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# Inergy Holdings, L.P. (NRGP)

## Investment Thesis

We recommend a BUY on Inergy Holdings, L.P. based on the following reasons:

- Contribution of $78.5 million to EBITDA annually up to 2010 from organic growth projects with the Stagecoach partnership.
- A high dividend yield of 13% shows the company's ability to create cash flow.
- Acquisition of US Salt LLC will create additional storage facility opportunities for the company's natural gas operations.
- Increased market share through continued consolidation of the industry.

## Company Overview and NRGY

Inergy Holdings, L.P. (NRGP) is structured as a limited partnership and has partnership interests in Inergy L.P (NRGY). Inergy Holdings is the general partner of Inergy L.P.[1] Inergy L.P. is a retail and wholesale propane supply, marketing, and distribution company.[2] Since 1996, Inergy L.P. has acquired over 69 propane companies and acquisitions will continue to be the basis of their growth platform.[3] Inergy Holdings, L.P.'s partnership interests include: .9% general partner interest, 9.4% limited partner interest, and incentive distribution rights of cash distributions that are in excess of $.33 per share (and company profile).[4]

## Bear

Debt plays a major role in how NRGP operates; NRGP has a debt to equity ratio of 19.681.[5] The cost of debt financing interest payments may outweigh the return that the company generates on the debt through acquisitions and investment in business activities. The current banking and credit markets are creating turmoil for all companies and Inergy Holdings, L.P. may not be able to finance further acquisitions. Therefore, a dividend cut is not out of the question. NRGP has large interest and distribution obligations, which will only increase as the company issues more shares and raises debt. Natural gas and propane prices also affect the profitability of the holding companies within NRGP. If natural gas prices increase, then this will negatively affect the profitability of NRGP. The stock is traded at a low volume and is not very liquid. The liquidity issue could negatively affect the trading volume of the stock driving potential investors away. If the winter is mild NRGP's bottom line will suffer due to the lack of propane use.

## Bull

Decreasing natural gas prices and improving propane margins are the keys to improving NRGP's gross profit. NRGP has a very high dividend yield of 13% compared to an industry average dividend yield of 2.41%.[6] Management believes that this dividend is secure and liquid. Also, the acquisition of US Salt LLC is projected to contribute $15 million towards EBITDA annually.[7] Furthermore, this acquisition will benefit NRGP by creating additional storage opportunities for their natural gas side of the business. Other areas of organic growth come about with their Stagecoach partnership. Together they plan to spend a total of $480.6 million on organic growth projects up to 2010. It is projected that the plans to increase organic growth will contribute $78.5 million to EBITDA annually. Profitable acquisitions of smaller propane companies will also continue to drive NRGP's profits.

## Valuation

Based on NRGP's past trend of paying dividends, we assume the company will continue to create similar cash flows and pay dividends in the future. Therefore, using a dividend discount model seemed most appropriate for valuing the company. A multi-stage DDM was used to stay consistent with the company's non-constant dividend growth. NRGP's disbursed dividend per share at nine months end (6/30/08) grew 12% from the previous nine months end in 2007. The company also announced on 10/16/08 its "13th consecutive increase in quarterly cash distribution."[8] This will increase the FY 2008 payout to $2.60 per share. Comparing this year's estimated distribution, to a $2.28 payout in 2007, shows annual dividend growth of over 14%.[9]

**Dividend Discount Model Valuation**

| FY End | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E- |
|---|---|---|---|---|---|---|
| Growth | 14% | 12% | 9% | 7% | 4% | 2% |
| PV of Dividends ($) | 2.60 | 2.96 | 3.16 | 3.15 | 2.93 | 48.66 |

However, as the company matures, the dividend growth rates will become more modest. The table above demonstrates a linear recession in estimated growth from 14% in 2008 down to 2%, which we used as a constant perpetuity rate from 2013 to forever. Present valuing, and then adjusting for the appropriate cost of equity at 9.4% gives us an intrinsic value of $44.29. Compared to NRGP's current price (10/17/08) of $24.67, our intrinsic price shows the stock is undervalued 80%. Our valuation reaffirms our recommendation of a **BUY** on NRGP.

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1 Inergy Holdings, LP. Annual Report 2007, p. 2.
2 www.finance.yahoo.com. NRGP Company Profile.
3 Inergy Holdings, LP. Annual Report 2007, p. 3.
4 www.inergyholdings.com. Company Profile.
5 www.finance.yahoo.com NRGP Key Statistics
6 http://www.finance.yahoo.com NRGY
7 http://www.thomsononeim.com/v-hom.asp 9/25/2008. Wachovia Analyst Rport.
8 Inergy Holdings, LP. Press Release, 10/16/08. http://biz.yahoo.com/bw/081016/20081016005144.html?.v=1.
9 Inergy Holdings, LP. Annual Report 2007, p. 126.