



National Fuel Gas Co. (NFG)

Updated May 10th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	4.4%	Market Cap:	\$6.4 B
Fair Value Price:	\$85	5 Year Growth Estimate:	-3.0%	Ex-Dividend Date:	6/28/2022 ¹
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.0%	Dividend Payment Date:	7/14/2022 ¹
Dividend Yield:	2.7%	5 Year Price Target	\$73	Years Of Dividend Growth:	51
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

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 \$6.4 billion. With 51 years of consecutive dividend increases, National Fuel Gas qualifies to be a Dividend King.

In early May, National Fuel Gas reported (5/5/22) financial results for the second quarter of fiscal 2022. The company grew its production by 2% over the prior year's quarter, primarily thanks to the development of core acreage positions in Appalachia. In addition, the price of natural gas rallied thanks to strong demand and tight supply. As a result, adjusted earnings-per-share grew 25%, from \$1.34 to \$1.68, and exceeded analysts' consensus by \$0.06.

The price of natural gas has rallied to a 13-year high lately due to the sanctions of Europe on Russia for its invasion in Ukraine. Due to these sanctions, Europe now imports plenty of LNG cargos from the U.S. and hence the U.S. natural gas market has become extremely tight. Thanks to this tailwind, National Fuel Gas raised its guidance for the earnings-per-share of 2022 again, from \$5.20-\$5.50 to \$5.70-\$6.00, for 36% growth at the mid-point. Given the tendency of management to issue conservative guidance, we have raised our forecast from \$5.60 to \$6.10.

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	\$6.10	\$5.24
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. Even better, thanks to a continued rally in the price of natural gas, the company is poised to post record earnings in 2022. Nevertheless, due to the high cyclicity of the price of natural gas, we expect earnings-per-share to decline -3.0% per year on average off this year's high comparison base. About 90% of the output 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	11.0	14.0
Avg. Yld.	2.1%	2.8%	2.5%	2.1%	2.5%	3.1%	2.9%	3.2%	4.1%	3.8%	2.7%	2.8%

¹ Estimated date.

² 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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National Fuel Gas is trading at a price-to-earnings ratio of 11.0, which is much lower than its historical 10-year average of 16.2. We assume a fair price-to-earnings ratio of 14.0 for the stock. If the stock reverts to this valuation level over the next 5 years, it will enjoy a 5.0% 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%	29.8%	38.5%

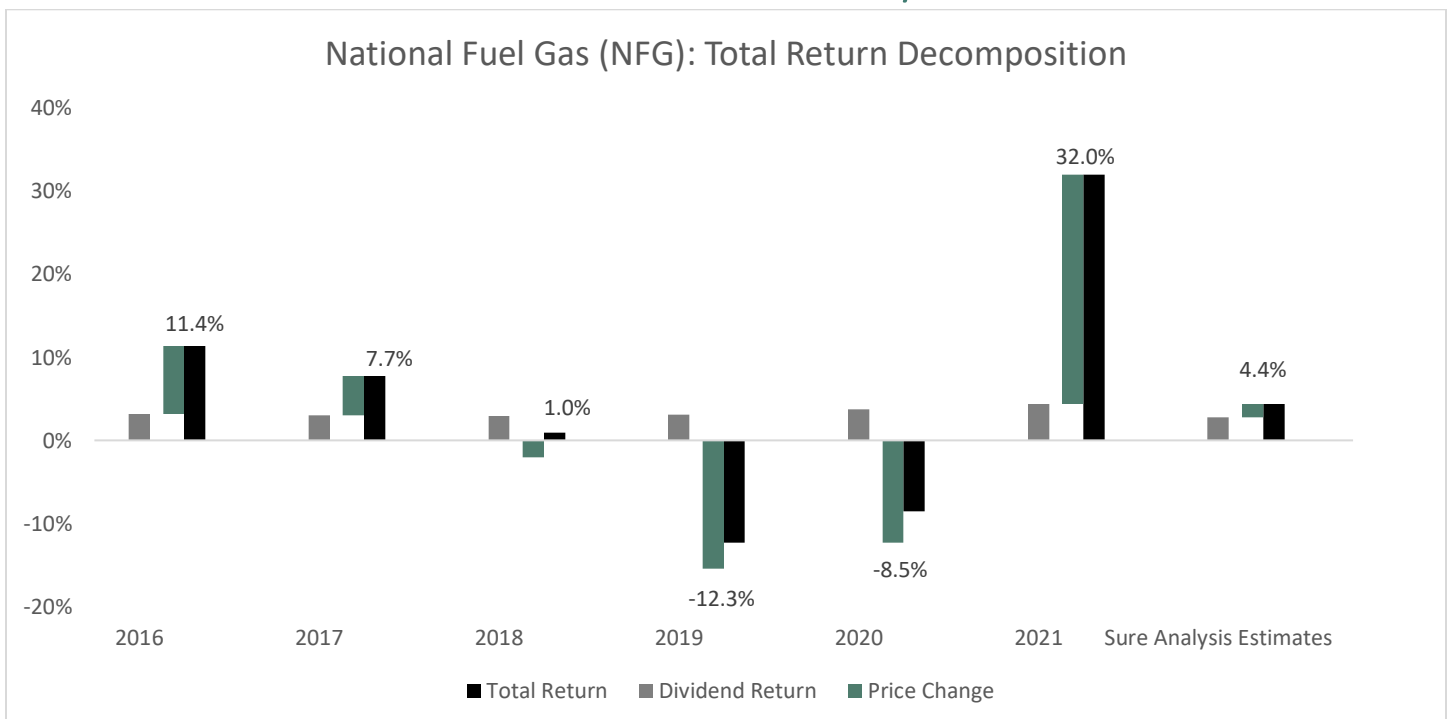
National Fuel Gas has a healthy balance sheet while its interest coverage level stands at a strong 5.8. Moreover, its dividend payout ratio is sufficiently low to enable continued dividend growth even if earnings stall temporarily. Management has always targeted a dividend payout ratio around 50% in order to have a high margin of safety against the wide fluctuations of the price of natural gas. As the 2.7% dividend yield of National Fuel Gas is nearly twice as much as the yield of the S&P (1.4%), 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 68% in about four months. As a result, we now expect the stock to offer a 4.4% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,627	1,830	2,113	1,761	1,452	1,580	1,593	1,693	1,546	1,743
Gross Profit	940	1,042	1,123	1,075	1,055	1,080	1,014	1,031	568	760
Gross Margin	57.8%	57.0%	53.2%	61.0%	72.6%	68.4%	63.7%	60.9%	36.7%	43.6%
Operating Profit	448	518	570	515	532	594	520	512	479	665
Operating Margin	27.5%	28.3%	27.0%	29.3%	36.6%	37.6%	32.6%	30.2%	31.0%	38.2%
Net Profit	220	260	299	(379)	(291)	283	392	304	(124)	364
Net Margin	13.5%	14.2%	14.2%	-21.5%	-20.0%	17.9%	24.6%	18.0%	-8.0%	20.9%
Free Cash Flow	(376)	35	(5)	(165)	7	234	31	(94)	(482)	40
Income Tax	151	173	190	(319)	(233)	161	(7)	85	19	115

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5,935	6,218	6,728	6,565	5,636	6,103	6,036	6,462	6,965	7,465
Cash & Equivalents	74	65	37	114	130	556	230	20	21	32
Accounts Receivable	116	133	150	105	133	112	141	140	144	205
Inventories	78	94	67	65	71	74	78	80	85	120
Goodwill & Int. Ass.	5	5	5	5	5	5	5	5	5	5
Total Liabilities	3,975	4,024	4,317	4,539	4,109	4,400	4,099	4,323	4,993	5,679
Accounts Payable	88	105	137	180	108	126	160	132	134	172
Long-Term Debt	1,570	1,649	1,723	2,084	2,086	2,384	2,131	2,189	2,660	2,787
Shareholder's Equity	1,960	2,195	2,411	2,025	1,527	1,704	1,937	2,139	1,972	1,786
D/E Ratio	0.80	0.75	0.71	1.03	1.37	1.40	1.10	1.02	1.35	1.56

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.9%	4.3%	4.6%	-5.7%	-4.8%	4.8%	6.5%	4.9%	-1.8%	5.0%
Return on Equity	11.4%	12.5%	13.0%	-17.1%	-16.4%	17.5%	21.5%	14.9%	-6.0%	19.4%
ROIC	6.8%	7.1%	7.5%	-9.2%	-7.5%	7.4%	9.6%	7.2%	-2.8%	7.9%
Shares Out.	83.3	83.7	84.2	84.6	85.1	85.5	86.0	86.8	91.0	91.9
Revenue/Share	19.43	21.69	24.87	20.87	17.12	18.37	18.43	19.51	17.58	19.01
FCF/Share	(4.49)	0.42	(0.06)	(1.95)	0.09	2.72	0.36	(1.09)	(5.47)	0.43

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

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