



National Fuel Gas Co. (NFG)

Updated November 23rd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	7.1%	Market Cap:	\$5.5 B
Fair Value Price:	\$71	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	12/29/2021 ¹
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.5%	Dividend Payment Date:	1/14/2022 ¹
Dividend Yield:	3.0%	5 Year Price Target	\$75	Years Of Dividend Growth:	51
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.2%

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 \$5.5 billion. With 51 years of consecutive dividend increases, National Fuel Gas qualifies to be a Dividend King.

In early November, National Fuel Gas reported (11/4/21) financial results for the fourth quarter of fiscal 2021. The company grew its production by 18% over last year's quarter, primarily thanks to the acquisition of Appalachian assets. In addition, the price of natural gas rose significantly thanks to strong demand and tight supply. As a result, adjusted earnings-per-share grew 138%, from \$0.40 to \$0.95, and exceeded analysts' consensus by \$0.20.

The pandemic has affected the natural gas market much less than the oil market. In addition, the pipeline & storage and gathering segments provide a strong buffer to the earnings of National Fuel Gas. The two segments grew their EBITDA 5% and 15%, respectively, in the latest quarter thanks to strong volume growth. Thanks to an improved outlook for natural gas prices, management raised its guidance for the earnings-per-share of 2022 from \$4.40-\$4.80 to \$5.05-\$5.45, for 22% growth at the mid-point.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.63	\$3.14	\$3.52	-\$4.50	-\$3.43	\$3.30	\$3.34	\$3.45	\$2.92	\$4.29	\$5.10	\$5.36
DPS	\$1.44	\$1.48	\$1.52	\$1.56	\$1.60	\$1.64	\$1.68	\$1.72	\$1.76	\$1.80	\$1.82	\$2.02
Shares²	83.3	83.7	84.2	84.6	85.1	85.5	86.0	86.8	91.0	91.9	93.0	98.0

National Fuel Gas pursues growth by growing its natural gas production and expanding its pipeline network. Thanks to record production and a multi-year high price of natural gas, the company posted record earnings in 2021 and thus it has now grown its earnings-per-share at a 5.6% average annual rate over the last decade. Nevertheless, due to the high cyclicity of the price of natural gas, we expect the company to grow its earnings-per-share by only 1.0% per year on average off this year's high comparison base.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.3	18.6	20.6	---	---	17.2	12.8	15.6	14.6	11.1	11.8	14.0
Avg. Yld.	2.1%	2.8%	2.5%	2.1%	2.5%	3.1%	2.9%	3.2%	4.1%	3.8%	3.0%	2.7%

¹ Estimated date.

² In millions.

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National Fuel Gas is trading at a price-to-earnings ratio of 11.8, which is much lower than its historical 10-year average of 16.2. As we expect record earnings by 2027, we assume a fair price-to-earnings ratio of 14.0 for that year. If the stock reverts to this valuation level over the next 5 years, it will enjoy a 3.5% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2020	2027
Payout	54.8%	47.1%	43.2%	---	---	49.7%	50.3%	50.0%	60.3%	42.0%	35.7%	37.7%

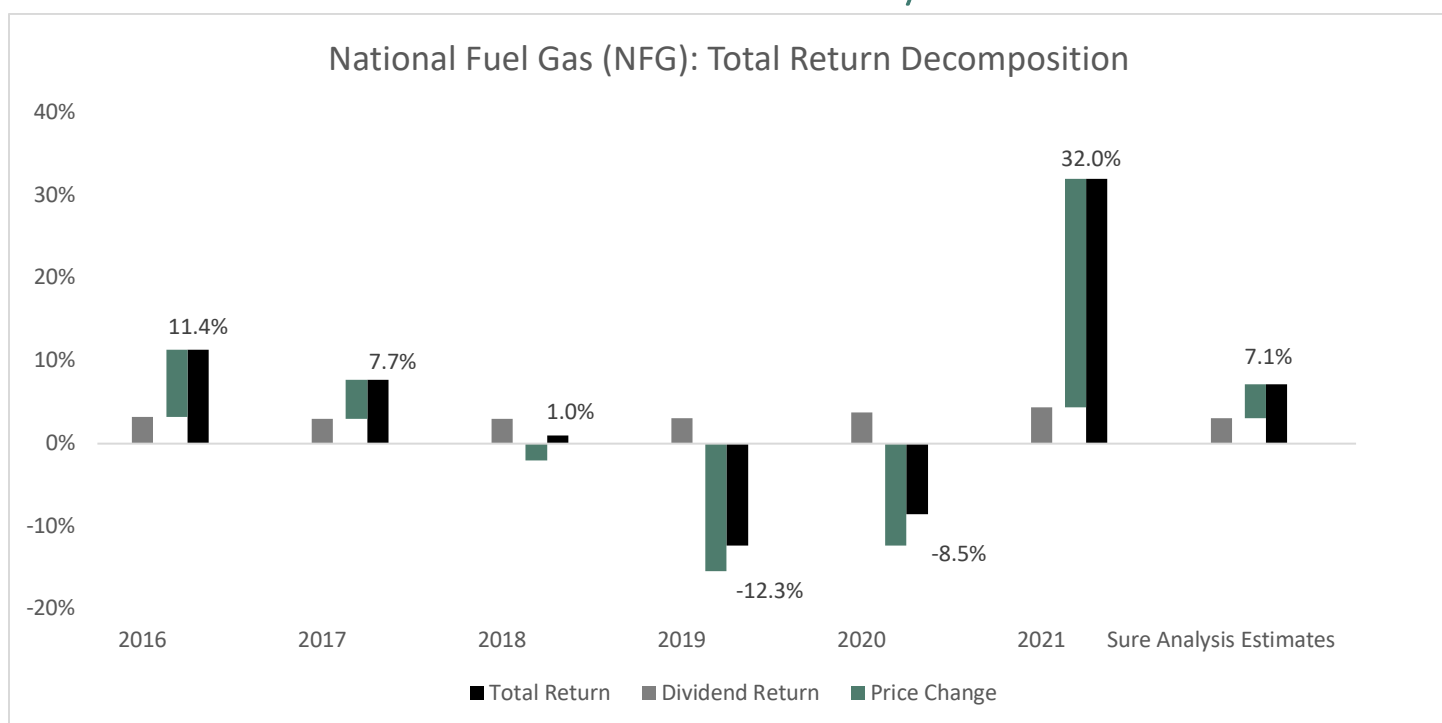
National Fuel Gas has a healthy balance sheet while its interest coverage level stands at a decent level, around 4.4. Moreover, its dividend payout ratio is sufficiently low to enable continued dividend growth even if earnings stall temporarily. Management has always targeted a dividend payout ratio around 50% in order to have a high margin of safety against the wide fluctuations of the price of natural gas. As the 3.0% dividend yield of National Fuel Gas is more than twice as much as the yield of the S&P (1.2%), 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 and downturns, such as the coronavirus crisis, with less difficulty than its peers who may focus exclusively on the more cyclical areas of the energy sector.

Final Thoughts & Recommendation

National Fuel Gas has sustained production growth, a promising outlook and a reasonable valuation. However, the stock has rallied 18% since our last research report, in August. As a result, we now expect the stock to offer a 7.1% average annual return over the next five years. The stock receives a hold rating, given also the cyclical nature of its business, which warrants a greater expected return.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,779	1,627	1,830	2,113	1,761	1,452	1,580	1,593	1,693	1,546
Gross Profit	924	940	1,042	1,123	1,075	1,055	1,080	1,014	1,031	568
Gross Margin	51.9%	57.8%	57.0%	53.2%	61.0%	72.6%	68.4%	63.7%	60.9%	36.7%
Operating Profit	441	448	518	570	515	532	594	520	512	479
Operating Margin	24.8%	27.5%	28.3%	27.0%	29.3%	36.6%	37.6%	32.6%	30.2%	31.0%
Net Profit	258	220	260	299	(379)	(291)	283	392	304	(124)
Net Margin	14.5%	13.5%	14.2%	14.2%	-21.5%	-20.0%	17.9%	24.6%	18.0%	-8.0%
Free Cash Flow	(160)	(376)	35	(5)	(165)	7	234	31	(94)	(482)
Income Tax	164	151	173	190	(319)	(233)	161	(7)	85	19

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5,221	5,935	6,218	6,728	6,565	5,636	6,103	6,036	6,462	6,965
Cash & Equivalents	80	74	65	37	114	130	556	230	20	21
Accounts Receivable	163	116	133	150	105	133	112	141	140	144
Inventories	82	78	94	67	65	71	74	78	80	85
Goodwill & Int. Ass.	5	5	5	5	5	5	5	5	5	5
Total Liabilities	3,329	3,975	4,024	4,317	4,539	4,109	4,400	4,099	4,323	4,993
Accounts Payable	142	88	105	137	180	108	126	160	132	134
Long-Term Debt	1,089	1,570	1,649	1,723	2,084	2,086	2,384	2,131	2,189	2,660
Shareholder's Equity	1,892	1,960	2,195	2,411	2,025	1,527	1,704	1,937	2,139	1,972
D/E Ratio	0.58	0.80	0.75	0.71	1.03	1.37	1.40	1.10	1.02	1.35

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.0%	3.9%	4.3%	4.6%	-5.7%	-4.8%	4.8%	6.5%	4.9%	-1.8%
Return on Equity	14.2%	11.4%	12.5%	13.0%	-17.1%	-16.4%	17.5%	21.5%	14.9%	-6.0%
ROIC	8.6%	6.8%	7.1%	7.5%	-9.2%	-7.5%	7.4%	9.6%	7.2%	-2.8%
Shares Out.	82.9	83.3	83.7	84.2	84.6	85.1	85.5	86.0	86.8	88.0
Revenue/Share	21.26	19.43	21.69	24.87	20.87	17.12	18.37	18.43	19.51	17.58
FCF/Share	(1.92)	(4.49)	0.42	(0.06)	(1.95)	0.09	2.72	0.36	(1.09)	(5.47)

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

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