



Southwest Gas Holdings (SWX)

Updated March 12th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	5.5%	Market Cap:	\$4.0 B
Fair Value Price:	\$61	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	05/14/2023
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	06/01/2023
Dividend Yield:	4.2%	5 Year Price Target:	\$64	Years of Dividend Growth:	15
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Southwest Gas Holdings Inc. is a holding company that operates in two business segments, Natural Gas Operations and Utility Infrastructure Services. The Natural Gas business, Southwest Gas Corp., purchases, distributes and transports natural gas in Arizona, California and Nevada and serves over 2 million customers. The corporation also owns and operates an interstate pipeline through their subsidiary Paiute Pipeline Company. Paiute also runs a peak shaving LNG storage facility. The Utility business, Centuri Group Inc. delivers a multitude of energy solutions to North America's gas and electric providers. Centuri operates across the U.S. and Canada.

The holdings company trades under the ticker symbol SWX on the NYSE and has a market capitalization of \$4.0 billion. Southwest Gas Holdings Inc. is headquartered in Las Vegas, Nevada. Its regulated natural gas utility, Southwest, was incorporated in March 1931.

On August 27th, 2021, SouthWest Gas completed the acquisition of Riggs Distler to expand Centuri's offerings. The acquisition diversifies Centuri's utility services platform, and add opportunities in electric utility services, renewable energy, and 5G telecom.

On February 14th, 2023, SouthWest completed the sale of MountainWest, and used the proceeds to reduce debt. Furthermore, Southwest Gas is actively pursuing the spin-off of Centuri, its fully owned subsidiary, to create a new independent publicly traded utility infrastructure services company. The spin-off is expected to occur in the fourth quarter of 2023 or the first quarter of 2024.

Southwest Gas Holdings reported fourth quarter 2022 results on February 28th, 2022, for the period ending December 1st, 2022. SWX reported diluted earnings per share of \$(4.18) for Q4, compared to \$1.15 per share in the year-ago quarter. Adjusted EPS also shrunk to \$1.16 from \$1.49 a year ago.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.11	\$3.01	\$2.92	\$3.18	\$4.04	\$3.68	\$3.94	\$4.14	\$4.00	\$3.00	\$3.40	\$3.57
DPS	\$1.29	\$1.43	\$1.58	\$1.76	\$1.94	\$2.06	\$2.16	\$2.26	\$2.36	\$2.46	\$2.48	\$2.87
Shares¹	46.5	46.5	47.4	47.5	48.1	53.0	55.0	56.9	60.6	67.2	69.0	80.0

Southwest Gas has grown the business fairly consistently over the past decade into 2021. For the nine and five years leading up to 2021, Southwest grew its earnings-per-share by roughly 1.9% and 1.3%, respectively.

The share count has also grown steadily, at a moderate pace, with 4.2% annual share count growth since 2013.

With the acquisition of Riggs Distler, upcoming regulated rate increases, expansion projects, increasing operating margin, and customer additions, Southwest should see earnings growth come in at around 1% per annum in the intermediate term. We expect the dividend to grow in-line with earnings at around 2%, as the payout has recently been eclipsing its historical range between 40% to 60%. The sale of MountainWest and the spin-off of Centuri should see Southwest Gas as a more efficient and nimble company in the coming years.

¹ In millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.0	18.1	19.3	22.7	25.0	18.0	22.5	18.3	15.3	27.9	17.4	18.0
Avg. Yld.	2.5%	2.5%	2.7%	2.4%	2.3%	2.7%	2.5%	3.2%	3.4%	3.0%	4.2%	4.3%

The current P/E of 17.4 is below Southwest's historical PE ratio. In the past nine years, the average PE was 20.3. In the past five years, this average PE was 20.4. We peg fair value at 18.0 times earnings, which implies the potential for a small valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

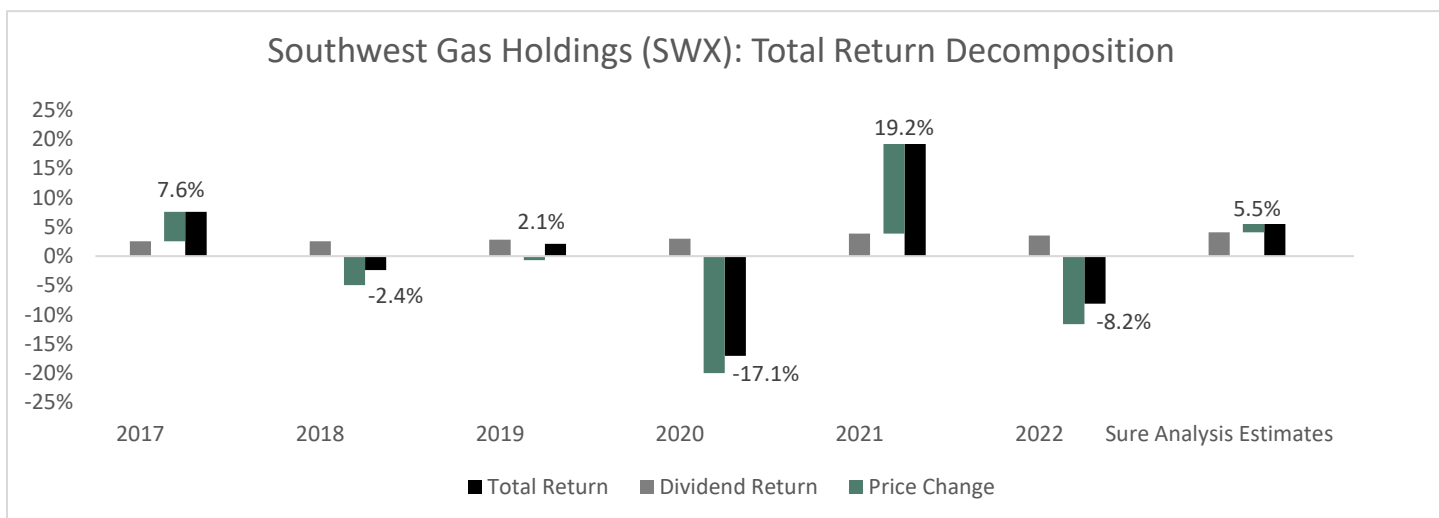
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	41%	47%	54%	55%	48%	56%	55%	54%	59%	82%	73%	77%

The payout ratio historically has been below 60% and we see this being eclipsed in the next few years, but the dividend still appears to be safe. Utilities businesses are generally safe during a recession, especially Southwest Gas, who primarily provides energy to residential customers. The corporation provides a necessary product, and not simply a want, so it is not likely to lose a lot of business, even through a recession. While the company has resiliency during a recession, it is not immune, and in the great financial crisis, earnings dropped 25% at the worst point. The company surpassed the earnings prior to the financial crisis in only one year and has remained above those earnings levels since. Southwest believes it has an advantage by communicating directly with home builders and commercial property developers to recommend natural gas appliances be installed in new builds, and thus is successful in providing many of these new homes with natural gas for the lifetime of the property and increase customer growth. The company also prefers to remain uninvolved in cross-country pipeline and electric transmission projects, likely due to strict regulations in getting these projects off the ground, which could be costly.

Final Thoughts & Recommendation

Southwest Gas Holdings is a strong, consistent, and fairly recession-resistant business. So far, the corporation has raised dividends for fifteen consecutive years, and we see this continuing into the future. We estimate that the company is trading at 97% of fair value today and has annualized total return estimates of 5.5% into 2028. We estimate 1.0% earnings growth, a potential valuation tailwind and the company has a 4.2% starting yield. SWX earns a hold rating based on these factors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,951	2,122	2,464	2,460	2,549	2,880	3,120	3,299	3680	4960
Gross Profit	557	585	608	657	652	667	737	818	821	995
Gross Margin	28.5%	27.6%	24.7%	26.7%	25.6%	23.1%	23.6%	24.8%	22.3%	20.1%
D&A Exp.	237	253	270	289	251	249	303	332	371	470
Operating Profit	274	284	288	315	343	357	372	423	370	431
Op. Margin	14.1%	13.4%	11.7%	12.8%	13.5%	12.4%	11.9%	12.8%	10.0%	8.7%
Net Profit	145	141	138	152	194	182	214	232	201	-203
Net Margin	7.4%	6.7%	5.6%	6.2%	7.6%	6.3%	6.9%	7.0%	5.5%	-4.1%
Free Cash Flow	(18)	(50)	64	71	(254)	(237)	(438)	(199)	-604	-452
Income Taxes	78	78	80	78	65	62	56	66	40	-76

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,565	5,208	5,359	5,581	6,237	7,358	8,170	8,736	12,765	13197
Cash & Equivalents	41	40	36	28	44	85	50	83	223	123
Goodwill & Int.	18	191	163	178	179	359	343	345	1,781	787
Total Liabilities	3,153	3,722	3,766	3,920	4,425	5,106	5,664	6,061	9,811	9979
Accounts Payable	184	168	165	185	228	249	239	231	353	662
Long-Term Debt	1,392	1,656	1,589	1,600	2,038	2,292	2,675	2,880	6,322	5991
Total Equity	1,415	1,489	1,594	1,663	1,815	2,252	2,506	2,675	2,954	3059
LTD/E Ratio	0.98	1.11	1.00	0.96	1.12	1.02	1.07	1.08	2.14	1.96

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.2%	2.9%	2.6%	2.8%	3.3%	2.7%	2.8%	2.7%	1.9%	-1.6%
Return on Equity	10.7%	9.7%	9.0%	9.3%	11.1%	9.0%	9.0%	9.0%	7.1%	-6.8%
ROIC	5.4%	4.7%	4.4%	4.7%	5.5%	4.3%	4.4%	4.3%	2.7%	-2.2%
Shares Out.	46.5	46.5	47.4	47.5	48.1	53.0	55.0	57.2	60.6	65.56
Revenue/Share	41.72	45.20	51.99	51.46	53.11	58.21	57.44	58.83	62.11	75.66
FCF/Share	(0.39)	(1.08)	1.35	1.48	(5.29)	(4.79)	(8.06)	(3.55)	-10.20	-6.89

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

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