



Northwest Natural Holding Company (NWN)

Updated February 28th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$48.3	5 Year CAGR Estimate:	8.9%	Market Cap:	\$1.7B
Fair Value Price:	\$51.1	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	4/30/23 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	5/15/23 ²
Dividend Yield:	4.0%	5 Year Price Target	\$64	Years Of Dividend Growth:	67
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

NW Natural was founded in 1859 and has grown from a small utility to a large publicly traded utility 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 67 consecutive years. NW Natural trades with a market capitalization of \$1.7 billion.

NW Natural reported Q4 and FY2022 results on February 24th. The company reported a net income of \$86.3 million (or \$2.54 per share) for 2022, an increase of \$7.6 million or 10% compared to the net income of \$78.7 million (or \$2.56 per share) for 2021. The company added 8,600 natural gas meters over the last 12 months, which equates to a 1.1% growth rate. Additionally, the company invested \$338.6 million in its gas and water utility systems to support growth, reliability, and resiliency. In the 2022 J.D. Power Gas Utility Residential Customer Satisfaction Study, the company ranked second in the West for customer satisfaction among large utilities, making it the 19th consecutive year that customers have ranked NW Natural among the top two utilities. The company's new rates related to Oregon and Washington NW Natural general rate cases went into effect on November 1, 2022.

The company closed its largest water and wastewater acquisition to date in Yuma, Arizona, which increased NW Natural Water's customer base by approximately 70% and brought total connections to approximately 62,500 as of December 31, 2022. In 2023, NW Natural Water signed agreements to add over 2,800 water and wastewater connections in key states in its service territory. NW Natural Renewables is investing in renewable natural gas (RNG) facilities, and the company expects these facilities to begin producing commercial volumes in the second quarter of 2023. The company was honored as one of the 2022 World's Most Ethical Companies[®] by Ethisphere. The company also increased its dividend for the 67th consecutive year to an annual indicated dividend rate of \$1.94 per share.

The company has initiated its 2023 earnings guidance in the range of \$2.55 to \$2.75 per share and has reaffirmed its long-term earnings per share growth rate target of 4% to 6%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.24	\$2.16	\$2.29	\$2.19	\$2.24	\$2.33	\$2.41	\$2.30	\$2.56	\$2.54	\$2.69	\$3.35
DPS	\$1.83	\$1.85	\$1.86	\$1.87	\$1.88	\$1.90	\$1.91	\$1.91	\$1.92	\$1.93	\$1.94	\$2.10
Shares³	27.1	27.3	27.4	28.6	28.8	28.9	30.5	30.6	31.2	35.5	35.5	40

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 of 4.5% 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

¹ Estimated Date

² Estimated Date

³ 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.



Northwest Natural Holding Company (NWN)

Updated February 28th, 2023 by Samuel Smith

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 67 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.4	20.7	23.7	26.9	31.9	26.5	30.2	22.2	18.0	19.5	18.0	19.0
Avg. Yld.	4.2%	4.1%	4.0%	3.3%	2.6%	3.2%	2.6%	3.7%	4.2%	3.9%	4.0%	3.3%

NW Natural's price-to-earnings multiple rose from 15.2 in 2009 to 30.2 in 2019 before declining back to 18.0x 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 19 times earnings, even though NWN was trading for over 30 times earnings not too long ago. As a result, the stock is slightly undervalued right now according to our model.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	82%	86%	81%	85%	84%	82%	79%	83%	75%	76%	72%	63%

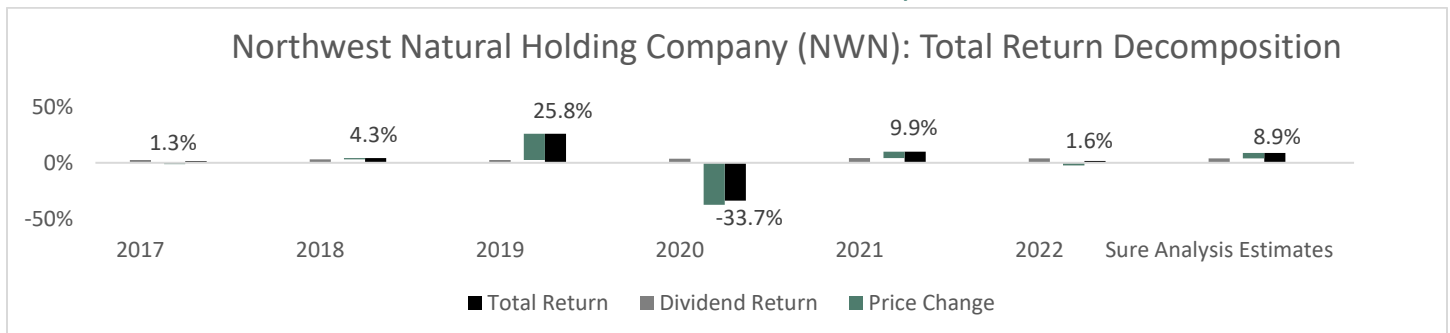
NW Natural's quality metrics have been very steady in the past decade. Seventy-six percent of its total assets are encumbered by debt, which is completely acceptable for a utility. Its interest coverage is fairly strong at 3.6, so there are certainly no financing concerns moving forward. The payout ratio 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, lackluster growth momentum means that total annualized returns over the next half decade are expected to be 8.9% thanks to the combination of the 4% yield and 4.5% expected annualized earnings growth along with very slight multiple expansion. 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



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Northwest Natural Holding Company (NWN)

Updated February 28th, 2023 by Samuel Smith

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	759	754	724	668	755	706	746	774	860	1,037
Gross Profit	249	252	239	271	278	264	283	301	329	341
Gross Margin	32.8%	33.4%	33.0%	40.5%	36.8%	37.4%	37.9%	38.8%	38.3%	32.9%
D&A Exp.	76	79	81	78	81	85	91	104	114	117
Operating Profit	143	143	124	151	151	132	143	148	163	167
Operating Margin	18.8%	19.0%	17.2%	22.6%	20.0%	18.7%	19.2%	19.2%	19.0%	16.1%
Net Profit	61	59	54	59	(56)	65	62	77	79	86
Net Margin	8.0%	7.8%	7.4%	8.8%	-7.4%	9.1%	8.3%	9.9%	9.1%	8.3%
Free Cash Flow	37	96	66	84	(7)	(50)	(56)	(136)	(135)	(192)
Income Tax	42	42	36	43	41	24	13	21	27	29

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,971	3,065	3,069	3,080	3,040	3,243	3,428	3,756	4,065	4,748
Cash & Equivalents	9	10	4	4	3	13	10	30	19	29
Accounts Receivable	80	69	67	65	65	66	66	85	99	169
Inventories	61	78	71	54	48	44	44	43	57	87
Total Liabilities	2,219	2,298	2,288	2,229	2,297	2,480	2,562	2,868	3,129	3,573
Accounts Payable	96	91	73	86	111	116	113	98	133	181
Long-Term Debt	930	896	864	773	834	954	1,030	1,260	1,434	1,595
Shareholder's Equity	752	767	781	850	743	763	866	889	935	1,175
LTD/E Ratio	1.24	1.17	1.11	0.91	1.12	1.25	1.19	1.42	1.53	1.36

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.1%	1.9%	1.8%	1.9%	-1.8%	2.1%	1.9%	2.1%	2.0%	2.0%
Return on Equity	8.2%	7.7%	6.9%	7.2%	-7.0%	8.6%	7.6%	8.8%	8.6%	8.2%
ROIC	3.7%	3.5%	3.2%	3.6%	-3.5%	3.9%	3.4%	3.8%	3.5%	3.4%
Shares Out.	27.1	27.3	27.4	28.6	28.8	28.9	30.5	30.6	30.7	35.5
Revenue/Share	28.07	27.70	26.40	24.05	26.26	24.46	25.00	25.28	27.98	30.52
FCF/Share	1.39	3.51	2.42	3.02	(0.23)	(1.74)	(1.88)	(4.43)	(4.39)	(5.64)

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.