



Northwest Natural Holding Company (NWN)

Updated May 8th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$49.2	5 Year CAGR Estimate:	5.8%	Market Cap:	\$1.6B
Fair Value Price:	\$50.6	5 Year Growth Estimate:	1.7%	Ex-Dividend Date:	07/28/22 ¹
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	08/13/22 ²
Dividend Yield:	3.9%	5 Year Price Target	\$55	Years Of Dividend Growth:	66
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

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 \$1.6 billion. NW Natural reported Q1 results on May 4th. The company reported GAAP earnings-per-share of \$1.80, down from \$1.94 in the year-ago period. Revenue increased 10.87% to \$350.30 million year-over-year. NW Natural added 10,800 natural gas meters over the past 12 months, equating to a 1.4% growth rate. Meanwhile, the management reaffirmed its guidance for 2022 with earnings-per-share expected to come in at between \$2.45 and \$2.65 and long-term earnings per share growth rate target to 4% to 6%. Finally, the company announced that NW Natural was awarded by Ethispere as one of the 2022 World's Most Ethical Companies.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.32	\$2.24	\$2.16	\$2.29	\$2.19	\$2.24	\$2.33	\$2.41	\$2.30	\$2.54	\$2.53	\$2.75
DPS	\$1.79	\$1.83	\$1.85	\$1.86	\$1.87	\$1.88	\$1.90	\$1.91	\$1.91	\$1.92	\$1.93	\$2.16
Shares³	26.9	27.1	27.3	27.4	28.6	28.8	28.9	30.5	30.6	30.7	31.2	32

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	21.1	19.4	20.7	23.7	26.9	31.9	26.5	30.2	22.2	18.0	19.4	20.0
Avg. Yld.	3.8%	4.2%	4.1%	4.0%	3.3%	2.6%	3.2%	2.6%	3.7%	4.2%	3.9%	3.9%

¹ Estimated Date

² Estimated Date

³ In millions

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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 19.4x today. With interest rates rising 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	81%	82%	86%	95%	88%	84%	85%	79%	83%	76%	76%	79%

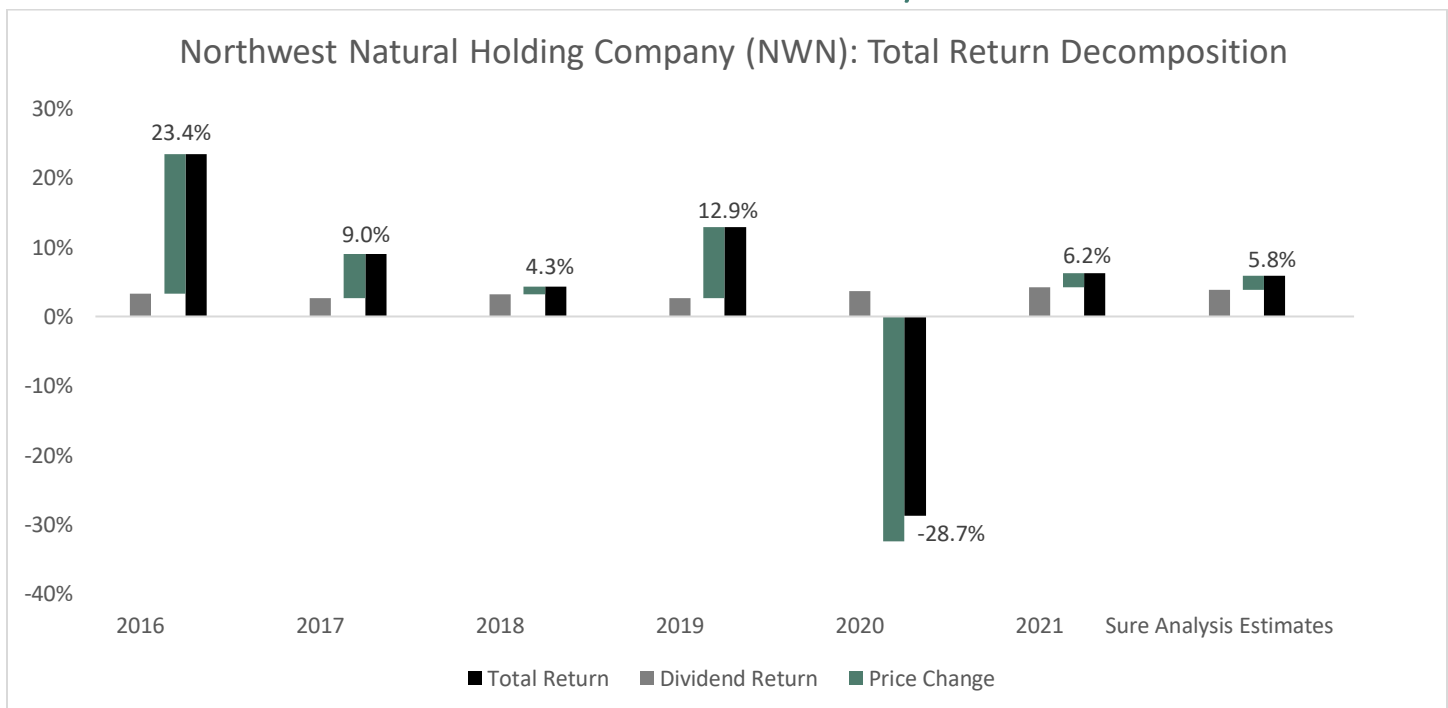
NW Natural's quality metrics have been very steady in the past decade. Seventy-six percent of its total assets are encumbered by debt, which is completely acceptable for a utility. Its interest coverage is fairly strong at 3.6, so there are certainly no financing concerns moving forward. The payout ratio 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 right around our fair value estimate. That said, weak growth momentum means that total annualized returns over the next half decade are expected to be 5.8% thanks to the combination of the 3.9% yield and 1.7% 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, but the total returns are not compelling enough to warrant a Buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	731	759	754	724	668	755	706	746	774	860
Gross Profit	246	249	252	239	271	278	264	283	301	329
Gross Margin	33.6%	32.8%	33.4%	33.0%	40.5%	36.8%	37.4%	37.9%	38.8%	38.3%
D&A Exp.	73	76	79	81	78	81	85	91	104	114
Operating Profit	142	143	143	124	151	151	132	143	148	163
Operating Margin	19.5%	18.8%	19.0%	17.2%	22.6%	20.0%	18.7%	19.2%	19.2%	19.0%
Net Profit	59	61	59	54	59	(56)	65	62	77	79
Net Margin	8.0%	8.0%	7.8%	7.4%	8.8%	-7.4%	9.1%	8.3%	9.9%	9.1%
Free Cash Flow	37	37	96	66	84	(7)	(50)	(56)	(136)	(135)
Income Tax	43	42	42	36	43	41	24	13	21	27

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,813	2,971	3,065	3,069	3,080	3,040	3,243	3,428	3,756	4,065
Cash & Equivalents	9	9	10	4	4	3	13	10	30	19
Accounts Receivable	59	80	69	67	65	65	66	66	85	99
Inventories	68	61	78	71	54	48	44	44	43	57
Total Liabilities	2,083	2,219	2,298	2,288	2,229	2,297	2,480	2,562	2,868	3,129
Accounts Payable	86	96	91	73	86	111	116	113	98	133
Long-Term Debt	882	930	896	864	773	834	954	1,030	1,260	1,434
Shareholder's Equity	730	752	767	781	850	743	763	866	889	935
LTD/E Ratio	1.21	1.24	1.17	1.11	0.91	1.12	1.25	1.19	1.42	1.53

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.1%	2.1%	1.9%	1.8%	1.9%	-1.8%	2.1%	1.9%	2.1%	2.0%
Return on Equity	8.1%	8.2%	7.7%	6.9%	7.2%	-7.0%	8.6%	7.6%	8.8%	8.6%
ROIC	3.7%	3.7%	3.5%	3.2%	3.6%	-3.5%	3.9%	3.4%	3.8%	3.5%
Shares Out.	26.9	27.1	27.3	27.4	28.6	28.8	28.9	30.5	30.6	30.7
Revenue/Share	27.15	28.07	27.70	26.40	24.05	26.26	24.46	25.00	25.28	27.98
FCF/Share	1.37	1.39	3.51	2.42	3.02	(0.23)	(1.74)	(1.88)	(4.43)	(4.39)

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

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