



Northwest Natural Holding Company (NWN)

Updated May 15th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$53.3	5 Year CAGR Estimate:	4.1%	Market Cap:	\$1.7B
Fair Value Price:	\$49.8	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	7/29/21 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	8/14/21 ²
Dividend Yield:	3.6%	5 Year Price Target	\$55	Years Of Dividend Growth:	65
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	0.5%

Overview & Current Events

NW Natural was founded in 1859 and has grown from just a handful of customers to serving more than 760,000 today. The utility's mission is to deliver natural gas to its customers in the Pacific Northwest and it has done that well, affording it the ability to raise its dividend for 65 consecutive years. NW Natural trades with a market capitalization of \$1.7 billion.

NW Natural reported Q1 results on May 5th. The company's Q1 GAAP earnings-per-share came in at \$1.94. Revenue grew by 10.8% year-over-year to \$315.95M. The company also added nearly 11,000 natural gas meters over the past 12 months, equating to a 1.4% growth rate. Meanwhile, the management reaffirmed its guidance for 2021 with earnings-per-share expected to come in at between \$2.40 and \$2.60. NW Natural also announced a quarterly dividend of \$0.48.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.39	\$2.22	\$2.24	\$2.16	\$1.96	\$2.12	\$2.24	\$2.24	\$2.41	\$2.30	\$2.49	\$2.75
DPS	\$1.75	\$1.79	\$1.83	\$1.85	\$1.86	\$1.87	\$1.88	\$1.90	\$1.91	\$1.91	\$1.92	\$2.16
Shares³	27	27	27	27	27	29	29	30	30	30	30	32

Earnings-per-share are still down over the past decade as NWN has been unable to push through pricing increases. It is obviously highly regulated and as such, is not in control over its pricing and margins. Revenue has fallen as well, providing another headwind to earnings growth. We are forecasting an average growth rate in the low-single-digits for the next five years as NW Natural pushes through approved pricing increases and continues to acquire customers at low-single-digit rates, as it did with the new Oregon rate case. NW Natural also has its water utilities business that will provide a small amount of growth, but higher earnings will primarily come from customer and pricing growth while the company invests in its water business for longer-term growth.

The company's dividend has been raised for 65 consecutive years, so the payout is of great importance to shareholders. The dividend has grown very slowly in recent years as a lack of earnings growth has capped the amount of cash NW Natural can return to shareholders. We are forecasting dividend growth going forward to continue that trend. The payout ratio has gotten too high to allow for higher rates of growth.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	19.0	21.1	19.4	20.7	23.7	26.9	31.9	26.5	30.2	22.2	21.4	20.0
Avg. Yld.	3.9%	3.8%	4.2%	4.1%	4.0%	3.3%	2.6%	3.2%	2.6%	3.7%	3.6%	3.9%

NW Natural's price-to-earnings multiple has risen substantially during the past decade. This has seen the stock's multiple rise from 15.2 in 2009 to 21.4 today. With interest rates at historical lows and dividend stocks losing their luster when it

¹ Estimated Date

² Estimated Date

³ 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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comes to high valuations, we have reduced our estimate of fair value to 20 times earnings, even though NWN was trading for over 30 times earnings not too long ago.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	73%	81%	82%	86%	95%	88%	84%	85%	79%	83%	77%	79%

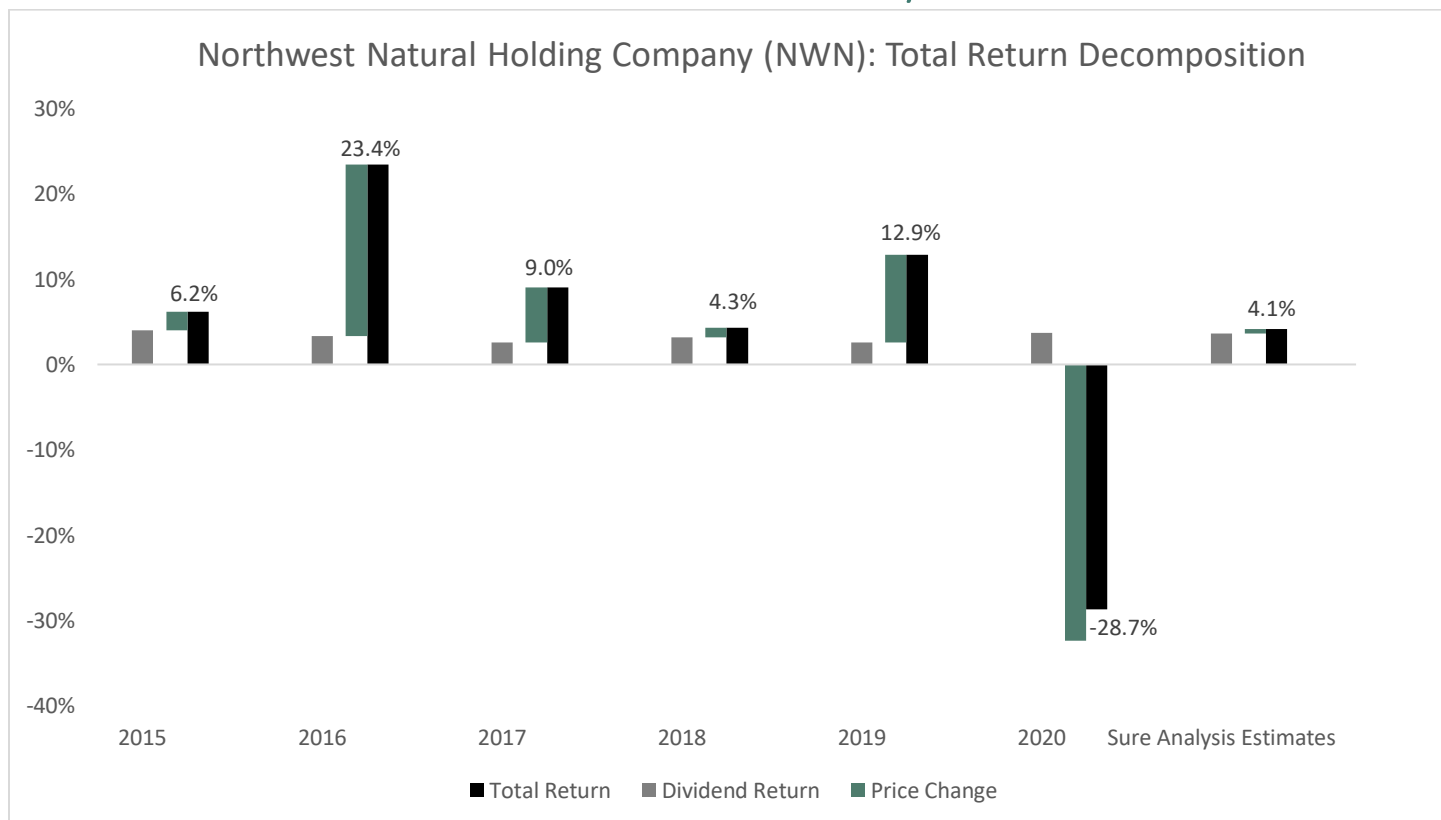
NW Natural's quality metrics have been very steady in the past decade. Seventy-six percent of its total assets are encumbered by debt, which is completely acceptable for a utility. Its interest coverage is fairly strong at 3.6, so there are certainly no financing concerns moving forward. The payout ratio is around three-quarters of earnings, which is much-improved from previous years.

Its obvious competitive advantage is in its monopoly in its service areas. This allowed it to perform extremely well during the Great Recession as discretionary use of natural gas and water is very low. At the same time, the regulatory nature of it prevents it from driving strong profitability growth during economic booms.

Final Thoughts & Recommendation

NW Natural is priced slightly over our fair value estimate. Furthermore, weak growth momentum means that total annualized returns over the next half decade are expected to be a mere 4.1% given that the combination of the 3.6% yield, slight headwind from expected multiple compression, and 2% expected earnings growth is fairly lackluster. Given these factors, we rate the stock a hold as the decent yield and stable business model make it a solid pick for conservative income investors, but the total return potential remains weak.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	828	731	759	754	724	668	755	706	746	774
Gross Profit	244	246	249	252	239	271	278	264	283	301
Gross Margin	29.5%	33.6%	32.8%	33.4%	33.0%	40.5%	36.8%	37.4%	37.9%	38.8%
D&A Exp.	70	73	76	79	81	78	81	85	91	104
Operating Profit	145	142	143	143	124	151	151	132	143	148
Operating Margin	17.5%	19.5%	18.8%	19.0%	17.2%	22.6%	20.0%	18.7%	19.2%	19.2%
Net Profit	63	59	61	59	54	59	(56)	65	62	77
Net Margin	7.6%	8.0%	8.0%	7.8%	7.4%	8.8%	-7.4%	9.1%	8.3%	9.9%
Free Cash Flow	133	37	37	96	66	84	(7)	(50)	(57)	(138)
Income Tax	43	43	42	42	36	43	41	24	13	21

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2,747	2,813	2,971	3,065	3,069	3,080	3,040	3,243	3,428	3,756
Cash & Equivalents	6	9	9	10	4	4	3	13	10	30
Accounts Receivable	77	61	82	70	68	67	66	67	67	88
Inventories	74	68	61	78	71	54	48	44	44	43
Total Liabilities	2,032	2,083	2,219	2,298	2,288	2,229	2,297	2,480	2,562	2,868
Accounts Payable	86	86	96	91	73	86	111	116	113	98
Long-Term Debt	823	882	930	896	864	773	834	954	1,030	1,260
Shareholder's Equity	714	730	752	767	781	850	743	763	866	889
D/E Ratio	1.15	1.21	1.24	1.17	1.11	0.91	1.12	1.25	1.19	1.42

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.4%	2.1%	2.1%	1.9%	1.8%	1.9%	-1.8%	2.1%	1.9%	2.1%
Return on Equity	9.0%	8.1%	8.2%	7.7%	6.9%	7.2%	-7.0%	8.6%	7.6%	8.8%
ROIC	4.1%	3.7%	3.7%	3.5%	3.2%	3.6%	-3.5%	3.9%	3.4%	3.8%
Shares Out.	27	27	27	27	27	29	29	30	30	30
Revenue/Share	30.96	27.15	28.07	27.70	26.40	24.05	26.26	24.46	25.00	25.28
FCF/Share	4.97	1.37	1.39	3.51	2.42	3.02	(0.23)	(1.74)	(1.91)	(4.51)

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

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