023, implementation of the WNA was a significant offset to lower billings resulting from mild winter weather. Under the PAPUC approved WNA, residential and small commercial customer billings for distribution services are adjusted (monthly) for weather related impacts exceeding the 3% threshold.

Healthy Customer Growth: UGIU added, on average, approximately 12,000 new gas heating customers annually over the past five years. Over the past decade, UGIU compound annual customer growth rate was approximately 1.5%. Customer growth at UGIU is driven primarily by conversions from oil- and electric-based heating systems to natural gas and new home. UGIU sources approximately 99% of its gas from the Marcellus Shale, which is one of the most abundant natural gas producing formations.

Large Capex Program: Capex totaled $463 million in 2022, an 18% increase from $392 million in 2021. Management expects capex to increase and additional 8% in 2023 to approximately $500 million in 2023. The relatively high level of capex is driven by expected growth and system betterment investment. Roughly 90% of planned investment is expected to be recovered within 12 months. Since 2012, pipeline replacement and betterment investment has increased the 12,500-mile pipeline system's percentage of contemporary materials to 92% from 85%, with the remaining 8% and 15%, respectively, composed of bare steel or cast-iron pipe.

Credit Metrics Consistent with Rating: UGIU's financial profile is supported by a conservative capital structure and low leverage. FFO leverage was 3.8x in 2022 and is projected by Fitch to approximate 4.2x in 2023 and 4.0x in 2024. While projected leverage drifts above 4.0x in 2023, based on Fitch's projections, FFO leverage remains well-below the agency's downgrade threshold of 4.5x, underscoring UGIU's strong credit profile when considered with the utility's relatively low business risk profile and balance regulatory environment.

Parent/Subsidiary Linkage: There is a parent subsidiary relationship between UGIU and its owner, UGI Corporation (UGI Corp.; not rated). Fitch believes UGIU has a stronger standalone credit profile (SCP) than UGI Corp. given the utility's relatively low business risk profile, solid cash flows and credit supportive rate regulation. Fitch has followed the weak parent/stronger subsidiary path provided under its parent and subsidiary linkage criteria.

Legal ring-fencing is porous, given the general protections afforded by regulatory oversight which include capital structure and dividend restrictions. Access and control are also porous. UGI Corp. is dependent on cash distributions from its subsidiaries, including UGIU, to meet its obligations and is the only source of equity for UGIU. Incremental pressure on UGI's non-utility operations could impact UGIU creditworthiness in the near- to intermediate-term. UGIU has direct access to capital markets and is managed separately from UGI Corp.'s other subsidiaries.

West Reading Explosion Investigation: On March 24, 2023, an explosion occurred in West Reading, Pennsylvania which resulted in seven fatalities, significant injuries to eleven others, and extensive property damage in an area served by UGIU. While an investigation is underway into the disaster, the cause of the explosion has not yet been determined. Claims have been filed against UGIU and the utility is involved in lawsuits in connection with the West Reading explosion.

Fitch believes the explosion and related litigation is a nascent source of uncertainty from a credit perspective, pending future developments. Fitch notes the company is cooperating with the investigation and has insurance to cover potential third-party exposure, if any. Fitch believes potential exposure to the company related to the West Reading explosion is manageable within UGIU's current rating category.

DERIVATION SUMMARY

UGIU is well-positioned relative to its similarly rated peers Southwest Gas Corporation (SWG; A-/Stable) and DTE Gas Company (DTE Gas; BBB+/Stable). UGIU enjoys a constructive regulatory environment in Pennsylvania, similar to SWG and DTE Gas. UGIU and DTE Gas operate primarily in one state, whereas SWG has somewhat greater geographic diversity, operating in Arizona, Nevada and California. Unlike SWG and DTE Gas, UGIU does not have revenue decoupling.

However, Pennsylvania regulators, in a constructive development, approved a weather normalization adjustment rider in UGIU's last base rate case. UGIU's FFO leverage is expected to approximate 4.2x in 2023, which compares with an estimated 5x each for SWG and DTE Gas.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within the Rating Case for the Issuer:

--Customer growth CAGR of approximately 1.5%;

--Capex totals $500 million in 2023;

--Continued utilization of the DSIC mechanism to timely recover pipeline replacement and system betterment investment;

--Implementation of weather normalization adjustment mechanism as approved in the commission's September 2022 order in UGIU's base rate case.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Given the sizable multiyear capital investment program, positive rating actions are not likely at this time. Nevertheless, if FFO leverage is below 3.5x on a sustained basis, UGIU could be upgraded;

--Reduction in EBITDA leverage to UGI Corp.'s publicly stated 3.0x-3.5x target level.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A sustained weakening of FFO leverage in excess of 4.5x;

--Significant, unexpected deterioration in rate regulation;

--Meaningful deterioration in parent UGI Corp.'s SCP.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: As of June 30, 2023, UGIU had $317 million of available borrowing capacity after consideration of $108 million drawn on its revolving credit facility (RCF), which matures in June 2024. The utility also has $130 million of term loan debt as of June 30, 2023.

UGIU is expected to be cash flow negative 2023-2024 owing, in large part, to its elevated capex program. The utility's $425 million RCF provides adequate liquidity in Fitch's view along with access to debt capital markets and equity infusions as needed from its corporate parent, UGI Corp. Since UGIU is a relatively small debt issuer, it does not issue index-eligible paper and utilizes bank lending and private placement for much of its long-term funding requirements.

In addition to its large capex program, UGIU has seasonal liquidity needs to manage inventory ahead of, and carry customer receivables during, the winter heating season. We believe UGIU's bank lines provide sufficient capacity to meet working capital needs. Peak borrowings generally occur early in the winter heating season when UGIU's investment in working capital is greatest. Scheduled long-term debt maturities are manageable, in Fitch's opinion, with approximately $6 million-$7 million of long-term debt due 2023-2025 and $281 million in 2026.

ISSUER PROFILE

UGI Utilities provides natural gas and electric distribution services in parts of Pennsylvania. The utility's gas LDC accounts for approximately 95% of operating income with electric distribution representing the remainder.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
UGI Utilities, Inc.	LT IDR Affirmed	A- Rating Outlook Negative	A- Rating Outlook Stable

senior unsecured	LT	A	Affirmed	A

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer’s available public disclosure.

APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Climate Vulnerability in Corporate Ratings Criteria (pub. 21 Jul 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

UGI Utilities, Inc.	EU Endorsed, UK Endorsed

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FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms UGI Utilities; Outlook Remains Negative

Fri 26 Jul, 2024 - 2:29 PM ET

Fitch Ratings - New York - 26 Jul 2024: Fitch Ratings has affirmed the Long-Term Issuer Default Rating (IDR) of UGI Utilities, Inc. (UGIU) at 'A-' and its senior unsecured debt rating at 'A'. The Rating Outlook remains Negative.

The Negative Outlook reflects rating linkage with corporate parent, UGI Corporation (UGI; not rated). Fitch believes unabated or worsening challenges at UGI's unregulated operations could lead to adverse credit rating action at UGIU under Fitch's parent and subsidiary rating linkage criteria.

UGIU's ratings reflect its relatively low-risk utility operations, favorable rate regulation, robust customer growth, and solid FFO leverage. Fitch anticipates FFO leverage of 4.3x in 2024 and 4.0x in 2025, compared to 4.1x in 2023, staying below the 4.5x downgrade sensitivity and aligning with the current IDR.

KEY RATING DRIVERS

UGI Strategic Review: In May 2024, UGI concluded its strategic review and adopted a strategy focused on retention of its unregulated affiliate, AmeriGas. It also implemented a restructuring and operational improvement plan to enhance operating and financial performance. The strategic review considered potential spin-off, sale or joint venture opportunities to address operational issues at AmeriGas. UGI remains open to further rationalization of its unregulated business as a part of a larger initiative to maximize operating results.

Challenges at AmeriGas: UGIU's Negative Outlook is primarily driven by the issues at AmeriGas and its rating linkage with UGI. AmeriGas has experienced elevated operating costs, customer attrition, and risk of covenant breach under its revolving credit facility

(RCF). Fitch expects UGI will support AmeriGas, but execution risk could adversely affect UGI and UGIU.

Parent/Subsidiary Linkage: There is a parent-subsidiary relationship between UGI and UGIU. Fitch believes UGIU has a stronger standalone credit profile (SCP) than UGI, given the utility's relatively low business risk profile, solid cash flows and credit supportive rate regulation. As such, Fitch has followed the weak parent/stronger subsidiary path provided under the criteria.

Legal ring-fencing is porous, given the general protections afforded by regulatory oversight which include capital structure and dividend restrictions. Access and control are also porous. UGI is dependent on cash distributions from its subsidiaries, including UGIU, to meet its obligations and is the only source of equity for UGIU. Incremental pressure on UGI's non-utility operations could affect UGIU's creditworthiness. UGIU has direct access to capital markets and is managed separately from UGI's other subsidiaries.

Low Business Risk Profile: UGIU's credit profile is supported by relatively predictable natural gas and electric distribution operations. Roughly 90% of revenue is derived from natural gas distribution and the remainder by electric distribution. UGIU has made significant investments in modernizing its pipeline infrastructure, including increasing storage capacity to support customer growth and reduce operating risk. Approximately 93% of UGIU's gas mains consist of contemporary material such as plastic or coated steel pipes, with 6% bare steel and 1% cast iron pipes. Replacement of the cast iron pipes is expected to be completed by 2027 and the bare steel pipes by 2041.

Supportive Regulation: Fitch believes the regulatory environment in Pennsylvania is constructive. Rate cases incorporate forward-looking test years, using year-end rate valuations. UGIU benefits from a Distribution System Improvement Charge (DSIC) rider, which minimizes regulatory lag and enables the company to recover returns on investments between rate cases.

For the purpose of calculating quarterly adjustments to revenue collected under the DSIC, UGIU is permitted a 10.2% ROE for Gas investments (9.8% on Electric investments). The utility also receives timely recovery of investments through the Growth Extension Tariff (GET Gas) program. Natural gas costs are passed on to customers via a purchased gas cost (PGC) tariff.

Revenue Decoupling Mechanism: UGIU benefits from the Weather Normalization Adjustment (WNA) rider. The WNA helps mitigates the negative impact of warmer-than-normal weather on UGIU's utility volumes, thereby promoting earnings stability. Under the WNA, residential and small commercial customer billings for distribution services are adjusted monthly for weather-related impacts over 3%.

Steady Customer Growth: UGIU has added an average of 10,500 new gas heating customers annually over the past five years. The compound annual customer growth rate over the past decade was approximately 1.5%. This growth is primarily driven by conversions from oil- and electric-based heating systems to natural gas and by new home constructions. UGIU sources approximately 99% of its gas from the Marcellus Shale, one of the most abundant natural gas-producing formations.

Large Capex Program: Capex reached $511 million in 2023, a 10% increase from $463 million in 2022. Management forecasts a slight decrease to between $430 million-$500 million in 2024-2025 but expects to average $600 million in 2026-2027. This relatively high capital spending is driven by anticipated customer growth, infrastructure improvements, and reliability enhancements. Approximately 90% of the planned investment is expected to be recovered within near term.

Stable Credit Metrics: UGIU's financial profile is supported by a conservative capital structure and low leverage. In 2023, FFO leverage was 4.1x and is projected by Fitch to be around 4.3x in 2024 and 4.0x in 2025, which is well below the 4.5x downgrade threshold. This underscores UGIU's strong credit profile, especially given its low business risk and balanced regulatory environment.

West Reading Explosion Investigation: On March 24, 2023, an explosion occurred in West Reading, PA, an area served by UGIU, that resulted in seven fatalities, significant injuries to 11 others, and extensive property damage. An investigation is underway, but the cause has not yet been determined. Claims have been filed against UGIU, and the utility is involved in lawsuits in connection with the explosion.

The West Reading explosion and related litigation are a source of some credit uncertainty, pending future developments. The company is cooperating with the investigation and has insurance to cover potential third-party exposure. Fitch believes potential exposure to the West Reading explosion is manageable at the current rating level.

DERIVATION SUMMARY

UGIU is well-positioned relative to its similarly rated peers Southwest Gas Corporation (SWG; BBB+/Stable) and DTE Gas Company (BBB+/Stable). UGIU has a constructive regulatory environment in Pennsylvania, similar to SWG and DTE Gas.

UGIU and DTE Gas operate primarily in one state, whereas SWG has somewhat greater geographic diversity, operating in Arizona, Nevada and California. Unlike SWG and DTE Gas, UGIU does not have full revenue decoupling but does benefit from a weather normalization adjustment rider. Fitch projects UGIU's FFO leverage will be around 4.3x in 2024, compared to 5x for SWG and 4.5x for DTE Gas.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within the Rating Case for the Issuer Include

--Customer growth CAGR of approximately 2%;

--Capex approximates a cumulative $850 billion in 2024 and 2025;

--Continued utilization of the DSIC mechanism to timely recover pipeline replacement and system betterment investment;

--Implementation of weather normalization adjustment mechanism as approved in the commission's September 2022 order in UGIU's base rate case.

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to a Stable Outlook

--Resolution of operational weaknesses at AmeriGas;

--Meaningful improvement in EBITDA leverage and interest coverage of AmeriGas without material impact on UGI's leverage profile.

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Given the sizable multiyear capital investment program, positive rating actions are not likely at this time. Nevertheless, if FFO leverage is below 3.5x on a sustained basis, UGIU could be upgraded;

--Reduction in EBITDA leverage to UGI's publicly stated 3.5x-4.0x target level.

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A sustained weakening of FFO leverage in excess of 4.5x;

--Significant, unexpected deterioration in rate regulation;

--Meaningful deterioration in parent UGI's SCP.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: As of March 31, 2024, UGIU had $288 million in available borrowing capacity, considering $87 million drawn on its revolving credit facility (RCF), which matures in November 2028.

UGIU is projected to be cash flow negative in 2024-2025, primarily due to its high capital expenditure program. The utility's $375 million RCF, along with access to debt capital markets and equity infusions from its corporate parent, UGI, provides sufficient liquidity according to Fitch. As a relatively small debt issuer, UGIU does not issue index-eligible paper and relies on bank lending and private placements for most of its long-term funding needs.

UGIU has seasonal liquidity requirements to manage inventory and customer receivables during the winter heating season. Fitch believes UGIU's bank lines offer adequate capacity to meet working capital needs, with peak borrowings typically occurring early in the winter heating season. Scheduled long-term debt maturities are manageable, with about $6 million due in 2024-2025 and $281 million in 2026.

ISSUER PROFILE

UGI Utilities provides natural gas and electric distribution services in parts of Pennsylvania. The utility's gas local distribution company accounts for approximately 95% of operating income with electric distribution representing the remainder.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
UGI Utilities, Inc.	LT IDR	A- Rating Outlook Negative	Affirmed	A- Rating Outlook Negative
senior unsecured	LT	A	Affirmed	A

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 13 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

UGI Utilities, Inc.	EU Endorsed, UK Endorsed

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MOODY'S
RATINGS

Rating Action: Moody's Ratings changes outlook of UGI Utilities to negative, affirms ratings

17 Jun 2024

Approximately $140 million of debt securities affected

New York, June 17, 2024 -- Moody's Ratings (Moody's) changed the outlook of UGI Utilities, Inc. ("UGI Utilities") to negative from stable and affirmed its A3 senior unsecured rating.

RATINGS RATIONALE

"The negative outlook on UGI Utilities reflects the possibility that challenges at its unregulated and higher risk affiliates, most recently at AmeriGas Partners, L.P.(AmeriGas, Ba3 negative), could place financial pressure on the utility" stated Nana Hamilton, VP-Senior Analyst. ESG considerations, specifically governance, factored into this rating action because of the potential risks to UGI Utilities associated with parent company UGI Corporation's financial strategy and policies as it manages its unregulated subsidiaries.

Following earlier financial issues at affiliate UGI International, LLC (UGI,Ba2 stable), which have since been largely addressed, we had expected the credit quality of the UGI family to remain relatively stable, with management focusing on reducing holding company leverage. However, financial and operational weaknesses at its AmeriGas propane distribution business, which UGI has decided to retain following a strategic review, are continuing to pressure the entire corporate family's credit quality. AmeriGas' balance sheet, operating performance and overall credit quality would be improved if the subsidiary reduces debt, improves financial flexibility, reduces customer attrition and lowers costs.

While UGI management works to improve conditions at AmeriGas, UGI Utilities could be relied upon more to help support UGI's overall financial health, such as by paying higher dividends or lowering capital expenditures. UGI has already increased debt at the holding company level with the issuance of $700 million of convertible notes earlier this month. Proceeds were used to partially refinance debt outstanding under its senior credit facility as well to contribute to AmeriGas for upcoming debt reduction. We note that UGI held its shareholder dividend flat in 2024 which signals a commitment to improving its balance sheet and reducing financial pressure on its subsidiaries.

The affirmation of UGI Utilities considers an operational performance that remains solid. The utility continues to benefit from favorable regulation in Pennsylvania, including a weather normalization adjustment rider that has helped to offset some of the recent negative impacts of warmer weather. We expect the utility to generate a ratio of cash flow from operations excluding changes in working capital (CFO pre-WC) to debt in the 19% to 21% range over the next two years, which is consistent with our expectations for its current rating. While challenges at the parent company and unregulated affiliates may not ultimately impact the utility's financial strength, recent developments again highlight the higher potential that this could occur.

Outlook

UGI Utilities' negative outlook reflects the potential for contagion risk emanating from challenges at affiliate AmeriGas while UGI works to improve that subsidiary's operational and financial performance. The outlook also considers the possibility that the utility will be more significantly relied upon for financial support if UGI's plan to improve conditions at AmeriGas do not progress as expected.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade

An upgrade of UGI Utilities in the near-term is unlikely given the credit quality of its corporate affiliates. UGI Utilities' outlook could return to stable if the financial and operational issues at AmeriGas are successfully resolved without any negative impact on the utility's financial performance and if the utility maintains a CFO pre-WC to debt ratio above 19%. Longer-term, the rating could be upgraded if it produces stronger financial metrics, including a CFO pre-WC to debt ratio consistently above 22%, if there is a material reduction in debt at the UGI level and if the credit quality of UGI's other subsidiaries improves.

Factors that could lead to a downgrade

A downgrade could be considered if we expect the utility to maintain a ratio of CFO pre-WC to debt below 19%, if dividends from the utility to the parent increase materially, if UGI's growth and financing plans result in higher holding company debt or otherwise elevated credit risk, if the credit quality of UGI's non-utility subsidiaries deteriorate further or if the Pennsylvania regulatory environment becomes less credit supportive.

UGI Utilities, Inc. is a rate regulated natural gas and electric utility serving over

684,000 gas customers throughout Pennsylvania (as well as several hundred customers in one county in Maryland) and about 62,700 electric customers in northeastern Pennsylvania. UGI Utilities' gas operations, under UGI Gas, account for substantially all of the utility's operating income. UGI Utilities also has an electric utility (UGI Electric) which accounts for less than 5% of operating income.

LIST OF AFFECTED RATINGS

..Issuer: UGI Utilities, Inc.

Affirmations:

.... Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

.... Senior Unsecured, Affirmed A3

Outlook Actions:

....Outlook, Changed To Negative From Stable

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017 and available at https://ratings.moodys.com/rmc-documents/68547. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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Janney

Michael Gaugler 215-665-1359 mgaugler@janney.com

Gas & Electric Utilities

Price:	$35.00
Fair Value Estimate:	$60.00
52-Week Range:	$31.19 - $44.54
Market Cap (MM):	7,334
Shr.O/S-Diluted (mm):	209.6
Average Daily Volume:	1,242,200
Dividend:	$1.44
Yield:	4.1%

FYE: Sept	2022E	2023E	2024E
EPS:	$2.90A	$2.96E	$3.36E
Prior EPS:		$3.15	NC
P/E Ratio:	12.1x	11.8x	10.4x
Quarterly EPS:			
Q1	$0.93A	$1.14A	$1.11E
Q2	$1.91A	$1.84E	$2.10E
Q3	$0.06A	$0.08E	$0.20E
Q4	$0.00A	$(0.10)E	$(0.05)E
Year:	$2.90A	$2.96E	$3.36E

EPS: Adjusted

1 Year Price History for UGI

April 11, 2023

UGI Corporation (UGI) - BUY

UGI: Lowering FY23 Estimates on Warmer Weather; Maintain BUY Rating, $60 Fair Value

PORTFOLIO MANAGER BRIEF

We've taken our FY23 adjusted EPS estimates to the lower end of company guidance due to extremely warm weather conditions across UGI's global operating footprint. The shares have been noticeably weak YTD, and our view is that the market is already expecting guidance revisions when FY2Q23 results are announced. We have not changed our FY24 estimates, which we are currently using for valuation purposes (and represent normalized weather conditions). We maintain our BUY rating on UGI shares.

ANALYST NOTES

- FY2Q23 Temperatures Were Abnormally Warm. In our last UGI note, we highlighted that FY23 was off to a great start, given the colder temperatures experienced in FY1Q23. UGI's FY1Q23 results were above our and consensus expectations, and our view was that full-year results would come in at the top of the guidance range. Unfortunately, upcoming FY2Q results look set to claw back all the upside versus expectations in FY1Q, and negatively impact the full-year outlook. UGI reports weather conditions across its various operating segments, which we display below. Our view is that the trends experienced in January & February continued into March as well.

Percentage Difference vs. Normal Weather

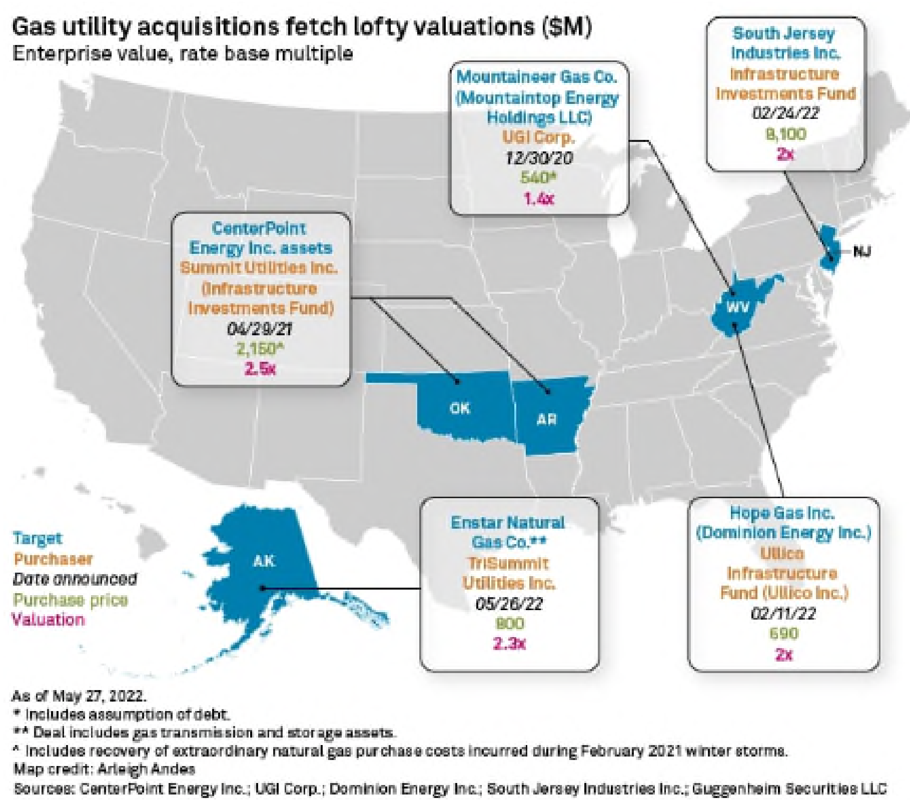
	January	February
UGI International	-5%	-7%
AmeriGas	-13%	-7%
UGI Energy Services	-24%	-19%
Utilities	-27%	-22%

Source: UGI

- Lowering Estimates Across All Segments. Given the unfavorable weather patterns across all service geographies, we've reduced estimates across all segments, with a heavier emphasis on the propane operations (the utilities have a limited weather normalization adjustment mechanism in Pennsylvania). Our revisions brought our forecasts to the lower end of the midpoint of the company's EPS guidance range of $2.85-$3.15.

- Summary/Valuation. Weather patterns have been unfavorable to UGI in recent years, and FY23 looks to be more of the same. However, UGI continues to generate free cash flow, which it deploys into new investments and dividend payments. The bias for earnings continues to be upward (based on the investment profile), and patient, long-term investors should be rewarded, given the quality of the assets.

From a valuation perspective, if we look at UGI from a sum-of-the-parts analysis, it appears severely undervalued. Starting with the utility assets, at the end of 2022, rate base was $3.4B. We see no reason why those assets shouldn't command at least a 2x multiple; the service territories of Pennsylvania and West Virginia are favorable regions to operate natural-gas utilities with organic growth, inexpensive natural-gas supplies, and regulatory support. So our value for the utilities alone is a minimum $6.8B; that implies the rest of the company - UGI International, AmeriGas, Midstream & Marketing and all the clean energy investments are worth only $535MM based on the current market capitalization. If the market capitalization doesn't improve by the end of UGI's upcoming West Virginia rate case, the aforementioned valuation disconnect should become more severe, given we'd expect a higher rate base at the conclusion of those proceedings. Our view is that extreme valuation disconnects usually don't last in "utility world"; we observed this with the recent SJI transaction. Our BUY rating and $60.00 Fair Value on UGI shares is maintained, based on a P/E of 18x our 2024 EPS estimate of $3.36.



Source: S&P Global

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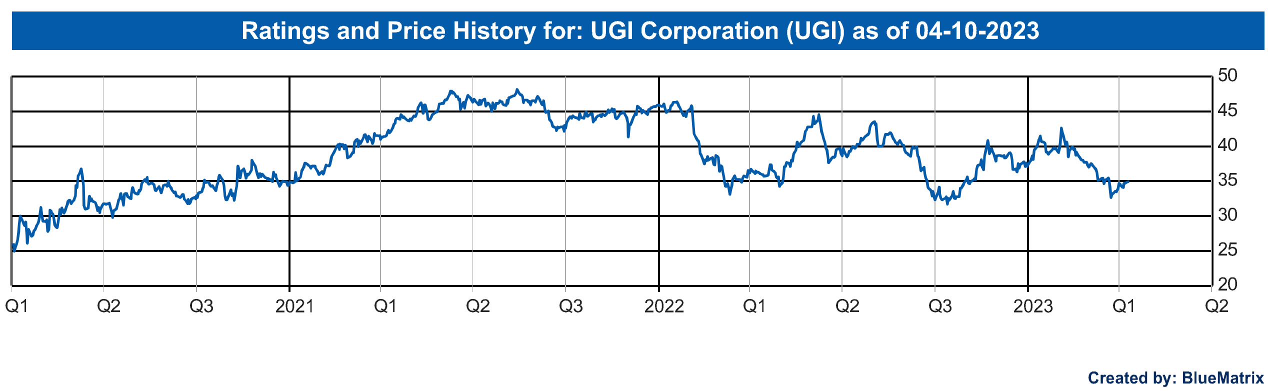

Janney Montgomery Scott Ratings Distribution as of 3-31-2023

			IB Serv./Past 12 Mos.*	
Rating	Count	Percent	Count	Percent
BUY [B]	121	52.38	16	13.22
NEUTRAL [N]	110	47.62	6	5.45
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	0	0.00	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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Michael Gaugler 215-665-1359 mgaugler@janney.com

Gas & Electric Utilities

Price:	$32.25
Fair Value Estimate:	$60.00
52-Week Range:	$31.19 - $44.54
Market Cap (MM):	6,758
Shr.O/S-Diluted (mm):	209.6
Average Daily Volume:	1,278,690
Dividend:	$1.44
Yield:	4.5%

FYE: Sept	2022E	2023E	2024E
EPS:	$2.90A	$2.81E	$3.36E
Prior EPS:		$2.96	NC
P/E Ratio:	11.1x	11.5x	9.6x

Quarterly EPS:

Q1	$0.93A	$1.14A	$1.11E
Q2	$1.91A	$1.68A	$2.10E
Q3	$0.06A	$0.08E	$0.20E
Q4	$0.00A	$(0.10)E	$(0.05)E
Year:	$2.90A	$2.81E	$3.36E

EPS: Adjusted

1 Year Price History for UGI

May 4, 2023

UGI Corporation (UGI) - BUY

UGI First Look: Unfavorable Weather Leads to Lowered FY23 Guidance

PORTFOLIO MANAGER BRIEF

Warmer-than-normal weather across UGI's service territories had a larger negative impact than we expected when we lowered our FY23 estimates last month. FY2Q23 adjusted EPS of $1.68 was below our $1.84 forecast, and the Company lowered its FY23 adjusted EPS guidance range to $2.75-$2.90, which implies essentially flat YOY results. Despite the muted expectations for FY23, we believe the shares are severely undervalued, particularly given the quality of the assets. We maintain our BUY rating and $60 Fair Value, based on a P/E of 18x our FY24 EPS estimate of $3.36.

ANALYST NOTES

- FY1Q23 EPS Below Expectations. Back on April 11, we lowered our FY23 adjusted EPS estimate to $2.96 from $3.15, based on our assumption that extremely warm weather across the Company's geographic footprint would negatively impact FY2Q23 results. For FY2Q23, we settled at $1.84; the actual result was $1.68. In terms of segment performances, the utilities held up relatively well; a weather normalization rider in the Pennsylvania operations allowed net income for the segment to actually increase $9MM YOY. Midstream & Marketing also did relatively well despite the weather impacts, as its net income rose $8MM vs. 2Q22. UGI International also did reasonably well (net income +$3MM YOY), but unfortunately AmeriGas net income fell $65MM, largely due to lower retail volumes.
- FY23 Guidance Lowered. For FY23, UGI now sees adjusted EPS of $2.75-$2.90, vs. its previous expectation of $2.85-$3.15. We have lowered our FY23 forward estimate (see table, this page), which only reflects the FY2Q23 actual results; we left our FY2H23 forecasts intact and also our FY24 estimates.
- Summary/Valuation. FY23 started out strongly for UGI, with FY1Q23 results above expectations. Then unseasonably warm weather across its service territories arrived in FY2Q23, forcing lowered expectations. The inherent earnings power of UGI assets is still in place, and we believe it will show itself at the bottom line when winter weather patterns normalize. We also expect UGI to continue de-risking its earnings exposure to weather on a go-forward basis given that strategy has already been underway for quite some time. We maintain our BUY rating and $60 Fair Value on UGI shares, based on a P/E of 18x our FY24 EPS estimate of $3.36.

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.

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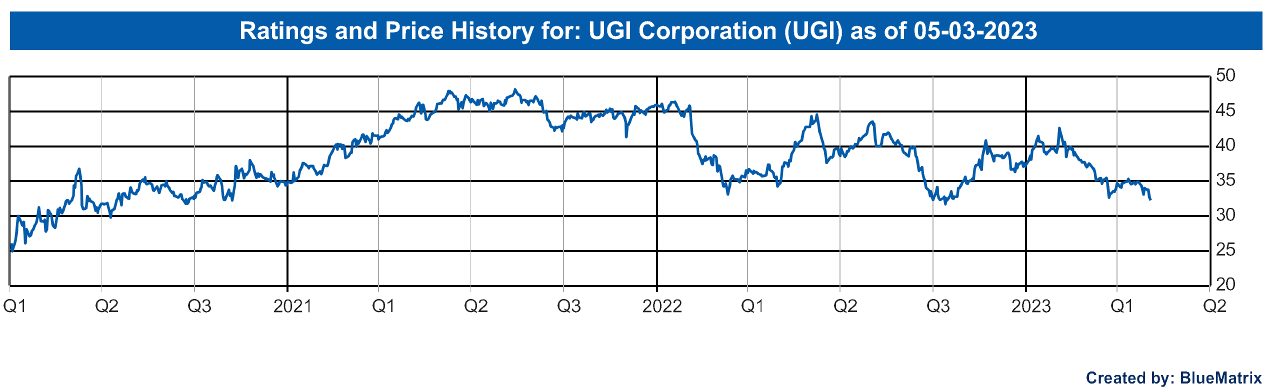
Price Charts



Janney Montgomery Scott Ratings Distribution as of 3-31-2023

			IB Serv./Past 12 Mos.*	
Rating	Count	Percent	Count	Percent
BUY [B]	121	52.38	16	13.22
NEUTRAL [N]	110	47.62	6	5.45
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	0	0.00	0	0.00

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Janney

Michael Gaugler 215-665-1359 mgaugler@janney.com

Utilities

Price:	$26.75
Fair Value Estimate:	$60.00
52-Week Range:	$25.58 - $43.48
Market Cap (MM):	5,600
Shr.O/S-Diluted (mm):	209.3
Average Daily Volume:	2,340,950
Dividend:	$1.50
Yield:	5.6%

FYE: Sept	2022E	2023E	2024E
EPS:	$2.90A	$2.77E	$3.36E
Prior EPS:		$2.81	NC
P/E Ratio:	9.2x	9.7x	8.0x

Quarterly EPS:

Q1	$0.93A	$1.14A	$1.11E
Q2	$1.91A	$1.68A	$2.10E
Q3	$0.06A	$0.00A	$0.20E
Q4	$0.00A	$(0.05)E	$(0.05)E
Year:	$2.90A	$2.77E	$3.36E

EPS: Adjusted

1 Year Price History for UGI

August 3, 2023

UGI Corporation (UGI) - BUY

UGI: Strategic Repositioning Continues; Maintain BUY Rating, $60 Fair Value

PORTFOLIO MANAGER BRIEF

For FY3Q23, EPS was breakeven ($0.00) and above the consensus forecast ($-0.07). AmeriGas posted better YOY EBIT despite expense and volume challenges, which we find encouraging. Divestiture of non-core European operations and assets continues, with deals closing through FY2Q24. Guidance was reaffirmed, with expectations FY23 adjusted EPS will be at the low end of the range. All-in, about what we expected, and our view is the focus is (and has been) on turning around profitability at AmeriGas and FY24 expectations. We maintain our BUY rating and $60 Fair Value on UGI shares.

ANALYST NOTES

- By The Segments:
- AmeriGas saw EBIT increase by $2MM YOY, but volumes fell 6% due to customer attrition and structural conservation. Operating and administrative expenses rose $32MM (16%) due to higher employee compensation & benefits, advertising and vehicle expenses. The Company took an impairment charge against goodwill in the segment totaling $660MM.
- UGI International saw EBIT decline by $4MM YOY on slightly higher volume (+2%) as operating and administrative expenses rose $14MM (10%). The overall global inflationary environment, higher uncollectible expenses, and FOREX negatively impacted results.
- Midstream & Marketing saw EBIT decline by $3MM YOY, reflecting lower income from equity method investments following the acquisition of the remaining interest in Pennant. Operating, and administrative expenses rose $2MM (7%).
- Utilities saw EBIT decline $6MM on warmer temperatures (vs. normal and YOY). Core market volumes decreased 8%, again due to warmer weather. Operating and administrative expenses rose $8MM (10%), primarily due to increases in employee compensation & benefits, contract labor costs, and uncollectible account expenses.
- Guidance Reaffirmed. For FY23, UGI continues to see adjusted EPS of $2.75 - $2.90, but towards the lower end of that range.

 RESEARCH ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE ON PAGES 3-4 OF THIS REPORT

- Summary/Valuation: Perhaps the biggest takeaway from FY3Q23 is that AmeriGas results improved YOY. The jump in operating & administrative expenses caught our attention; so too did the commentary about customer attrition. Both situations were probably inevitable, given the focus on improving operations and profitability. The large impairment charge taken due to lowered growth expectations and a higher discount rate due to the current interest rate environment isn't benefitting share prices at the moment, but its a non-cash charge. The puts and takes across the other segments didn't concern us; the second half of the fiscal year is seasonally weakest for UGI, and the warmer weather certainly didn't help at the utilities. Another positive is the continued divestitures of non-core energy marketing businesses and some assets in Europe, with deals closing between now and thru FY2Q24.
- Looking forward, our view of where the shares ultimately end up at calendar year-end depends on FY24 guidance, which we expect in November. All-in, the shares may be weak to range-bound until FY24 guidance is announced, unless temperatures are consistently favorable in October. That aside, we see exceptional value in UGI's equity. The shares are currently trading at 9.0x FY23 EPS and less than 8x FY24 EPS; our view is the utility operations alone are worth $34, which presents upside of 30%+ from current levels. Adding in the remaining assets gets us to our $60 Fair Value, which is based on an overall P/E of 18x our FY24 EPS estimate of $3.36. With a yield hovering around 6% (and we consider the dividend safe and expect it to continue to be increased), our view is UGI shares continue to represent a compelling growth and income investment, despite the near-term challenges.

IMPORTANT DISCLOSURES

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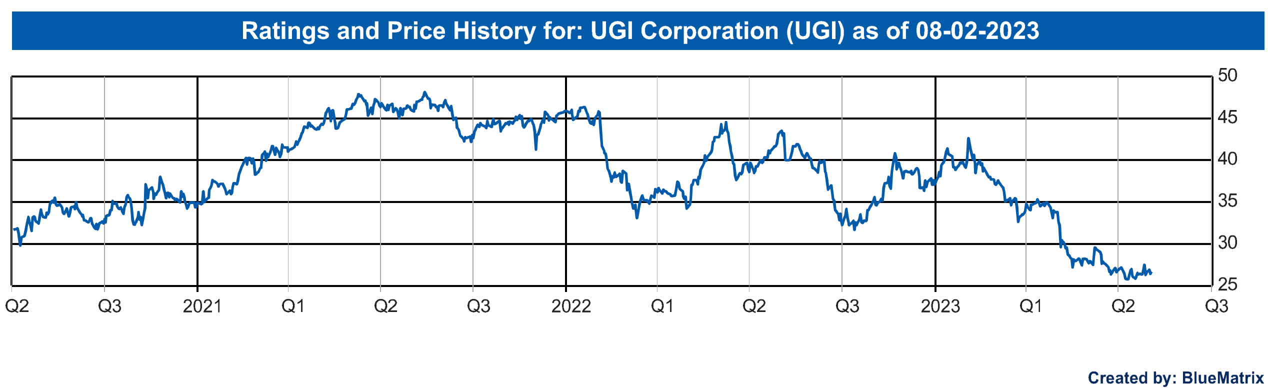
Price Charts



Janney Montgomery Scott Ratings Distribution as of 6-30-2023

			IB Serv./Past 12 Mos.*	
Rating	Count	Percent	Count	Percent
BUY [B]	127	53.81	19	14.96
NEUTRAL [N]	109	46.19	9	8.26
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	0	0.00	0	0.00

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Janney

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September 5, 2023

UTILITIES

Morning Espresso

Lots of news out last week in our coverage universe in what is typically a quiet week. Last Wednesday night's announcement from UGI Corp regarding its strategic review wasn't entirely a surprise, given the current share valuation. The focus of the review (primarily the LPG operations) could result in any number of outcomes, including divestiture(s). We believe the current mix of assets can provide substantial future benefits to shareholders, particularly if the LPG operations are properly optimized. As we've mentioned in previous research, our view is that a return to normal weather patterns during winter heating seasons should provide a lift to profitability and share valuation metrics. Splitting the business in two (utilities/midstream/marketing - primary) and spinning out the LPG operations could also provide a lift, given our view that the regulated operations are worth more than the current market capitalization of the entire company. Noted within the presentation posted in conjunction with the strategic review announcement is a continued commitment to the dividend and previously communicated long-term growth targets. UGI expects to update investors on its fiscal year-end conference call in November. The shares got a lift post-announcement, but our expectation is that they will have difficulty rising to previous price levels in the near term as investors await the outcome of the strategic review, FY24 guidance, and the upcoming heating season. That said, the shares yield approximately 6%, and valuation remains below what we believe the underlying assets are worth.

SJW's Connecticut Water operations filed a letter of intent to file a General Rate Case (GRC) with the Connecticut Public Utilities Regulatory Authority (PURA). The actual GRC filing is expected to be filed within the next 30 - 60 days, with a request to increase rates approximately \$21MM, or 18% above current revenues to be effective on or about July 1, 2024. The filing is not a surprise and was widely expected. Connecticut has become a less constructive (restrictive?) regulatory environment recently, with recent GRC decisions for other utilities viewed unfavorably. PURA has changed its standards for demonstrating rate cases are fair and reasonable; SJW/Connecticut Water have indicated that they have studied the previous GRC decisions carefully and are preparing their GRC with those decision processes in mind.

The Headlines for Offshore Wind Are Less than Inspiring. S&P Global ran these two headlines consecutively in a news summary last week: "Orsted flags billions in impairments on U.S. offshore wind farms; stock drops 20%," followed by "1st Gulf of Mexico offshore wind lease auction attracts a single bid." Orsted announced 16B kroner (\$1.5B U.S.) worth of impairments on its East Coast offshore wind pipeline of projects, due to supply change problems, higher interest rates, and lack of progress on tax credit guidance. Additional large impairments are possible, depending on interest rate levels and negotiations over qualification of additional tax credits. RWE AG had the only winning bid for a Gulf of Mexico lease.

Middlesex Water Reaches A Settlement with 3M. In an 8-K filing, the Company stated the following: "On August 29, 2023, Middlesex Water Company (the Company) entered into a Settlement Agreement (Agreement) regarding its previously reported litigation with the 3M Company. The terms of the Agreement are confidential at this time. As a utility regulated by the New Jersey Board of Public Utilities, it is the Company's intent that any financial benefit which may result from this Agreement will ultimately inure to the benefit of the Company's customers in the form of mitigating future customer rates for service and therefore, is not expected to have a material effect on the Company's net assets or results of operations." This settlement is related to PFAS, for which the Company has already invested \$52MM for new water treatment processes to remove the contaminants. Given the historical (and future) costs for groundwater remediation, we look forward to getting more details as they become available as to the settlement amounts and parameters associated with this issue.

Unitil's Northern Utilities Reaches an Unopposed Settlement. On 8/31, a settlement agreement was filed with the Maine Public Utilities Commission between Northern Utilities and the Maine Office of Public Advocate. The details are as follows: a \$7.6MM gas rate increase (the ask was \$11.1MM), a 9.35% ROE, and 52.01% equity component.

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			IB Serv./Past 12 Mos.*	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	127	53.81	19	14.96
NEUTRAL [N]	109	46.19	9	8.26
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	0	0.00	0	0.00

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Janney

Michael Gaugler 215-665-1359 mgaugler@janney.com

Utilities

Price:	$22.51
Fair Value Estimate:	$38.00
52-Week Range:	$20.19 - $43.19
Market Cap (MM):	4,715
Shr.O/S-Diluted (mm):	209.5
Average Daily Volume:	2,444,720
Dividend:	$1.50
Yield:	6.7%

FYE: Sept	2023E	2024E	2025E
EPS:	$2.84A	$2.90E	$3.16E
Prior EPS:	$2.77	$3.36	NC
P/E Ratio:	7.9x	7.8x	7.1x

Quarterly EPS:

Q1	$1.14A	$1.11E	$1.26E
Q2	$1.68A	$1.64E	$1.87E
Q3	$0.00A	$0.20E	$0.19E
Q4	$0.02A	$(0.05)E	$(0.16)E
Year:	$2.84A	$2.90E	$3.16E

EPS: Adjusted

UGI Corporation is a distributor and marketer of energy products and services in the U.S. and Europe. UGI operations include natural gas transmission and distribution; electric generation and distribution; midstream services; propane distribution; renewable natural gas generation, distribution, and marketing; and energy marketing services.

1 Year Price History for UGI

November 20, 2023

UGI Corporation (UGI) - BUY

UGI: Uninspiring FY24 Guidance/LPG Strategic Review Continues; Maintain BUY Rating, Fair Value Lowered to $38 from $47

PORTFOLIO MANAGER BRIEF

UGI's fiscal 2023 adjusted EPS results fell within the Company's guidance range, but investor focus was squarely on FY24 guidance. It appears that adjusted EPS in FY24 will mirror FY22 and FY23, unless weather becomes a large tailwind. We have lowered our FY24 estimates, and introduced FY25 forecasts, which assume none of the core assets are divested (at this time). We maintain our BUY rating but lower our Fair Value to $38 from $47.

ANALYST NOTES

- FY23 Adjusted EPS Met Guidance/Street Expectations. FY23 adjusted EPS of $2.84 was well within the Company's guidance range of $2.75-$2.90. FY4Q results are the seasonally weakest and rarely contribute meaningful amounts to full-year earnings.
- Uninspiring FY24 Guidance. With the FY24 adjusted EPS guidance now released, investors can expect three years of relatively flat earnings (FY22-FY24). For a company with the assets UGI possesses, that seems unimaginable. We acknowledge the unforeseen issues that occurred with the European operations when the Russia/Ukraine war got underway, and weather was certainly a major headwind the last two years. With the bulk of the energy marketing asset divestitures in Europe now completed, it appears the drag on future earnings remains the LPG business. UGI has had several quarters to address those issues; last quarter the strategic review was announced, and it continues onward.
- Summary/Valuation. Our biggest concern with UGI is that FY25 guidance ends up looking like FY22, FY23, and FY24. Lots of incremental positives were announced in conjunction with the FY23 results: $70MM-$100MM of cost savings expected by FY25, a settlement in the West Virginia rate case that would raise revenues by $14MM beginning 1/1/24, and positive trends at AmeriGas. These items, plus the addition of normal weather (if it occurs), are baked into the Company's FY24 adjusted EPS guidance range of $2.70-$3.00. The midpoint of that range essentially equates to flat YOY vs. FY23 (and FY22). All in, FY24 looks like another year of waiting to unlock what we believe is substantial shareholder value. With that as a backdrop, we maintain our BUY rating but lower our Fair Value from $47 to $38, based on a P/E of 12x our FY25 EPS estimate of $3.16. Our view is that until the strategic review is completed, the shares are not likely to trade above that level. The yield of 6.7% is attractive, and we consider the dividend safe, based on current cash flows and available liquidity.

RESEARCH ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE ON PAGES 2-3 OF THIS REPORT

IMPORTANT DISCLOSURES

Valuation and Risks

UGI

Our fair value estimate is based on a P/E multiple we view is appropriate given the company's mix of operations, regulatory environments, and forward earnings outlook.

Risks to our investment thesis include weather impacts, changes in regulatory environments, interest rates, ability to secure equipment and materials necessary to conduct capital expenditures, changes in environmental laws, impacts of mergers & acquisitions, ability to access credit & capital markets, risks related to cyber-attacks/terrorism, and labor relations.

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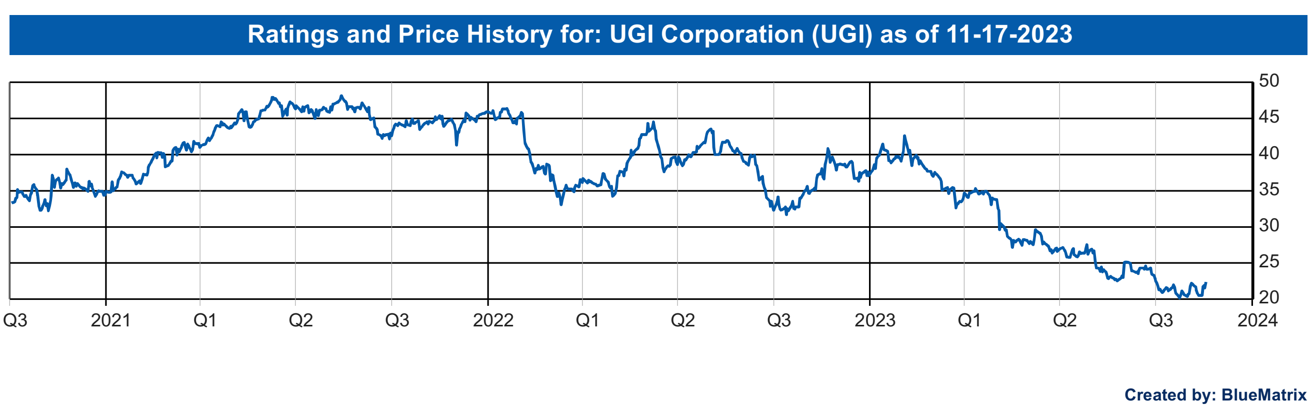
Price Charts



Janney Montgomery Scott Ratings Distribution as of 9-30-2023

IB Serv./Past 12 Mos.*

Rating	Count	Percent	Count	Percent
BUY [B]	134	55.37	17	12.69
NEUTRAL [N]	108	44.63	9	8.33
SELL [S]	0	0.00	0	0.00
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Michael Gaugler 215-665-1359 mgaugler@janney.com

Utilities

Price:	$22.10
Fair Value Estimate:	$38.00
52-Week Range:	$20.19 - $43.19
Market Cap (MM):	4,661
Shr.O/S-Diluted (mm):	210.9
Average Daily Volume:	1,908,550
Dividend:	$1.50
Yield:	6.8%

FYE: Sept	2023E	2024E	2025E
EPS:	$2.84A	$2.90E	$3.16E
P/E Ratio:	7.8x	7.6x	7.0x

Quarterly EPS:

Q1	$1.14A	$1.11E	$1.26E
Q2	$1.68A	$1.64E	$1.87E
Q3	$0.00A	$0.20E	$0.19E
Q4	$0.02A	$(0.05)E	$(0.16)E
Year:	$2.84A	$2.90E	$3.16E

EPS: Adjusted

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1 Year Price History for UGI

December 13, 2023

UGI Corporation (UGI) - BUY

UGI: CEO Change Not Unexpected, FY24 Remains a Transition Year

PORTFOLIO MANAGER BRIEF

Yesterday's announcement that UGI was replacing CEO Roger Perrault probably didn't come as a surprise to many investors, given the strategic review that's been underway for a few months. Based on his background, incoming interim CEO Mario Longhi looks to be a good choice for keeping UGI on course while the Board chooses the next CEO. Our view is that good candidates exist internally and externally, and we'll be watching the strategic review and the replacement process as the Company moves through FY24. We maintain our BUY rating and $38 Fair Value on UGI shares.

ANALYST NOTES

- Mario Longhi Assumes Interim CEO Role. Looking at Mr. Longhi's background, he seems well-suited to keep UGI running and moving forward through the strategic review and new CEO selection process. His background at United States Steel Corporation and Alcoa means he's battle-tested in terms of global shifting market dynamics (he held multiple positions - CEO, President, & COO, which equates to strategy & operational experience). Given UGI's current situation, he seems ideally suited for the role, and when he becomes Chairman of the Board, will be in a strong position to guide both of those processes.
- Lots of Talent, Depending on the Required Qualifications. Looking towards the new CEO selection, our view is that candidates should have a strong background in regulated utilities, given the ongoing strategic review is focused on what to do with the LPG business. Internally, current COO Robert Beard would seem to be a strong candidate, given his utility background and successful acquisition/integration of the Mountaineer Gas assets (we've already had several calls asking if he's the front-runner given his reputation in the industry). That aside, the natural gas industry has plenty of talent, and the selection of someone with deep industry knowledge would likely be well-received by the investment community, especially given the changing market dynamics currently underway. To add to the "wishlist" would be someone that can pivot quickly if U.S. energy policy suddenly changes, which could occur in calendar 2025.
- Guidance Maintained. The press release announcing the management change reaffirmed FY24 guidance.
- Summary. FY24 looks to be full of changes at UGI Corp. We'd expect the strategic review to be wrapped up before the BOD selects a new CEO; the BOD will likely need to know what the Company looks like coming out of the strategic review to find the right candidate. Then the next question we have is will Mr. Longhi remain in the chair to make any changes as a result of the strategic review, which would allow the new CEO to take the reins with a clean slate. It should make for an interesting (and informative) FY1Q24 earnings conference call.

IMPORTANT DISCLOSURES

Valuation and Risks

UGI

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Research Analyst Certification

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

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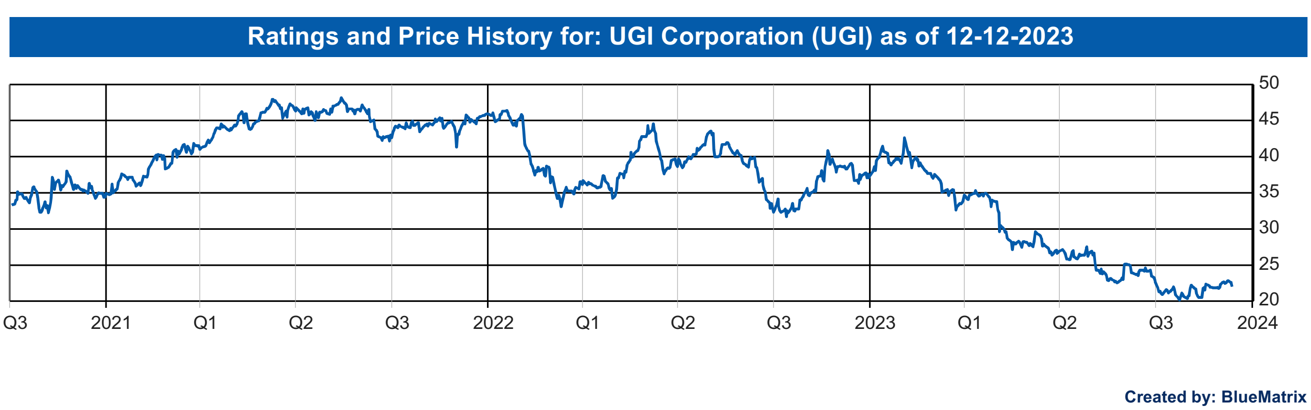
Price Charts



Janney Montgomery Scott Ratings Distribution as of 9-30-2023

IB Serv./Past 12 Mos.*

Rating	Count	Percent	Count	Percent
BUY [B]	134	55.37	17	12.69
NEUTRAL [N]	108	44.63	9	8.33
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	0	0.00	0	0.00

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

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Janney

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Utilities

Price:	$24.45
Fair Value Estimate:	$38.00
52-Week Range:	$20.19 - $43.19
Market Cap (MM):	5,156
Shr.O/S-Diluted (mm):	210.9
Average Daily Volume:	1,937,360
Dividend:	$1.50
Yield:	6.1%

FYE: Sept	2023E	2024E	2025E
EPS:	$2.84A	$2.90E	$3.16E
P/E Ratio:	8.6x	8.4x	7.7x

Quarterly EPS:

Q1	$1.14A	$1.11E	$1.26E
Q2	$1.68A	$1.64E	$1.87E
Q3	$0.00A	$0.20E	$0.19E
Q4	$0.02A	$(0.05)E	$(0.16)E
Year:	$2.84A	$2.90E	$3.16E

EPS: Adjusted

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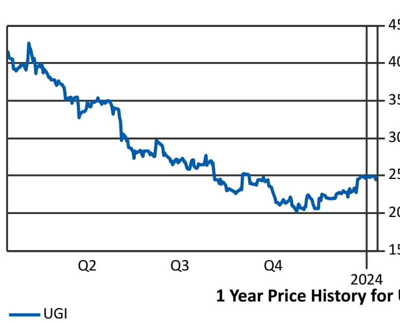

1 Year Price History for UGI

January 11, 2024

UGI Corporation (UGI) - BUY

UGI: Management Meeting Takaways; Maintain BUY Rating, $38 Fair Value

PORTFOLIO MANAGER BRIEF

We spent time yesterday with UGI CEO Mario Longhi, and covered a wide range of topics (CEO search, his role as temporary CEO, the operating segments, and the strategic review). Beyond our key takeaways from the discussion, we note that weather in FY1Q24 appears to have been warmer overall YOY, while January is setting up to be colder. With the Company reporting FY1Q24 results at the end of the month, visibility into the seasonally strongest earnings period should be improved. We maintain our BUY rating and $38.00 Fair Value on UGI shares.

ANALYST NOTES

- Purpose Defined. We asked Mr. Longhi what his role was as CEO: essentially keep the seat warm until his successor is named, or a "change-agent" that would make the necessary strategic course adjustments before handing off. The answer appears to be neither; his current focus is centered on two areas: improving logistics and customer service at AmeriGas, and efforts to strengthen the balance sheet. His background seems particularly well-suited to the AmeriGas situation.
- Strategic Review Continues. The Company is still examining its options for its LPG businesses, particularly AmeriGas. Mr. Longhi has been on a "listening tour", talking with employees across the various operating divisions, looking for insights he can use to improve efficiency and profitability. In terms of timing, given the current progress, it appears that the strategic review could wrap up in calendar 2Q24.
- Weather Has Been Warmer, But.... Temperatures were generally warmer in FY1Q24, but we note that it has turned much colder in certain areas for the International segment (Poland was recently recording 5 degrees Fahrenheit), and the mid-Atlantic U.S. is about to enter a period of significantly colder weather, with predictions for an "arctic blast" forecast to take temperatures into the single digits next week. The Company has scheduled its FY1Q24 conference call for 2/1; we believe weather impacts in both FY1Q and FY2Q will be topics of interest.
- Summary/Valuation. We came away from our meeting with Mr. Longhi impressed by the focus on the near-term objectives (improve AmeriGas performance and strengthen the balance sheet), which would set the stage to move the Company forward in whatever asset configuration is ultimately settled upon. 2024 looks to be an interesting year if the strategic review is concluded and a new CEO is chosen; we see multiple pathways for growth across UGI's utility/midstream operations. Although FY24 is set up to be a transitional year for the Company, we continue to recommend accumulation, given: 1) operating portfolio assets, 2) valuation, and 3) current dividend yield (above 6%). We maintain our BUY rating and $38.00 Fair Value, based on a P/E of 12x our FY25 EPS estimate of $3.16.

IMPORTANT DISCLOSURES

Valuation and Risks

UGI

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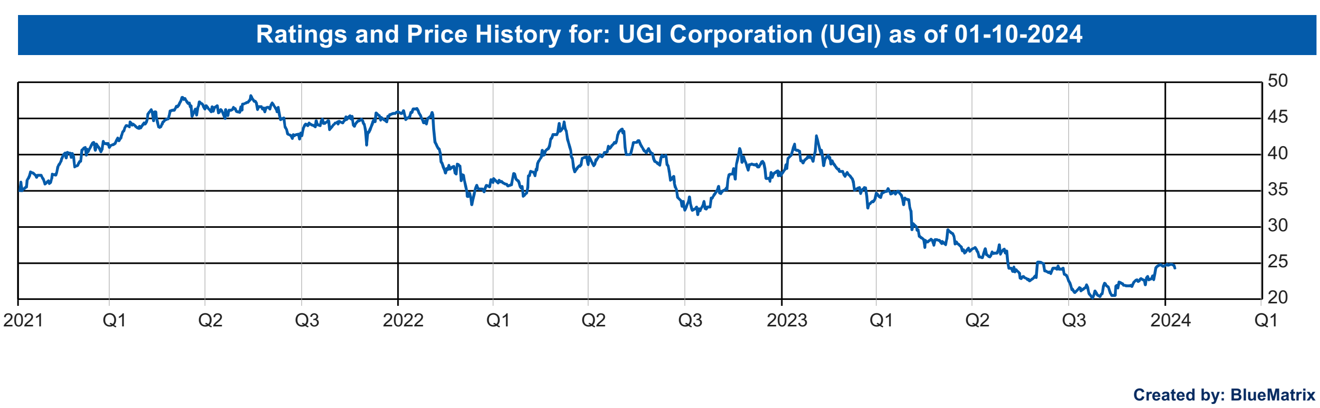
Price Charts



Janney Montgomery Scott Ratings Distribution as of 12-31-2023

IB Serv./Past 12 Mos.*

Rating	Count	Percent	Count	Percent
BUY [B]	143	56.52	19	13.29
NEUTRAL [N]	110	43.48	10	9.09
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	0	0.00	0	0.00

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

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Janney

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Utilities

Price:	$25.10
Fair Value Estimate:	$38.00
52-Week Range:	$20.19 - $43.19
Market Cap (MM):	5,294
Shr.O/S-Diluted (mm):	210.9
Average Daily Volume:	2,018,520
Dividend:	$1.50
Yield:	6.0%

FYE: Sept	2023A	2024E	2025E
EPS:	$2.84A	$2.91E	$3.17E
Prior EPS:		$2.90	$3.16
P/E Ratio:	8.8x	8.6x	7.9x

Quarterly EPS:

Q1	$1.14A	$1.20E	$1.26E
Q2	$1.68A	$1.64E	$1.88E
Q3	$0.00A	$0.12E	$0.18E
Q4	$0.02A	$(0.04)E	$(0.15)E
Year:	$2.84A	$2.91E	$3.17E

EPS: Adjusted

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1 Year Price History for UGI

February 2, 2024

UGI Corporation (UGI) - BUY

UGI: Very Solid FY1Q Results (Above Expectations); Reiterate BUY Rating, $38 Fair Value

PORTFOLIO MANAGER BRIEF

UGI's FY24 is off to a strong start, with FY1Q24 adjusted EPS above Street expectations, despite unfavorable weather impacts. The International segment posted particularly strong results, which provided the EPS upside at the bottom line vs. our estimate. Looking forward, it appears that the all-important FY2Q results should see improvements YOY given more normalized weather across the operating footprint, new rate benefits from the recently settled West Virginia rate case, less exposure to energy marketing in Europe, and a continued focus on improving the AmeriGas segment. We reiterate our BUY rating and $38 Fair Value on UGI shares.

ANALYST NOTES

- Profitability Improves in the International Segment. Looking across the reporting segments, the stand-out performance came from the International segment, where operating income doubled YOY on higher margins (despite warmer-than-normal weather). The Utilities also turned in a strong performance, with operating income +6% YOY due to higher margin and lower OPEX/administrative expenses, offsetting unfavorable weather impacts. Midstream & Marketing operating income fell 7%, as higher margins from natural gas marketing were offset somewhat by lower margins from renewable energy marketing; OPEX/administrative expenses were also higher (weather was also warmer). AmeriGas operating income was -35% YOY, as lower margin and higher OPEX/administrative expenses, in addition to unfavorable weather, negatively impacted results. All-in, adjusted EPS of $1.20 was above our $1.11 forecast and consensus of $1.03.
- Strategic Review Continues. On the conference call, the Company indicated it is in the last stages of the strategic review, and it expects to update investors when FY2Q results are released. As far as actions taken to improve AmeriGas credit metrics, UGI is anticipating using roughly $150MM from the segment to repay debt this year, with a total in the range of $350MM-$450MM. The goal is to delever AmeriGas to the point where it can withstand a warm winter or other external shock without concerns over violating debt covenants. The first target is to get to the leverage metric down to 5; after that, toward 4.5. Currently, it is still hovering around 5.75.

RESEARCH ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE ON PAGES 3-4 OF THIS REPORT

- Utilities Continue to Perform. In West Virginia, the recent general rate case concluded in a rather quick timeline with very good results. Rates there will increase $14MM, and a weather normalization mechanism is secured. In the Pennsylvania operations, robust organic customer growth continues, and financial performance is benefiting from new rates in the gas and electric operations. The CAPEX profile indicates 80% of FY24E investments directed toward natural gas and renewables.

Summary/Valuation. Very strong FY1Q24 results, despite unfavorable weather across the operating footprint and negative impacts from the AmeriGas restructuring, hint at what the true underlying earnings of UGI could be when all the segments are performing to expectations and weather normalizes. FY2Q24 (which is the seasonally highest quarter for earnings) has so far been a mixed bag. January in the U.S. saw extreme cold temperatures grip much of the nation (January 15th was a record in natural gas usage), and Europe also experienced very cold conditions. Recently, weather has warmed in both areas and is forecast to remain so for the next 10 days.

All-in, regardless of weather impacts, the Company seems well-positioned to generate adequate earnings to continue on its stated path of deleveraging AmeriGas (and the company overall). We note that the topic of potential equity offerings was brought up during the Q&A portion of the quarterly earnings conference call, and the response was none are under consideration. We view that as an indication of what management expectations are going forward from a cash flow perspective, which appears to be positive. We reiterate our BUY rating and $38 Fair Value on UGI shares, based on a P/E of 12x our FY25 EPS estimate of $3.17.

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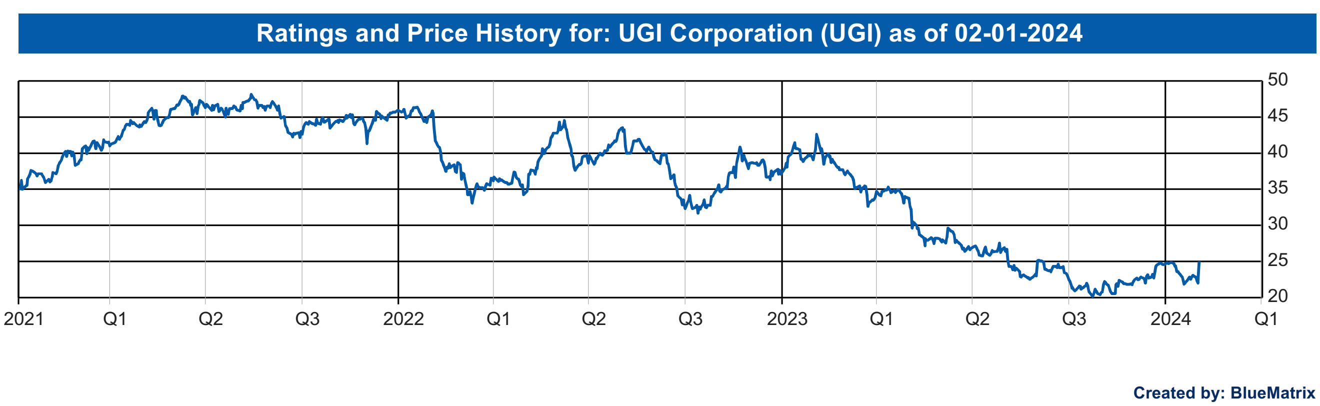

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			IB Serv./Past 12 Mos.*	
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Utilities

Price:	$25.89
Fair Value Estimate:	$38.00
52-Week Range:	$20.19 - $33.14
Market Cap (MM):	5,425
Shr.O/S-Diluted (mm):	209.6
Average Daily Volume:	2,091,630
Dividend:	$1.50
Yield:	5.8%

FYE: Sept	2023A	2024E	2025E
EPS:	$2.84A	$2.92E	$3.17E
Prior EPS:		$2.91	NC
P/E Ratio:	9.1x	8.9x	8.2x

Quarterly EPS:

Q1	$1.14A	$1.20A	$1.26E
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Year:	$2.84A	$2.92E	$3.17E

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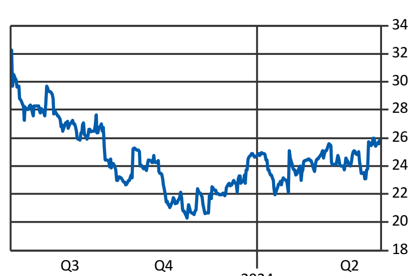

1 Year Price History for UGI

May 2, 2024

UGI Corporation (UGI) - BUY

UGI: Go-Forward Strategy Should Create Substantial Shareholder Value; Maintain BUY Rating, $38 Fair Value

PORTFOLIO MANAGER BRIEF

UGI's FY2Q24 adj EPS was well ahead of our and consensus expectations, but we note that FY24 adj EPS guidance was maintained. Quarterly results aside, the strategic review of the LPG assets has concluded, and AmeriGas will remain a part of UGI. We view the go-forward strategy as very attractive, and for investors that have been waiting for an "inflection point," we believe that time has arrived. We maintain our BUY rating and $38 Fair Value on UGI shares.

ANALYST NOTES

- FY2Q24 Results Well Above Expectations. By the segments, Utilities turned in a strong performance despite unfavorable weather, with EBIT +10% on 3% less throughput. Midstream & Marketing EBIT was +46% on higher margins, with capacity management and peaking cited as positive drivers. UGI International EBIT increased +2%, despite temperatures that were 13% warmer than normal. AmeriGas EBIT was flat YOY despite temperatures that were 9% warmer than normal and a 6% decrease in volume. All in, adj EPS in the all-important FY2Q was $1.97, far above our $1.64 estimate, which was also consensus.
- Strategic Review Concludes. UGI's Board of Directors has concluded that the best path forward (under current market conditions) is to retain ownership of the LPG assets, which includes AmeriGas. The focus going forward will be on customer retention and improving operational efficiencies. The Company explored sales, a spin, and joint ventures for the AmeriGas operations before reaching the aforementioned decision.
- Adjusted EPS Guidance Maintained. For FY24, UGI still sees adjusted EPS of $2.70 - $3.00. It also affirmed long-term EPS growth of 4% - 6%
- AmeriGas Strategic Plan Unveiled. The operational model has been streamlined for simplicity, and efficiency improvements are ongoing to manage the cost structure. Some permanent cost reductions that do not impact operations were completed in late April 2024. AmeriGas is expected to become a cash contributor to UGI by FY26, and to achieve that goal, planned financial actions include debt reduction of $350MM to $450MM in FY24 using FCF and contributions from UGI. Changes to the restrictive debt convenants on the revolver are also being sought to alleviate quarterly pressures that could occur.
- Summary/Valuation. We found significant positives in UGI's FY2Q24 release. The Company's assets (including AmeriGas) outperformed despite warmer-than-normal weather across the operating footprint, and we believe the retention of AmeriGas will provide long-term benefits for shareholders. The announcement that dividends will be maintained near term (versus increased) was disappointing,

but the rationale seems correct; when your shares are already yielding well above the peer group, it makes sense to redeploy that capital to strengthen the balance sheet.

Looking forward, our view is that all the "unknowns" are known now; the strong FY2Q results lead us to conclude that the Company will make its FY24 guidance despite warmer weather, and the pathway to a stronger AmeriGas balance sheet and improved operations has been laid out (and appears to be executing well, based on the segment's FY2Q results). All in, we maintain our BUY rating and $38 Fair Value on UGI shares, based on a P/E of 12x our FY25 EPS estimate of $3.17. We note the shares currently yield 6+%.

IMPORTANT DISCLOSURES

Valuation and Risks

UGI

Our fair value estimate is based on a P/E multiple we view is appropriate given the company's mix of operations, regulatory environments, and forward earnings outlook.

Risks to our investment thesis include weather impacts, changes in regulatory environments, interest rates, ability to secure equipment and materials necessary to conduct capital expenditures, changes in environmental laws, impacts of mergers & acquisitions, ability to access credit & capital markets, risks related to cyber-attacks/terrorism, and labor relations.

Research Analyst Certification

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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.

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

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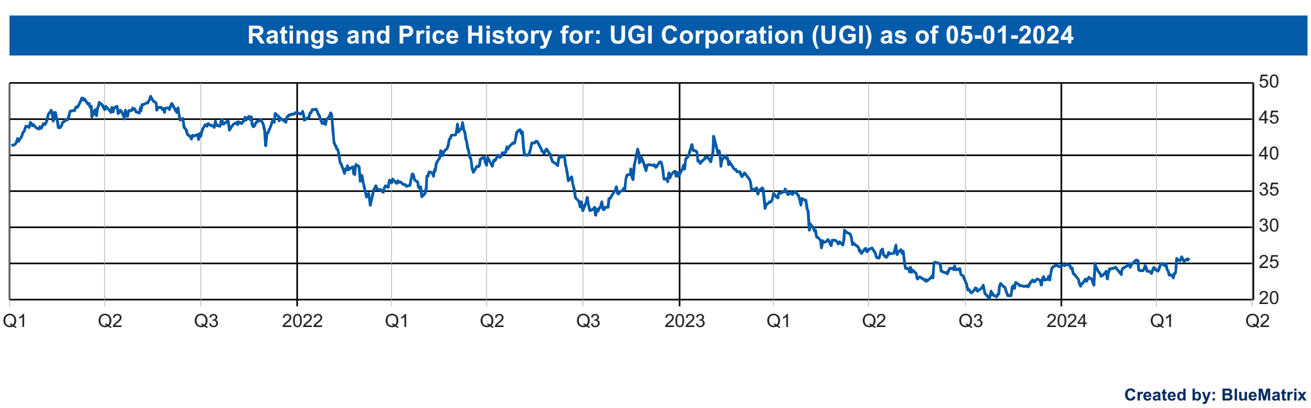
Price Charts



Janney Montgomery Scott Ratings Distribution as of 3-31-2024

			IB Serv./Past 12 Mos.*	
Rating	Count	Percent	Count	Percent
BUY [B]	143	55.86	22	15.38
NEUTRAL [N]	112	43.75	12	10.71
SELL [S]	1	0.39	0	0.00
EXTENDED REVIEW [EXTRE]	0	0.00	0	0.00

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

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Janney

Michael Gaugler 215-665-1359 mgaugler@janney.com

Utilities

Price:	$22.85
Fair Value Estimate:	$38.00
52-Week Range:	$20.19 - $27.78
Market Cap (MM):	4,790
Shr.O/S-Diluted (mm):	209.6
Average Daily Volume:	2,650,280
Dividend:	$1.50
Yield:	6.6%

FYE: Sept	2023A	2024E	2025E
EPS:	$2.84A	$2.92E	$3.17E
P/E Ratio:	8.0x	7.8x	7.2x

Quarterly EPS:

Q1	$1.14A	$1.20A	$1.26E
Q2	$1.68A	$1.97A	$1.88E
Q3	$0.00A	$(0.05)E	$0.18E
Q4	$0.02A	$(0.20)E	$(0.15)E
Year:	$2.84A	$2.92E	$3.17E

EPS: Adjusted

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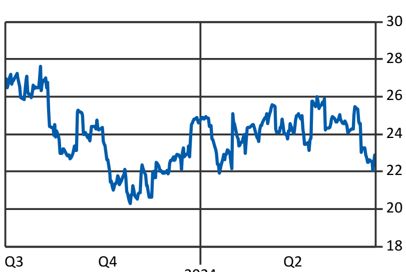

1 Year Price History for UGI

UGI

June 21, 2024

UGI Corporation (UGI) - BUY

UGI: Highlights of Our Fireside Chat with Management

PORTFOLIO MANAGER BRIEF

We had the pleasure yesterday of hosting UGI's senior management team—Interim President & CEO Mario Longhi, COO Robert Beard, and CFO Sean O'Brien—for a fireside chat on a broad range of company-specific topics. Our key takeaways are as follows:

ANALYST NOTES

- Regulated Utilities; Constructive Regulatory Environments with Growth Opportunities. Given the recent changes in Pennsylvania (new governor and new commissioners), we asked UGI about potential regulatory changes in that state and broader policy shifts in West Virginia and Pennsylvania. The Company praised its positive and constructive relationship with both state commissions, with favorable discussions regarding the weather normalization mechanism in Pennsylvania and the pro-natural gas stance of West Virginia. UGI continues to identify significant opportunities in both states that provide higher ROEs than the national average. Our conversation then shifted to potential investment opportunities, especially in its Midstream & Marketing operations. The Company excluded any large acquisitions for now but highlighted its ongoing two major LNG projects valued at ~$175MM. This includes expanding the LNG plant in Manning, PA, to supply a growing market and constructing a new LNG facility in Carlisle, PA, to support a secured utility contract. Looking forward, UGI expressed interest in further expanding its capabilities in LNG, underground storage, and strategically located pipelines within Pennsylvania. However, it noted that those opportunities are capital-intensive, with high levels of collateral and guarantees. Therefore, UGI plans to prioritize utility investments for now and improve its balance sheet over the next 12 - 18 months before exploring additional expansion opportunities.
- AmeriGas and LPG Operations. We were interested to know UGI's position on AmeriGas and Propane operations, particularly given their strong performance last quarter despite unfavorable weather conditions. The Company is currently conducting a portfolio review of its assets in the U.S. and Europe, with conclusions to be disclosed soon. UGI did not provide a timeline for its operational reorganization of AmeriGas but expressed the desire for it to be faster. Overall, management views propane activities as a solid business. However, it's likely that the Company will gradually shift its focus towards expanding natural gas operations, increasing the % of total earnings from that side of the business.
- International Activities. It recently consolidated its International segment operations from 4 regions to 2 (France and Wider Europe now). As part of its ongoing asset portfolio review, the Company is considering divesting from non-core markets. UGI continues to see significant opportunities in Europe, where its operations remain strong contributors to positive cash flow.

- Recent Convertible Offering; Impacts on the Balance Sheet. Following the recent convertible offering of $700MM made in June, we asked about UGI's preferred method for settlement when the time arrives. The Company intends to settle in cash, which some investors might find surprising. Management stated that equity financing is expected to play a larger role in the future, as is typical in the utility sector as its operations continue to grow (UGI has traditionally relied very little on equity financing up to now). The offering allows UGI to increase its liquidity, accelerate the debt takeout at AmeriGas, and improve its bank relationships. Most of its refinancing for the near term is already complete.

Summary. Beyond the questions surrounding our major topics above, it was also noted during our discussion that the dividend is secure, and more favorable weather during the winter heating season could accelerate achieving balance sheet targets and even perhaps an earlier return to dividend increases. All in, the Company's focus on improving operations and financial metrics should yield substantial benefits for investors going forward, and we expect that continued execution against the strategic plan will yield higher earnings multiples and the eventual resumption of dividend increases. We maintain our BUY rating and $38 Fair Value estimate on UGI shares, based on a blended P/E of 12x our 2025 EPS estimate of $3.17.

RESEARCH ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE ON PAGES 3-4 OF THIS REPORT

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UGI

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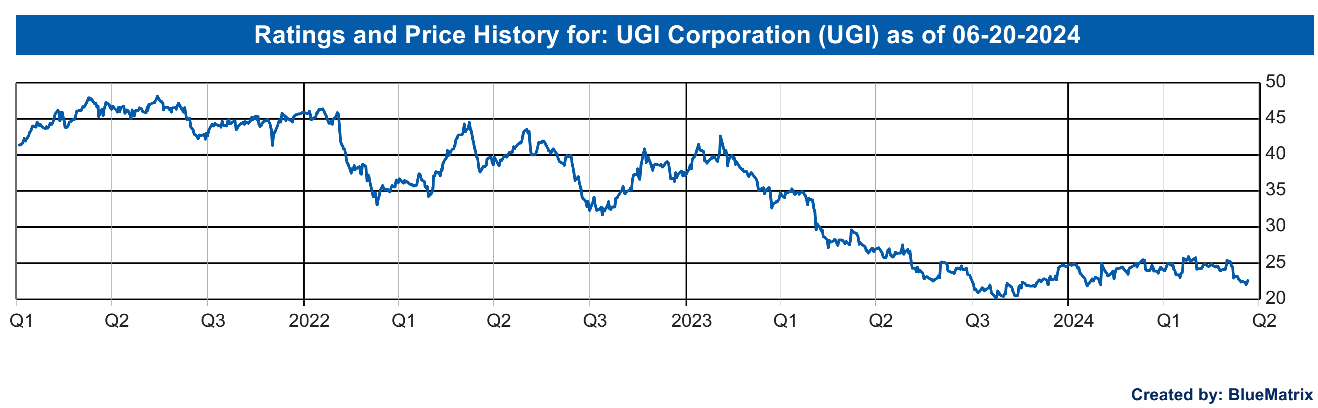

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Janney

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Utilities

Price:	$23.42
Fair Value Estimate:	$38.00
52-Week Range:	$20.19 - $26.15
Market Cap (MM):	5,028
Shr.O/S-Diluted (mm):	214.7
Average Daily Volume:	2,385,340
Dividend:	$1.50
Yield:	6.4%

FYE: Sept	2023A	2024E	2025E
EPS:	$2.84A	$2.93E	$3.17E
Prior EPS:		$2.92	NC
P/E Ratio:	8.2x	8.0x	7.4x

Quarterly EPS:

Q1	$1.14A	$1.20A	$1.26E
Q2	$1.68A	$1.97A	$1.88E
Q3	$0.00A	$0.06A	$0.18E
Q4	$0.02A	$(0.30)E	$(0.15)E
Year:	$2.84A	$2.93E	$3.17E

EPS: Adjusted

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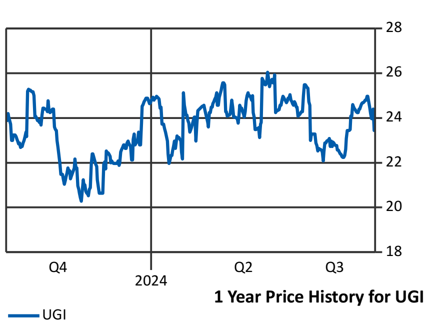

1 Year Price History for UGI

August 9, 2024

UGI Corporation (UGI) - BUY

UGI: Balance Sheet Improvements Continue; Maintain BUY Rating, $38 Fair Value

PORTFOLIO MANAGER BRIEF

UGI's FY3Q24 adjusted EPS results were above expectations, and FY24 adjusted EPS guidance was reaffirmed. Significant recent developments include continued expense (and debt) reductions, sale of non-core assets and the announced retirement of COO Robert Beard. We've made minor adjustments to our forward estimates (see table, this page) and maintain our BUY rating/$38 Fair Value on UGI shares.

ANALYST NOTES

- FY3Q24 Above Expectations. On the bottom line, adjusted EPS of $0.06 was noticeably above the consensus forecast of $(0.06) and our estimate of $(0.05). Operating income improved in the Utilities (+$5MM), Midstream & Marketing (+ $1MM) and International (+$36MM) segments, but fell at AmeriGas (-$19MM). Temperatures were warmer than the prior year period across all segments. OPEX was essentially flat in the Utilities and Midstream & Marketing segments, but down significantly at UGI International and AmeriGas.
- Balance Sheet Continues to Improve. Total debt continues to fall, and is down $328MM since 9/30/23. AmeriGas debt has been reduced by $458MM and its leverage ratio has fallen from 5.2x to 4.9x over the same period. UGI has pulled back on planned investments in renewable fuels (previously ~$1B, now $500MM) and CAPEX across its platform will be minimized as it seeks to improve balance sheet metrics.
- Non-Core Asset Divestitures Highlighted. During FY3Q24, UGI announced the sale of its 169MW Hunlock Creek natural gas-fired generating station in Pennsylvania, and completed the sale of its Switzerland-based LPG business. Total cash expected to be raised through divestitures in FY24 is ~$80MM, with primary use of funds for debt reduction.
- Summary/Valuation. Both the strategic and financial developments in FY3Q24 were positive. Adjusted EPS was better than expected, operating and administrative expenses were reduced by $38MM across all segments, the balance sheet continues to strengthen and UGI reaffirmed its FY24 adj EPS guidance of $2.70-$3.00. Also announced in conjunction with the FY3Q24 results was the retirement of COO Robert Beard, who had been seen as a potential replacement for CEO Mario Longhi when his interim term ends (the Company made no comment on any developments surrounding the CEO search). All-in, UGI remains a "diamond in the rough"; with a portfolio of attractive assets and plenty of growth opportunities once its balance sheet is stronger. We maintain our BUY rating and $38 Fair Value, based on a P/E of 12x our FY25 EPS estimate of $3.17.

 RESEARCH ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE ON PAGES 2-3 OF THIS REPORT

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UGI

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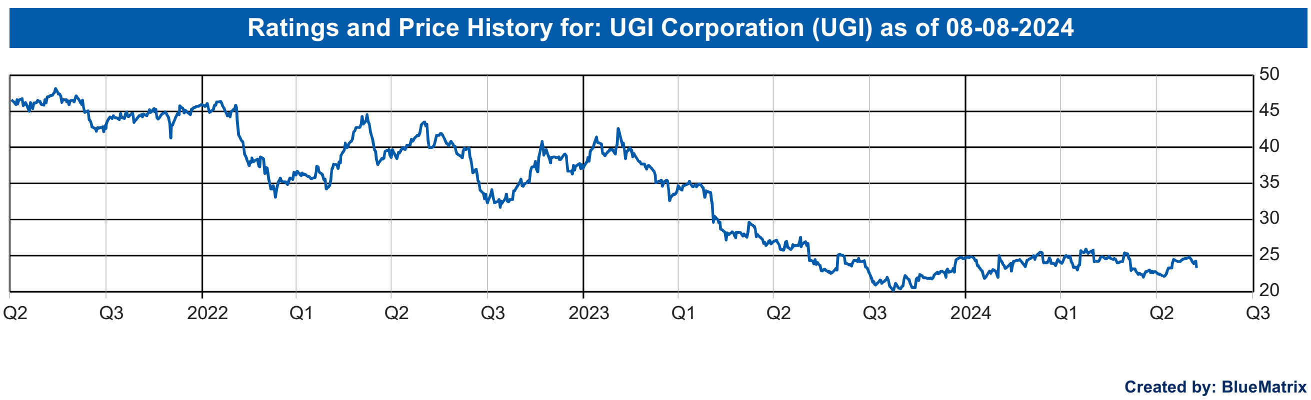

Janney Montgomery Scott Ratings Distribution as of 6-30-2024

Rating	Count	Percent	IB Serv./Past 12 Mos.* Count	Percent
BUY [B]	149	56.65	20	13.42
NEUTRAL [N]	113	42.97	10	8.85
SELL [S]	1	0.38	0	0.00
EXTENDED REVIEW [EXTRE]	0	0.00	0	0.00

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Michael Gaugler 215-665-1359 mgaugler@janney.com

Utilities

November 25, 2024

UGI Corporation (UGI) - BUY

UGI: FY24 Adjusted EPS Results Above Expectations; Maintain BUY Rating, $38 Fair Value

Price:	$28.50
Fair Value Estimate:	$38.00
52-Week Range:	$21.51 - $28.66
Market Cap (MM):	6,119
Shr.O/S-Diluted (mm):	214.7
Average Daily Volume:	1,856,441
Dividend:	$1.50
Yield:	5.3%

FYE: Sept	2024A	2025E	2026E
EPS:	$3.06A	$2.98E	$3.20E
Prior EPS:	$2.93	$3.17	NC
P/E Ratio:	9.3x	9.6x	8.9x

Quarterly EPS:

Q1	$1.20A	$1.20E	$1.33E
Q2	$1.97A	$1.86E	$2.05E
Q3	$0.06A	$0.21E	$0.24E
Q4	$(0.17)A	$(0.29)E	$(0.42)E
EPS	$3.06A	$2.98E	$3.20E

EPS: Adjusted

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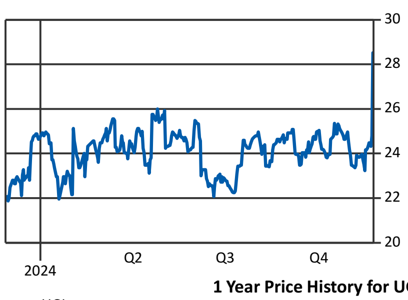

1 Year Price History for UGI

PORTFOLIO MANAGER BRIEF

UGI's FY4Q24 adjusted EPS results were above our and consensus expectations, and FY25 EPS guidance was in line with Street expectations. We have lowered our FY25 forecasts to align more closely with guidance, and introduced our FY26 estimates, which we move to for valuation purposes. We maintain our BUY rating and $38.00 Fair Value on UGI shares.

ANALYST NOTES

- FY2024 Adjusted EPS Above Expectations. For the full year, UGI reported adjusted EPS of $3.06, above our $2.93 estimate and consensus of $2.94. The upside in our forecast model was driven by better performance across all operating segments, which generated higher earnings than anticipated in FY4Q.
- FY25 EPS Guidance Offered. Adjusted EPS for FY25 is seen in the range of $2.75-$3.05 (which assumes normal weather), which compared favorably against the consensus estimate of $2.96. Beyond the FY25 EPS guidance, the company offered FY24-FY27 financial targets that include 4-6% EPS growth, $3.7B-$4.1B CAPEX, 9%+ rate base growth and achieving a leverage ratio of 3.5x to 4.0x.
- Dividend Increases Targeted For FY27. UGI expects to keep its dividend flat at $1.50 through the FY26 time period. In FY27, it expects to return to targeted dividend growth of 4%. If the plan unfolds as anticipated, it would mark 3+ years without a dividend increase.
- Impactful Comments From The Call. Several comments from Friday's conference call that we believe were impactful in terms of the share-price reaction include 1) AmeriGas will no longer receive capital from UGI; it must stand on its own balance sheet, 2) CEO Robert Flexon will be devoting a significant amount of his time to getting AmeriGas turned around, 3) his commentary that "fundamental change is needed to reduce customer churn, win back customers and drive performance in that business", and 4) view that the utilities are premium assets in supportive regulatory environments that should command premium multiples.
- Adjusting Our FY25 Estimates; Introducing Our FY26 Forecasts. We have lowered our FY25 estimates (see the table, this page) to reflect continued challenging operating conditions at AmeriGas. We have also made minor adjustments to the International segment and to various expenses across the platform. We have introduced our FY26 forecasts, which reflect a return to YoY earnings growth.

- Summary/Valuation. There were plenty of positives in UGI's FY24 results, but we note that after cutting $75MM in OPEX from the business, the company is guiding to lower adjusted EPS YoY. We certainly acknowledge the ongoing issues at AmeriGas, and we're pleased to see the focus is on fixing the business versus selling it. Looking forward, volumes are expected to decline again YoY, and we've trimmed our estimates for that segment given the commentary. All-in, FY25 looks to be a pivotal year for UGI, given the expectation that EPS growth resumes in FY26. There certainly appears to be a pathway to do that, and we agree that based on the quality of the regulated assets alone UGI shares should be trading at much higher valuation multiples. That said, utility investors expect steady, predictable dividend increases, and our view is that a return to that strategy will be needed to provide the foundation for "top tier" multiples on the utility assets. We maintain our BUY rating and $38 Fair Value, based on a P/E of 12x our FY26 EPS estimate of $3.20.

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UGI

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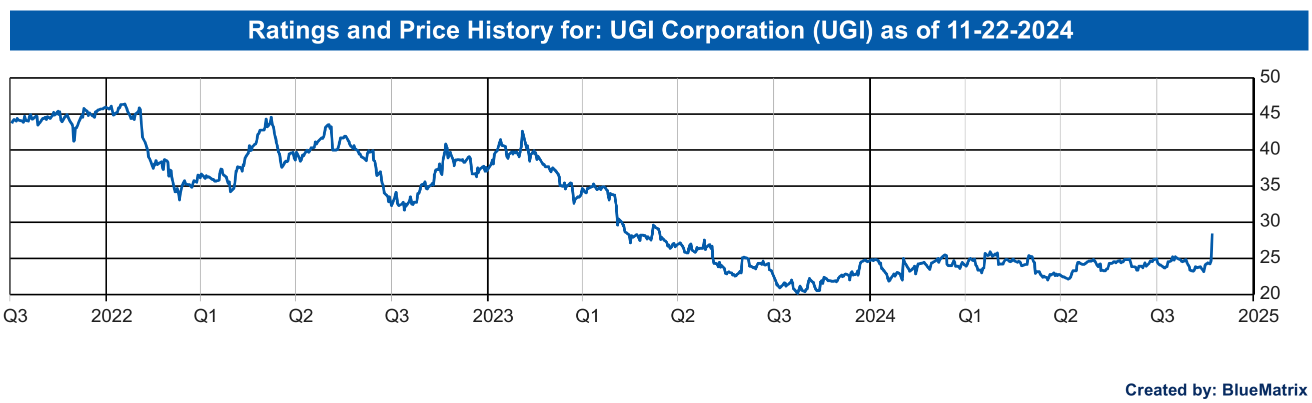

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Rating	Count	Percent	IB Serv./Past 12 Mos.* Count	Percent
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NEUTRAL [N]	120	44.78	10	8.33
SELL [S]	1	0.37	0	0.00
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