



Atmos Energy Corp. (ATO)

Updated November 22nd, 2022, by Josh Arnold

Key Metrics

Current Price:	\$116	5 Year CAGR Estimate:	8.1%	Market Cap:	\$16.2 B
Fair Value Price:	\$114	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	11/28/22
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	12/12/22
Dividend Yield:	2.6%	5 Year Price Target	\$153	Years Of Dividend Growth:	39
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Atmos Energy can trace its beginnings all the way back to 1906 when it was formed in Texas. Since that time, it has grown both organically and through mergers to a \$16.2 billion market capitalization. The company distributes and stores natural gas in eight states, serves over 3 million customers, and should generate about \$4.3 billion in revenue this year. Atmos has a 39-year history of raising dividends, putting it in rare company among dividend stocks.

Atmos reported fourth quarter and full-year earnings on November 9th, 2022, and results were better than expected on both the top and bottom lines. Earnings-per-share came to 51 cents, seven cents better than estimates. Revenue soared 27% year-over-year to \$723 million, which was \$63 million better than expected.

For the full year, consolidated operating income was up \$16 million to \$921 million. Refunds of excess deferred income taxes reduced operating income by \$112 million, which was substantially offset by a decrease in income tax expense. Excluding these items, operating income was up \$128 million due to rate outcomes in both of its segments, as well as customer growth in distribution. These were partially offset by mild weather and lower consumption in the distribution segment, as well as increased operations and maintenance expenses.

The company guided for earnings-per-share of \$5.90 to \$6.10 to start the fiscal year, indicating another year of strong growth. We've initiated our forecast at the midpoint, accordingly.

Atmos raised its dividend by almost 9% to a new payout of 74 cents quarterly, its 39th consecutive year of increases.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.50	\$2.96	\$3.09	\$3.38	\$3.60	\$4.00	\$4.35	\$4.69	\$5.12	\$5.60	\$6.00	\$8.03
DPS	\$1.40	\$1.48	\$1.56	\$1.68	\$1.80	\$1.94	\$2.10	\$2.30	\$2.57	\$2.72	\$2.96	\$4.35
Shares¹	90	91	100	101	104	106	117	123	132	140	140	140

Atmos' earnings-per-share has risen steadily in the past decade as the company continues to grow both organically and through acquisitions. We are forecasting a five-year annual growth rate of 6% moving forward, in line with our prior estimate.

The company can achieve this growth through continued improvements in gross margin, reductions in operating costs as a percentage of revenue, and top line growth via acquisitions as well as customer growth. Along with margin improvements, Atmos should be able to produce mid-to-upper single-digit earnings-per-share growth annually. It continues to file favorable rate cases with its various localities that provide for small revenue increases over time as well, as we saw again in 2020 full-year results, and indeed in 2021 and 2022 results. The distribution segment continues to lead the way while pipeline and storage struggles.

We are forecasting similar growth for the dividend as years of weak dividend growth have given way to a management team that is more willing to boost the payout. The company's payout ratio is much lower than it has been in the past and thus a dividend growth rate congruent with earnings-per-share growth, or slightly higher, looks reasonable given

¹ Share count 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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recent history. Indeed, the most recent dividend increase was 8.8%. We see the dividend rising to \$4.35 over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.9	16.1	17.5	20.8	22.0	21.8	23.5	22.4	18.8	18.2	19.3	19.0
Avg. Yld.	3.5%	3.1%	2.9%	2.4%	2.3%	2.2%	2.0%	2.2%	2.7%	2.7%	2.6%	2.9%

Atmos, like many other utilities and dividend stocks in general, has seen a sizable increase in its valuation in recent years. Shares are valued more cheaply than at our last update, and stand today at 19.3 times this year's earnings. Thus, we are forecasting a small headwind to total returns based upon a return to a more normalized valuation level of a price-to-earnings ratio of 19. We see the yield potentially rising from 2.6% to 2.9% in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	56%	50%	51%	50%	50%	49%	48%	49%	50%	49%	49%	54%

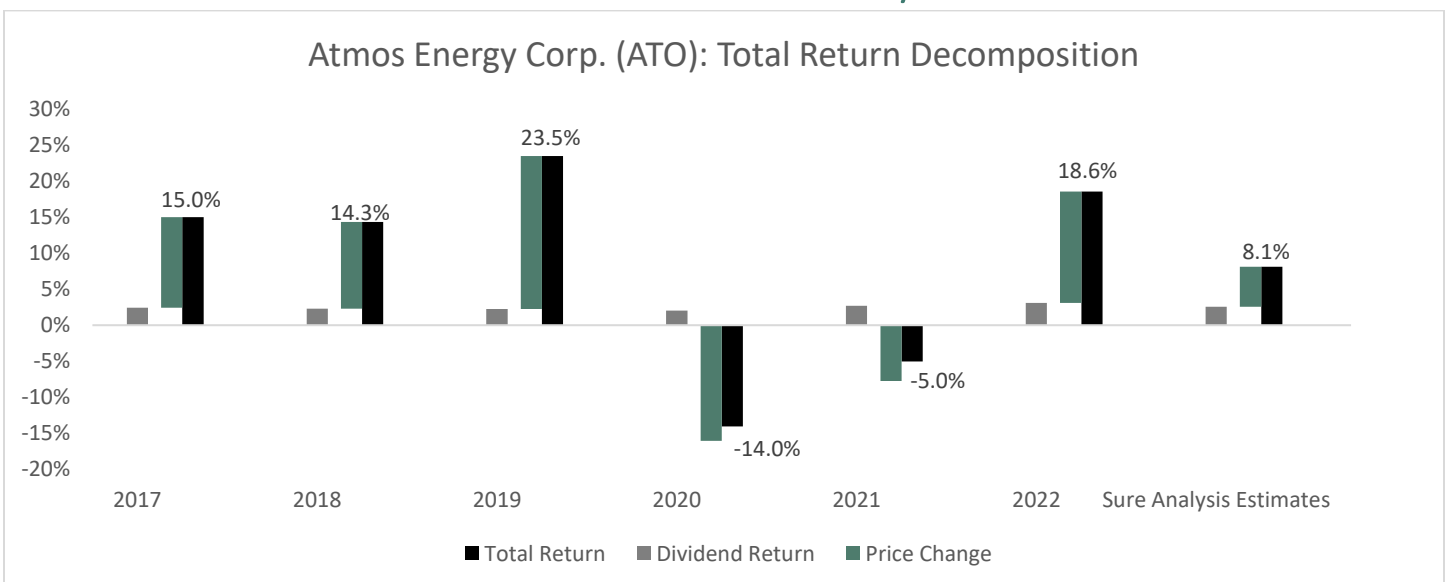
Atmos' payout ratio has drifted lower in recent years as dividend increases have been a lower priority than other spending. We expect the payout ratio to remain around 50% or slightly higher, as dividend increases roughly match the growth rate of earnings in the coming years. Atmos' dividend is safe and with the 2.6% yield, we see the payout as attractive compared to the broader market.

The company's competitive advantage is in its wide distribution area and lack of direct competition in its service areas for residential and commercial customers. In addition, discretionary use of natural gas is low as people use what they need, regardless of economic conditions, meaning Atmos' recession performance is likely to be resilient, as seen in 2020.

Final Thoughts & Recommendation

Atmos has strong fundamentals and a long track record of solid performance, but the valuation has declined of late. We are forecasting total annual returns of 8.1%, consisting of the current 2.6% yield, 6% earnings-per-share growth and a 0.3% potential headwind from the valuation. Given this, we're reiterating the stock at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3875	4941	2927	2455	2760	3116	2902	2,821	3,407	4,202
Gross Profit	1412	1582	1631	1708	1834	1948	2043	2,162	2,375	2,519
Gross Margin	36.4%	32.0%	55.7%	69.6%	66.5%	62.5%	70.4%	76.6%	69.7%	59.9%
D&A Exp.	238	254	275	293	320	361	391	430	478	536
Operating Profit	502	611	612	657	736	728	746	824	905	921
Operating Margin	13.0%	12.4%	20.9%	26.8%	26.7%	23.4%	25.7%	29.2%	26.6%	21.9%
Net Profit	243	290	315	350	396	603	511	601	666	774
Net Margin	6.3%	5.9%	10.8%	14.3%	14.4%	19.4%	17.6%	21.3%	19.5%	18.4%
Free Cash Flow	-232	-92	-152	-292	-270	-343	-725	-898	-3,054	-1,467
Income Tax	143	187	190	197	221	8	139	145	154	78

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	7934	8595	9075	10011	10750	11874	13368	15,359	19,609	22,193
Cash & Equivalents	66	42	29	48	26	14	25	21	117	52
Accounts Receivable	231	263	205	120	135	139	127	140	343	258
Inventories	250	285	249	185	189	174	136	119	178	384
Goodwill & Int. Ass.	741	742	743	727	730	730	731	731	731	731
Total Liabilities	5354	5508	5880	6548	6851	7104	7617	8,568	11,702	12,774
Accounts Payable	70	78	79	114	143	135	177	141	423	259
Long-Term Debt	2824	2653	2895	3269	3515	3644	3994	4,523	4,930	8,095
Shareholder's Equity	2580	3086	3195	3463	3899	4770	5750	6,791	7,907	9,419
LTD/E Ratio	1.09	0.86	0.91	0.94	0.90	0.76	0.69	0.67	0.62	0.86

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.2%	3.5%	3.6%	3.7%	3.8%	5.3%	4.1%	4.2%	3.8%	3.7%
Return on Equity	9.8%	10.2%	10.0%	10.5%	10.8%	13.9%	9.7%	9.6%	9.1%	8.9%
ROIC	4.7%	5.2%	5.3%	5.5%	5.6%	7.6%	5.6%	5.7%	5.0%	4.8%
Shares Out.	90	91	100	101	104	106	117	123	130	138
Revenue/Share	42.26	50.62	28.73	23.71	26.01	28.06	24.70	22.96	26.24	30.43
FCF/Share	-2.53	-0.94	-1.49	-2.82	-2.54	-3.09	-6.17	-7.31	-23.52	-10.62

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

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