



# National Fuel Gas Co. (NFG)

Updated August 24<sup>th</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$72	<b>5 Year CAGR Estimate:</b>	3.0%	<b>Market Cap:</b>	\$6.6 B
<b>Fair Value Price:</b>	\$85	<b>5 Year Growth Estimate:</b>	-3.0%	<b>Ex-Dividend Date:</b>	9/28/2022 <sup>1</sup>
<b>% Fair Value:</b>	84%	<b>5 Year Valuation Multiple Estimate:</b>	3.5%	<b>Dividend Payment Date:</b>	10/14/2022 <sup>1</sup>
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$73	<b>Years Of Dividend Growth:</b>	52
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 largest segment of the company is Exploration & Production. National Fuel Gas was founded in 1902 and has grown to a market capitalization of \$6.6 billion. With 52 years of consecutive dividend increases, National Fuel Gas qualifies to be a Dividend King.

In early August, National Fuel Gas reported (8/4/22) financial results for the third quarter of fiscal 2022. The company grew its Seneca production 11% over the prior year's quarter, primarily thanks to the development of core acreage positions in Appalachia. In addition, its realized price of natural gas jumped 30% thanks to strong demand and tight supply. As a result, adjusted earnings-per-share grew 66%, from \$0.93 to \$1.54, and beat analysts' consensus by \$0.11.

The price of natural gas has rallied to a 14-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 issued guidance for record earnings-per-share of \$7.25-\$7.75 in fiscal 2023. At the mid-point, this guidance implies 27% growth vs. the guidance for record earnings-per-share of \$5.85-\$5.95 this year. Given the tendency of management to issue conservative guidance, we still expect earnings-per-share of \$6.10 in fiscal 2022. Notably National Fuel Gas has exceeded the analysts' estimates for 13 consecutive quarters.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.63	\$3.14	\$3.52	-\$4.50	-\$3.43	\$3.30	\$3.34	\$3.45	\$2.92	\$4.29	<b>\$6.10</b>	<b>\$5.24</b>
<b>DPS</b>	\$1.44	\$1.48	\$1.52	\$1.56	\$1.60	\$1.64	\$1.68	\$1.72	\$1.76	\$1.80	<b>\$1.90</b>	<b>\$2.10</b>
<b>Shares<sup>2</sup></b>	83.3	83.7	84.2	84.6	85.1	85.5	86.0	86.8	91.0	91.9	<b>92.5</b>	<b>98.0</b>

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 cyclicality of the price of natural gas, we expect earnings-per-share to decline -3.0% per year on average over the next five years off this year's high comparison base. Gas prices are likely to remain high in the short run but numerous countries are investing in renewable energy projects at full throttle to reduce their dependence on natural gas right now. We thus expect gas prices to deflate in the upcoming years. 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.

<sup>1</sup> Estimated date.

<sup>2</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.*



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## 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	<b>11.8</b>	<b>14.0</b>
Avg. Yld.	2.1%	2.8%	2.5%	2.1%	2.5%	3.1%	2.9%	3.2%	4.1%	3.8%	<b>2.6%</b>	<b>2.9%</b>

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. 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 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%	<b>31.1%</b>	<b>40.0%</b>

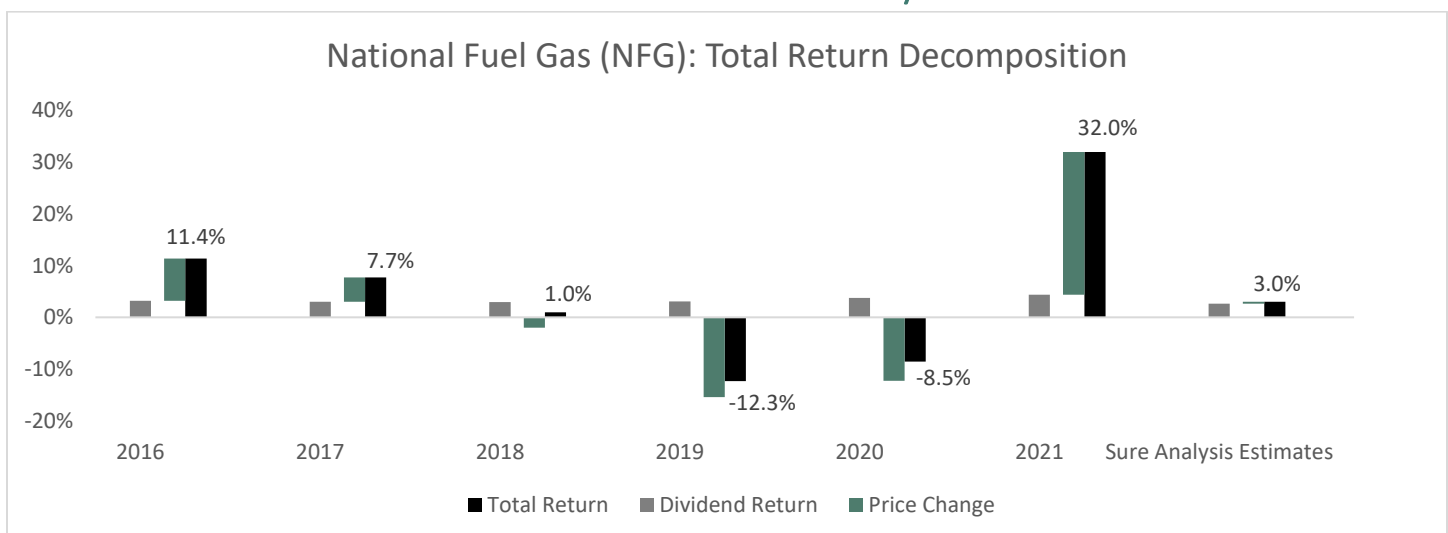
National Fuel Gas has a healthy balance sheet while its interest coverage level stands at a strong 5.9. Moreover, its dividend payout ratio is sufficiently low to enable continued dividend growth even if earnings stall temporarily. Management has always targeted a dividend payout ratio around 50% in order to have a high margin of safety against the wide fluctuations of the price of natural gas. As the 2.6% dividend yield of National Fuel Gas is nearly twice as much as the yield of the S&P (1.5%), 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. It is also poised to post record earnings for a third consecutive year in 2023. However, the stock has rallied 44% in about eleven months. As a result, we now expect the stock to offer a 3.0% average annual return over the next five years, as its 2.6% dividend and a 3.5% valuation tailwind may be partly offset by a -3.0% decline of earnings. The stock receives a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	1,627	1,830	2,113	1,761	1,452	1,580	1,593	1,693	1,546	1,743
<b>Gross Profit</b>	940	1,042	1,123	1,075	1,055	1,080	1,014	1,031	568	760
<b>Gross Margin</b>	57.8%	57.0%	53.2%	61.0%	72.6%	68.4%	63.7%	60.9%	36.7%	43.6%
<b>Operating Profit</b>	448	518	570	515	532	594	520	512	479	665
<b>Operating Margin</b>	27.5%	28.3%	27.0%	29.3%	36.6%	37.6%	32.6%	30.2%	31.0%	38.2%
<b>Net Profit</b>	220	260	299	(379)	(291)	283	392	304	(124)	364
<b>Net Margin</b>	13.5%	14.2%	14.2%	-21.5%	-20.0%	17.9%	24.6%	18.0%	-8.0%	20.9%
<b>Free Cash Flow</b>	(376)	35	(5)	(165)	7	234	31	(94)	(482)	40
<b>Income Tax</b>	151	173	190	(319)	(233)	161	(7)	85	19	115

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	5,935	6,218	6,728	6,565	5,636	6,103	6,036	6,462	6,965	7,465
<b>Cash &amp; Equivalents</b>	74	65	37	114	130	556	230	20	21	32
<b>Accounts Receivable</b>	116	133	150	105	133	112	141	140	144	205
<b>Inventories</b>	78	94	67	65	71	74	78	80	85	120
<b>Goodwill &amp; Int. Ass.</b>	5	5	5	5	5	5	5	5	5	5
<b>Total Liabilities</b>	3,975	4,024	4,317	4,539	4,109	4,400	4,099	4,323	4,993	5,679
<b>Accounts Payable</b>	88	105	137	180	108	126	160	132	134	172
<b>Long-Term Debt</b>	1,570	1,649	1,723	2,084	2,086	2,384	2,131	2,189	2,660	2,787
<b>Shareholder's Equity</b>	1,960	2,195	2,411	2,025	1,527	1,704	1,937	2,139	1,972	1,786
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	3.9%	4.3%	4.6%	-5.7%	-4.8%	4.8%	6.5%	4.9%	-1.8%	5.0%
<b>Return on Equity</b>	11.4%	12.5%	13.0%	-17.1%	-16.4%	17.5%	21.5%	14.9%	-6.0%	19.4%
<b>ROIC</b>	6.8%	7.1%	7.5%	-9.2%	-7.5%	7.4%	9.6%	7.2%	-2.8%	7.9%
<b>Shares Out.</b>	83.3	83.7	84.2	84.6	85.1	85.5	86.0	86.8	91.0	91.9
<b>Revenue/Share</b>	19.43	21.69	24.87	20.87	17.12	18.37	18.43	19.51	17.58	19.01
<b>FCF/Share</b>	(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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