



# Northwest Natural Holding Company (NWN)

Updated November 9<sup>th</sup>, 2021 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$45.7	<b>5 Year CAGR Estimate:</b>	7.4%	<b>Market Cap:</b>	\$1.4B
<b>Fair Value Price:</b>	\$50.8	<b>5 Year Growth Estimate:</b>	1.6%	<b>Ex-Dividend Date:</b>	01/28/22 <sup>1</sup>
<b>% Fair Value:</b>	90%	<b>5 Year Valuation Multiple Estimate:</b>	2.1%	<b>Dividend Payment Date:</b>	02/15/22 <sup>2</sup>
<b>Dividend Yield:</b>	4.2%	<b>5 Year Price Target</b>	\$55	<b>Years Of Dividend Growth:</b>	66
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	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 66 consecutive years. NW Natural trades with a market capitalization of \$1.4 billion. NW Natural reported Q3 results on November 5<sup>th</sup>. The company reported a net loss of \$0.67 per share. Revenue grew by 8.7% year-over-year to \$101.45M. Net income grew 55% to \$1.24 per share for the first nine months of 2021. The company also reported that it added nearly 12,000 natural gas meters over the past 12 months, equating to a 1.5% growth rate. NW Natural also invested, in the first nine months, over \$200 million in their utility systems for greater reliability and resiliency. Meanwhile, the management team 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
<b>EPS</b>	\$2.56	\$2.32	\$2.24	\$2.16	\$2.29	\$2.19	\$2.24	\$2.33	\$2.41	\$2.30	<b>\$2.54</b>	<b>\$2.75</b>
<b>DPS</b>	\$1.75	\$1.79	\$1.83	\$1.85	\$1.86	\$1.87	\$1.88	\$1.90	\$1.91	\$1.91	<b>\$1.93</b>	<b>\$2.16</b>
<b>Shares<sup>3</sup></b>	26.8	26.9	27.1	27.3	27.4	28.6	28.8	28.9	30.5	30.6	<b>30.7</b>	<b>32</b>

Earnings-per-share are only slightly up over the past decade as NWN has struggled 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 66 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
<b>Avg. P/E</b>	19.0	21.1	19.4	20.7	23.7	26.9	31.9	26.5	30.2	22.2	<b>18.0</b>	<b>20.0</b>
<b>Avg. Yld.</b>	3.9%	3.8%	4.2%	4.1%	4.0%	3.3%	2.6%	3.2%	2.6%	3.7%	<b>4.2%</b>	<b>3.9%</b>

<sup>1</sup> Estimated Date

<sup>2</sup> Estimated Date

<sup>3</sup> 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.



# Northwest Natural Holding Company (NWN)

Updated November 9<sup>th</sup>, 2021 by Samuel Smith

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 30.2 in 2019 before declining back to 18x today. With interest rates at historical lows and dividend stocks losing their luster when it 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. As a result, the stock is undervalued right now according to our model.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>Payout</b>	73%	81%	82%	86%	95%	88%	84%	85%	79%	83%	<b>76%</b>	<b>79%</b>

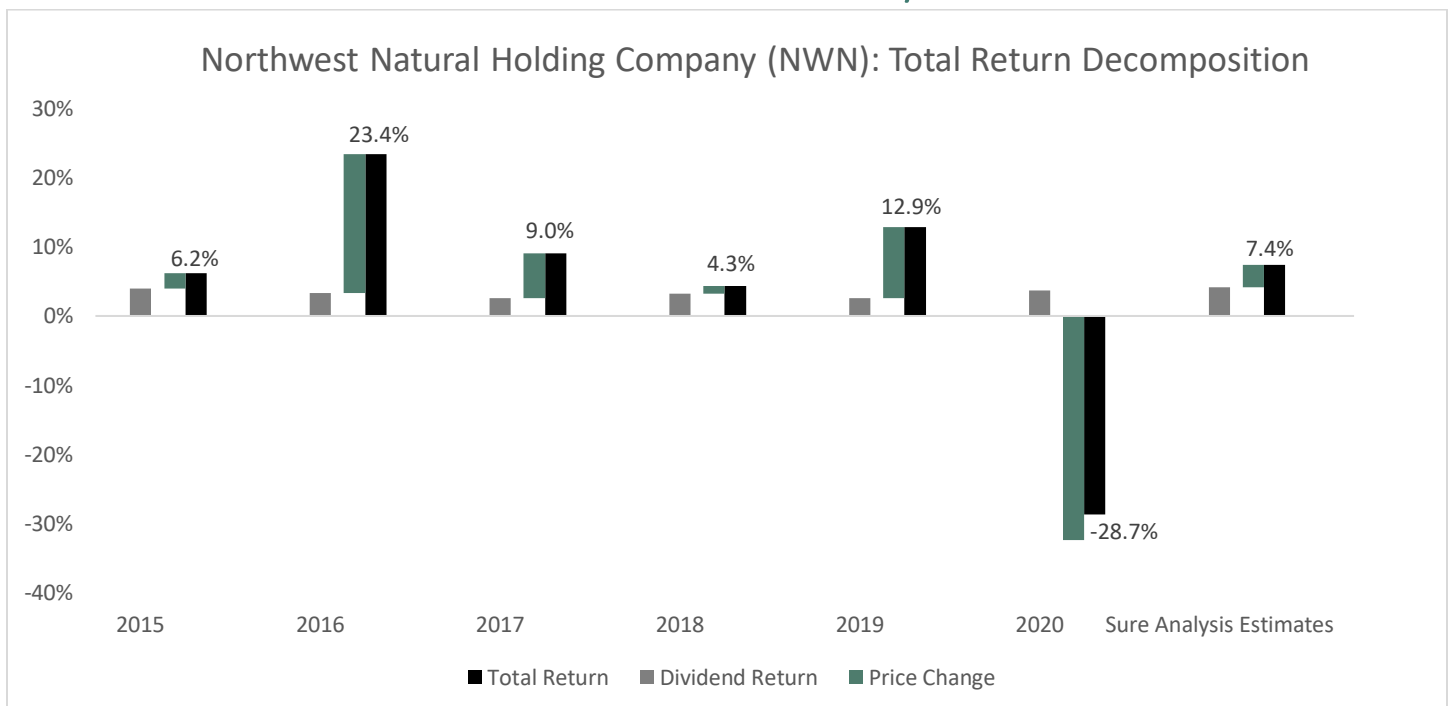
NW Natural's quality metrics have been very steady in the past decade. Seventy-six percent of its total assets are encumbered by debt, which is completely acceptable for a utility. Its interest coverage is fairly strong at 3.6, so there are certainly no financing concerns moving forward. The payout ratio 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 under our fair value estimate. That said, weak growth momentum means that total annualized returns over the next half decade are expected to be 7.4% thanks to the combination of the 4.2% yield, slight tailwinds from expected multiple expansion, and 1.6% expected annualized earnings growth. 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, and as the valuation has improved.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Northwest Natural Holding Company (NWN)

Updated November 9<sup>th</sup>, 2021 by Samuel Smith

## 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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.