



National Fuel Gas Co. (NFG)

Updated February 13th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	11.6%	Market Cap:	\$3.7 B
Fair Value Price:	\$53	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	3/26/2020 ¹
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.4%	Dividend Payment Date:	4/13/2020
Dividend Yield:	4.1%	5 Year Price Target	\$65	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.4%

Overview & Current Events

National Fuel Gas Co. is a diversified energy company that operates in five business segments: Exploration & Production, Pipeline & Storage, Gathering, Utility, and Energy Marketing. The company's largest segment is Exploration & Production. National Fuel Gas was founded in 1902 and has grown to a market capitalization of \$3.7 billion. With 49 years of consecutive dividend increases, National Fuel Gas qualifies to be a Dividend Champion.

In late January, National Fuel Gas reported (1/30/20) financial results for the first quarter of fiscal 2020. The company grew its production 19% over prior year's quarter but the average price of natural gas fell 11%, from \$2.61 in prior year's quarter to \$2.32, after the effect of hedging. As a result, adjusted earnings-per-share fell 10%, from \$1.12 to \$1.01. Despite the suppressed natural gas prices, National Fuel Gas exhibited decent performance partly thanks to its integrated business model. More precisely, the high output growth provided a strong boost to the gathering segment, which partly offset the effect of lower realized natural gas prices.

Management reduced its guidance for the earnings-per-share of this fiscal year from \$3.00-\$3.30 to \$2.95-\$3.15 in order to account for the decline in the price of natural gas since the previous guidance, in November. We have thus lowered our earnings-per-share forecast for this fiscal year from \$3.15 to \$3.05.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.65	\$3.09	\$2.63	\$3.14	\$3.52	-\$4.50	-\$3.43	\$3.30	\$3.34	\$3.45	\$3.05	\$3.71
DPS	\$1.36	\$1.40	\$1.44	\$1.48	\$1.52	\$1.56	\$1.60	\$1.64	\$1.68	\$1.72	\$1.76	\$1.96
Shares²	82.1	82.9	83.3	83.7	84.2	84.6	85.1	85.5	86.0	86.8	87.5	90.5

National Fuel Gas pursues growth by growing its natural gas production and expanding its pipeline network. However, National Fuel Gas' earnings have barely grown over the last ten years. Earnings-per-share have compounded at a rate of 2.9% per year over the last 10 years. Due to the somewhat low comparison base formed this year, we are forecasting 4% long-term earnings-per-share growth for this Dividend Champion, which allows us to calculate a 2025 earnings-per-share estimate of \$3.71.

Investors should note that 90% of the production of National Fuel Gas is natural gas. Therefore, as the Exploration & Production segment generates about half of total profits, the earnings of the company greatly depend on the price of natural gas. As a result, there is always great uncertainty in the long-term forecasts of the earnings of this company.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.4	18.5	21.4	19.3	18.6	20.6	---	---	17.2	15.8	14.1	17.5
Avg. Yld.	3.8%	2.8%	2.1%	2.8%	2.5%	2.1%	2.5%	3.1%	2.9%	3.2%	4.1%	3.0%

¹ Estimated date.

² In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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National Fuel Gas is trading at a price-to-earnings ratio of 14.1, which is lower than its historical 10-year average of 17.5. If the stock reverts to its average valuation level over the next 5 years, it will enjoy a 4.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	51.3%	45.3%	54.8%	47.1%	43.2%	---	---	49.7%	50.3%	50.0%	57.7%	52.9%

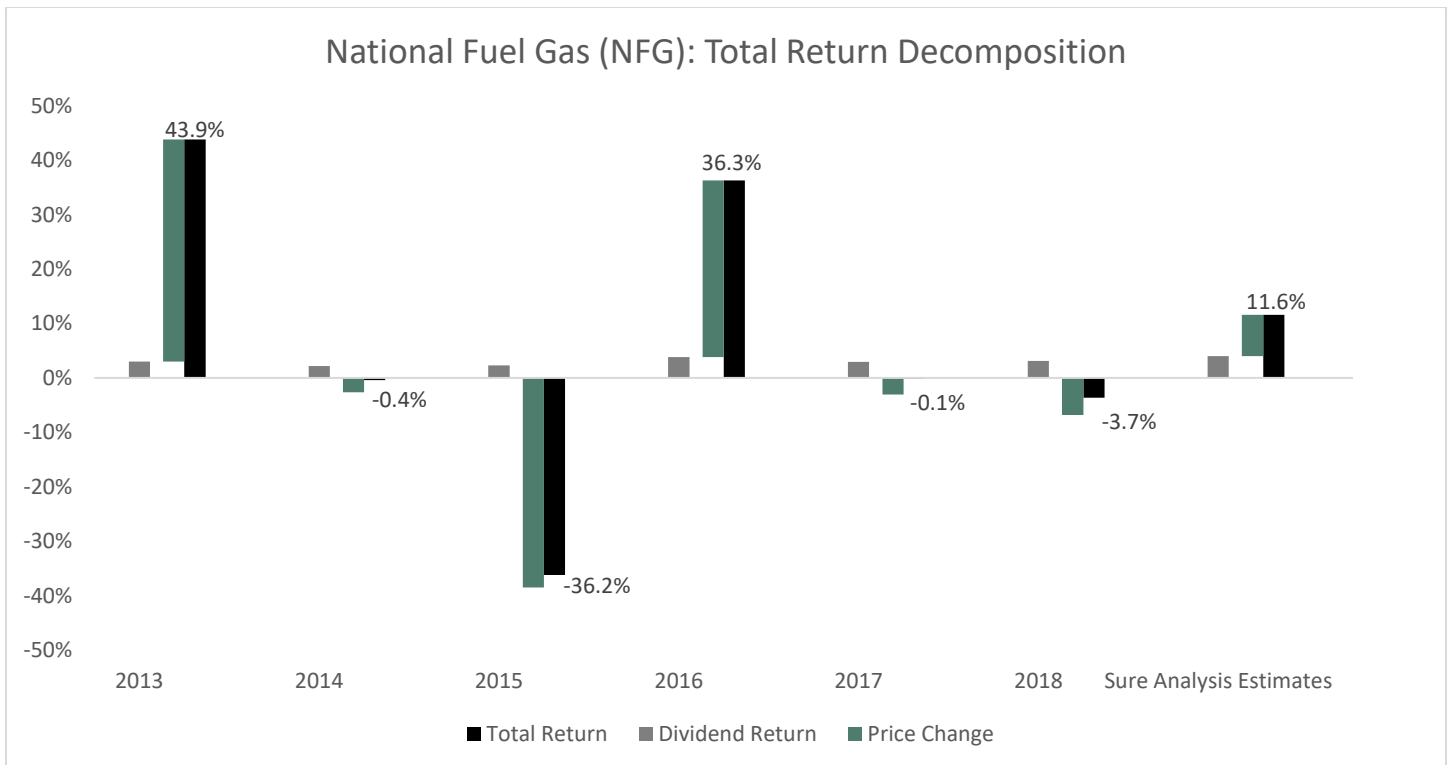
National Fuel Gas has a healthy balance sheet while its interest coverage level stands at a decent level, around 6.0. Moreover, its dividend payout ratio is sufficiently low to enable continued dividend growth even if earnings stall temporarily. Management has always targeted a dividend payout ratio around 50% in order to have a high margin of safety against the wide fluctuations of the price of natural gas. As the 4.1% dividend yield of National Fuel Gas is more than twice as much as the yield of the S&P (1.7%), the stock may entice income-oriented investors. However, these investors should be aware of the company's high dependence on the price of natural gas.

Qualitatively, National Fuel Gas' competitive advantage is its combination of regulated and stable businesses (like pipelines and utilities) with cyclical and potentially higher-growth sectors (like exploration & production). This allows the company to endure difficult operating environments with less difficulty than its peers who may focus exclusively on the more cyclical areas of the energy sector.

Final Thoughts & Recommendation

Thanks to its sustained production growth and the -30% decline of its stock price in the last ten months, National Fuel Gas could offer an 11.6% average annual return over the next five years. However, given the poor financial performance of the company in recent years and its heavy dependence on the price of natural gas, we maintain our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1761	1779	1627	1830	2113	1761	1452	1580	1593	
Gross Profit	1102	924	940	1042	935	891	895	935	873	
Gross Margin	62.6%	51.9%	57.8%	57.0%	44.2%	50.6%	61.6%	59.2%	54.8%	
Operating Profit	440	441	448	518	570	515	532	553	487	
Operating Margin	25.0%	24.8%	27.5%	28.3%	27.0%	29.3%	36.6%	35.0%	30.6%	
Net Profit	226	258	220	260	299	-379	-291	283	392	
Net Margin	12.8%	14.5%	13.5%	14.2%	14.2%	-21.5%	-20.0%	17.9%	24.6%	
Free Cash Flow	4	-160	-376	35	-5	-165	7	234	30	
Income Tax	137	164	151	173	190	-319	-233	161	-7	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5106	5221	5935	6218	6728	6565	5636	6103	6036	
Cash & Equivalents	397	80	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Accounts Receivable	163	163	116	133	150	105	133	112	141	
Inventories	74	82	78	94	67	65	71	74	78	
Goodwill & Int. Ass.	5	5	5	5	5	5	5	5	5	
Total Liabilities	3360	3329	3975	4024	4317	4539	4109	4400	4099	
Accounts Payable	128	142	88	105	137	180	108	126	160	
Long-Term Debt	1249	1089	1570	1649	1723	2084	2086	2384	2131	
Shareholder's Equity	1746	1892	1960	2195	2411	2025	1527	1704	1937	
D/E Ratio	0.72	0.58	0.80	0.75	0.71	1.03	1.37	1.40	1.10	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.6%	5.0%	3.9%	4.3%	4.6%	-5.7%	-4.8%	4.8%	6.5%	
Return on Equity	13.5%	14.2%	11.4%	12.5%	13.0%	-17.1%	-16.4%	17.5%	21.5%	
ROIC	7.7%	8.6%	6.8%	7.1%	7.5%	-9.2%	-7.5%	7.4%	9.6%	
Shares Out.	82.1	82.9	83.3	83.7	84.2	84.6	85.1	85.5	86.0	
Revenue/Share	21.30	21.26	19.43	21.69	24.87	20.87	17.12	18.37	18.43	
FCF/Share	0.05	-1.92	-4.49	0.42	-0.06	-1.95	0.09	2.72	0.34	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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