



National Fuel Gas Co. (NFG)

Updated February 6th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	7.5%	Market Cap:	\$5.5 B
Fair Value Price:	\$72	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	3/29/2023 ¹
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.7%	Dividend Payment Date:	4/14/2023 ¹
Dividend Yield:	3.2%	5 Year Price Target	\$76	Years Of Dividend Growth:	52
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 largest segment of the company is Exploration & Production. National Fuel Gas was founded in 1902 and has grown to a market capitalization of \$5.5 billion. With 52 years of consecutive dividend increases, National Fuel Gas qualifies to be a Dividend King.

In early February, National Fuel Gas reported (2/2/23) financial results for the first quarter of fiscal 2023. The company grew its production 11% over the prior year's quarter thanks to the development of core acreage positions in Appalachia. In addition, its realized price of natural gas grew 20% thanks to tight supply. As a result, adjusted earnings-per-share grew 24%, from \$1.48 to \$1.84, and exceeded the analysts' consensus by \$0.15. National Fuel Gas has exceeded the analysts' consensus in 14 of the last 15 quarters.

On the other hand, the price of natural gas has plunged to a 2-year low lately, primarily due to relatively warm weather. In addition, the global gas market has somewhat absorbed the impact of the sanctions of western countries on Russia for its invasion in Ukraine. As a result, National Fuel Gas lowered its guidance for its earnings-per-share in fiscal 2023 from \$6.40-\$6.90 to \$5.35-\$5.75. Accordingly, we have lowered our forecast for earnings-per-share from \$6.65 to \$5.50.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.14	\$3.52	-\$4.50	-\$3.43	\$3.30	\$3.34	\$3.45	\$2.92	\$4.29	\$5.88	\$5.50	\$5.78
DPS	\$1.48	\$1.52	\$1.56	\$1.60	\$1.64	\$1.68	\$1.72	\$1.76	\$1.80	\$1.86	\$1.90	\$2.16
Shares²	83.7	84.2	84.6	85.1	85.5	86.0	86.8	91.0	91.9	92.2	92.5	98.0

National Fuel Gas pursues growth by growing its natural gas production and expanding its pipeline network. Thanks to record production and multi-year high prices of natural gas, the company posted record earnings in 2022 and thus it has now grown its earnings-per-share at a 7.2% average annual rate over the last decade. Moreover, the company grew its proved reserves 8% in 2022. This certainly bodes well for future growth prospects.

Nevertheless, due to the high cyclicality of the price of natural gas, we expect earnings-per-share to grow by only 1.0% per year on average over the next five years off this year's high comparison base. Gas prices may remain above-average in the short run due to the Ukrainian crisis but numerous countries are investing in renewable energy projects at full throttle to reduce their dependence on natural gas right now. As a result, we do not expect gas prices to return to their multi-year highs, which were reached last year, in the upcoming years. Essentially 100% 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.

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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.6	20.6	---	---	17.2	12.8	15.6	14.6	11.1	11.1	10.9	13.1
Avg. Yld.	2.8%	2.5%	2.1%	2.5%	3.1%	2.9%	3.2%	4.1%	3.8%	2.8%	3.2%	2.9%

National Fuel Gas is trading at a price-to-earnings ratio of 10.9, which is lower than its historical 5-year average of 13.1. If the stock reverts to this valuation level over the next 5 years, it will enjoy a 3.7% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	47.1%	43.2%	---	---	49.7%	50.3%	50.0%	60.3%	42.0%	31.6%	34.5%	37.4%

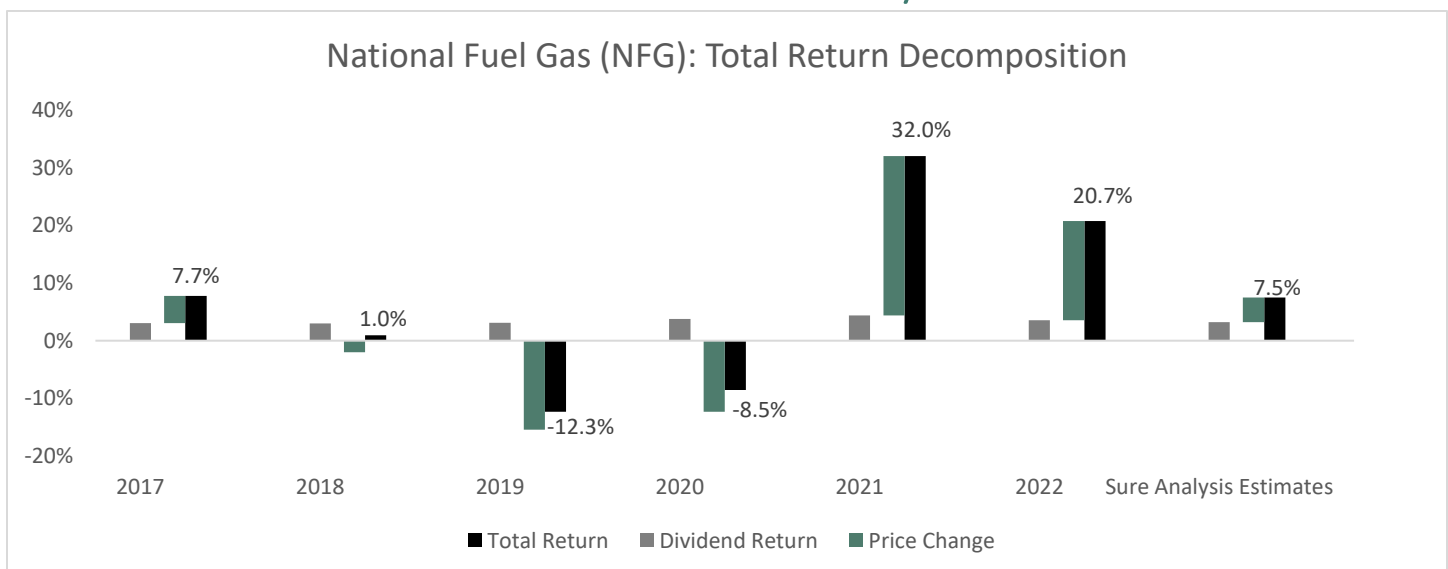
National Fuel Gas has a healthy balance sheet while its interest coverage level stands at a strong 6.4. Moreover, its dividend payout ratio is sufficiently low to enable continued dividend growth even if earnings stall temporarily. Management has always targeted a dividend payout ratio around 50% in order to have a high margin of safety against the wide fluctuations of the price of natural gas. As the 3.2% dividend yield of National Fuel Gas is more than 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. However, the company is highly cyclical and the price of natural gas seems to have peaked for good. We expect the stock to offer a 7.5% average annual return over the next five years thanks to 1.0% growth of earnings-per-share, a 3.2% dividend and a 3.7% valuation tailwind. The stock receives 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	1,830	2,113	1,761	1,452	1,580	1,593	1,693	1,546	1,743	2,186
Gross Profit	1,042	1,123	1,075	1,055	1,080	1,014	1,031	568	760	903
Gross Margin	57.0%	53.2%	61.0%	72.6%	68.4%	63.7%	60.9%	36.7%	43.6%	41.3%
Operating Profit	518	570	515	532	594	520	512	479	665	802
Operating Margin	28.3%	27.0%	29.3%	36.6%	37.6%	32.6%	30.2%	31.0%	38.2%	36.7%
Net Profit	260	299	(379)	(291)	283	392	304	(124)	364	566
Net Margin	14.2%	14.2%	-21.5%	-20.0%	17.9%	24.6%	18.0%	-8.0%	20.9%	25.9%
Free Cash Flow	35	(5)	(165)	7	234	31	(94)	(482)	40	1
Income Tax	173	190	(319)	(233)	161	(7)	85	19	115	117

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,218	6,728	6,565	5,636	6,103	6,036	6,462	6,965	7,465	7,896
Cash & Equivalents	65	37	114	130	556	230	20	21	32	46
Accounts Receivable	133	150	105	133	112	141	140	144	205	362
Inventories	94	67	65	71	74	78	80	85	120	172
Goodwill & Int. Ass.	5	5	5	5	5	5	5	5	5	5
Total Liabilities	4,024	4,317	4,539	4,109	4,400	4,099	4,323	4,993	5,679	5,816
Accounts Payable	105	137	180	108	126	160	132	134	172	179
Long-Term Debt	1,649	1,723	2,084	2,086	2,384	2,131	2,189	2,660	2,787	2,692
Shareholder's Equity	2,195	2,411	2,025	1,527	1,704	1,937	2,139	1,972	1,786	2,080
D/E Ratio	0.75	0.71	1.03	1.37	1.40	1.10	1.02	1.35	1.56	1.29

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.3%	4.6%	-5.7%	-4.8%	4.8%	6.5%	4.9%	-1.8%	5.0%	7.4%
Return on Equity	12.5%	13.0%	-17.1%	-16.4%	17.5%	21.5%	14.9%	-6.0%	19.4%	29.3%
ROIC	7.1%	7.5%	-9.2%	-7.5%	7.4%	9.6%	7.2%	-2.8%	7.9%	12.1%
Shares Out.	83.7	84.2	84.6	85.1	85.5	86.0	86.8	91.0	91.9	92.1
Revenue/Share	21.69	24.87	20.87	17.12	18.37	18.43	19.51	17.58	19.01	23.73
FCF/Share	0.42	(0.06)	(1.95)	0.09	2.72	0.36	(1.09)	(5.47)	0.43	0.01

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

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