



Atmos Energy Corp. (ATO)

Updated November 24th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$95	5 Year CAGR Estimate:	10.4%	Market Cap:	\$12.7 B
Fair Value Price:	\$104	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	11/26/21
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	12/13/21
Dividend Yield:	2.9%	5 Year Price Target	\$139	Years Of Dividend Growth:	38
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	8.8%

Overview & Current Events

Atmos Energy can trace its beginnings all the way back to 1906 when it was formed in Texas. Since that time, it has grown both organically and through mergers to a \$12.7 billion market capitalization. The company distributes and stores natural gas in eight states, serves over 3 million customers, and should generate about \$3.7 billion in revenue this year. Atmos has a 38-year history of raising dividends, putting it in rare company among dividend stocks.

Atmos reported fourth quarter and full-year earnings on November 10th, 2021, and results were somewhat mixed. Revenue was better than expected, while adjusted earnings were under what was expected. Total revenue was \$568 million in Q4, which was \$10 million better than consensus estimates. Distribution operating income was up \$5.7 million to \$37.6 million, which reflected a \$22.9 million increase in rates and a \$4.2 million gain in customer growth. Pipeline and storage operating income declined \$15.5 million to \$53.4 million, primarily attributable to a \$16.4 million increase in system maintenance expenses. That increase was due to the timing of expenses, so some of that should unwind in fiscal Q1. On a consolidated basis, operating income was down \$9.8 million to \$91 million, reflecting higher rates and customer counts, but also higher maintenance costs.

Atmos issued guidance for the fiscal year of \$5.40 to \$5.60 in earnings-per-share, and we're estimating \$5.45 to open the fiscal year. Atmos also boosted its dividend for the 38th consecutive year, this time adding 8.8% to \$2.72 per share on an annualized basis.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021	2026
EPS	\$2.10	\$2.50	\$2.96	\$3.09	\$3.38	\$3.60	\$4.00	\$4.35	\$4.69	\$5.12	\$5.45	\$7.29
DPS	\$1.38	\$1.40	\$1.48	\$1.56	\$1.68	\$1.80	\$1.94	\$2.10	\$2.30	\$2.57	\$2.72	\$4.00
Shares¹	90	90	91	100	101	104	106	117	123	132	136	150

Atmos' earnings-per-share has risen steadily in the past decade as the company continues to grow both organically and through acquisitions. We are forecasting a five-year annual growth rate of 6% moving forward.

The company can achieve this growth through continued improvements in gross margin, reductions in operating costs as a percentage of revenue, and top line growth via acquisitions as well as customer growth. Along with margin improvements, Atmos should be able to produce mid-to-upper single-digit earnings-per-share growth annually. It continues to file favorable rate cases with its various localities that provide for small revenue increases over time as well, as we saw again in 2020 full-year results, and indeed in 2021 results. The distribution segment continues to lead the way while pipeline and storage struggles, which was true again in Q4.

We are forecasting similar growth for the dividend as years of weak dividend growth have given way to a management team that is more willing to boost the payout. The company's payout ratio is much lower than it has been in the past and thus a dividend growth rate congruent with earnings-per-share growth, or slightly higher, looks reasonable given recent history. Indeed, the most recent dividend increase was 8.8%. We see the dividend rising to \$4.00 over the next five years.

¹ Share count 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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2026
Avg. P/E	15.9	15.9	16.1	17.5	20.8	22.0	21.8	23.5	22.4	18.8	17.4	19.0
Avg. Yld.	4.1%	3.5%	3.1%	2.9%	2.4%	2.3%	2.2%	2.0%	2.2%	2.7%	2.9%	2.9%

Atmos, like many other utilities and dividend stocks in general, has seen a sizable increase in its valuation in recent years. Shares have pulled back since our last update and stand at 17.4 times this year's earnings. Thus, we are forecasting a small tailwind to total returns based upon a return to a more normalized valuation level of a price-to-earnings ratio of 19. Given this, we see the yield staying about where it is today at 2.9% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021	2026
Payout	65%	56%	50%	51%	50%	50%	49%	48%	49%	50%	50%	55%

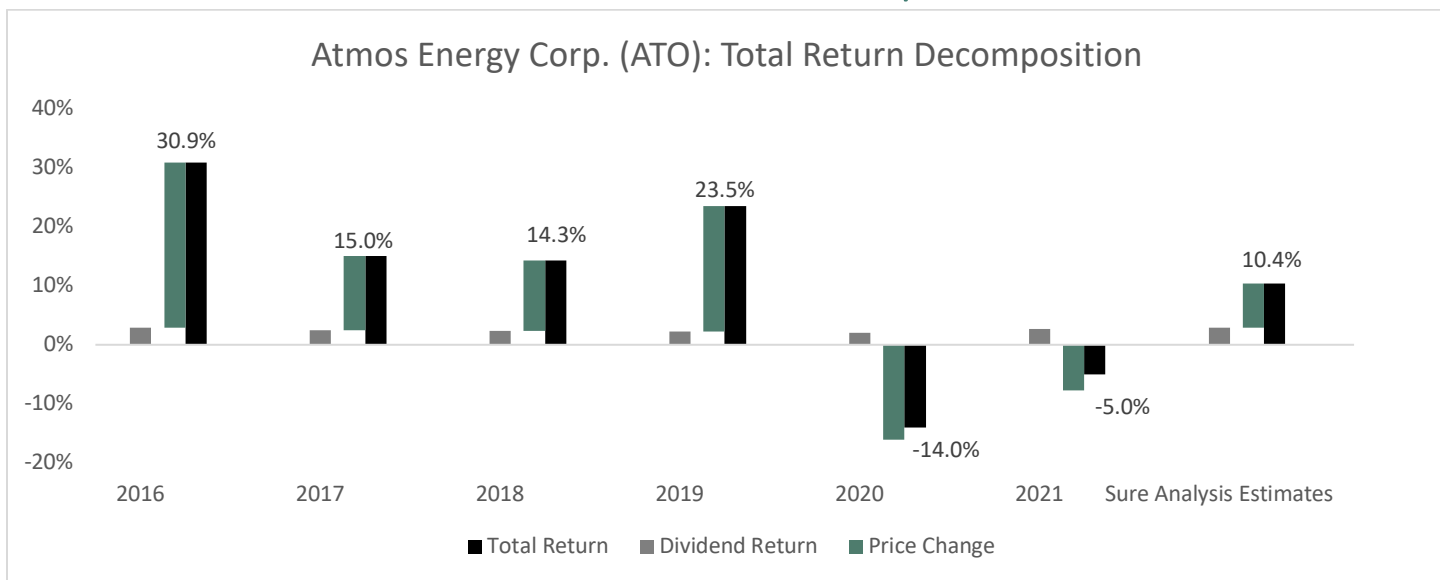
Atmos' payout ratio has drifted lower in recent years as dividend increases have been a lower priority than other spending. We expect the payout ratio to remain around 50% or slightly higher, as dividend increases roughly match the growth rate of earnings in the coming years. Atmos' dividend is safe and with the 2.9% yield, we see the payout as attractive compared to the broader market.

The company's competitive advantage is in its wide distribution area and lack of direct competition in its service areas for residential and commercial customers. In addition, discretionary use of natural gas is low as people use what they need, regardless of economic conditions, meaning Atmos' recession performance is likely to be resilient, as seen in 2020.

Final Thoughts & Recommendation

Atmos has strong fundamentals and a long track record of solid performance, and the valuation has moderated of late. We are forecasting total annual returns of 10.4%, consisting of the current 2.9% yield, 6% earnings-per-share growth and a small potential tailwind from the valuation. Given this, we're boosting the stock from a hold rating to a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3436	3875	4941	2927	2455	2760	3116	2902	2,821	3,407
Gross Profit	1324	1412	1582	1631	1708	1834	1948	2043	2,162	2,375
Gross Margin	38.5%	36.4%	32.0%	55.7%	69.6%	66.5%	62.5%	70.4%	76.6%	69.7%
D&A Exp.	247	238	254	275	293	320	361	391	430	478
Operating Profit	452	502	611	612	657	736	728	746	824	905
Operating Margin	13.1%	13.0%	12.4%	20.9%	26.8%	26.7%	23.4%	25.7%	29.2%	26.6%
Net Profit	217	243	290	315	350	396	603	511	601	666
Net Margin	6.3%	6.3%	5.9%	10.8%	14.3%	14.4%	19.4%	17.6%	21.3%	19.5%
Free Cash Flow	-146	-232	-92	-152	-292	-270	-343	-725	-898	-3,054
Income Tax	98	143	187	190	197	221	8	139	145	154

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	7496	7934	8595	9075	10011	10750	11874	13368	15,359	19,609
Cash & Equivalents	64	66	42	29	48	26	14	25	21	117
Accounts Receivable	178	231	263	205	120	135	139	127	140	343
Inventories	262	250	285	249	185	189	174	136	119	178
Goodwill & Int. Ass.	741	741	742	743	727	730	730	731	731	731
Total Liabilities	5136	5354	5508	5880	6548	6851	7104	7617	8,568	11,702
Accounts Payable	83	70	78	79	114	143	135	177	141	423
Long-Term Debt	2527	2824	2653	2895	3269	3515	3644	3994	4,523	4,930
Shareholder's Equity	2359	2580	3086	3195	3463	3899	4770	5750	6,791	7,907
D/E Ratio	1.07	1.09	0.86	0.91	0.94	0.90	0.76	0.69	0.67	0.62

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.9%	3.2%	3.5%	3.6%	3.7%	3.8%	5.3%	4.1%	4.2%	3.7%
Return on Equity	9.4%	9.8%	10.2%	10.0%	10.5%	10.8%	13.9%	9.7%	9.6%	8.9%
ROIC	4.5%	4.7%	5.2%	5.3%	5.5%	5.6%	7.6%	5.6%	5.7%	4.8%
Shares Out.	90	90	91	100	101	104	106	117	123	132
Revenue/Share	37.69	42.26	50.62	28.73	23.71	26.01	28.06	24.70	22.96	26.24
FCF/Share	-1.60	-2.53	-0.94	-1.49	-2.82	-2.54	-3.09	-6.17	-7.31	-23.49

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

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