



Northwest Natural Holding Company (NWN)

Updated May 13th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$45.7	5 Year CAGR Estimate:	10.1%	Market Cap:	\$1.7B
Fair Value Price:	\$51.1	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	7/30/23 ¹
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	8/15/23 ²
Dividend Yield:	4.2%	5 Year Price Target	\$64	Years Of Dividend Growth:	67
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

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 Q1 results on May 4th. The company reported GAAP EPS of \$2.01, beating estimates by \$0.12, and revenue of \$462.43M, up 32% Y/Y, surpassing expectations by \$96.97M. Operating cash flows increased to \$176.9M, while investing activities used \$73.0M, primarily for natural gas utility capital expenditures. Net cash from financing activities was \$11.2M, and the company held \$140.8M in cash as of March 31, 2023. The company reaffirmed its 2023 earnings guidance of \$2.55-\$2.75 per share and a long-term earnings growth rate target of 4-6% compounded annually from 2022-2027.

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	36.0	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 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	17.0	19.0
Avg. Yld.	4.2%	4.1%	4.0%	3.3%	2.6%	3.2%	2.6%	3.7%	4.2%	3.9%	4.2%	3.3%

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.



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NW Natural’s price-to-earnings multiple rose from 15.2 in 2009 to 30.2 in 2019 before declining back to 17.0x 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%

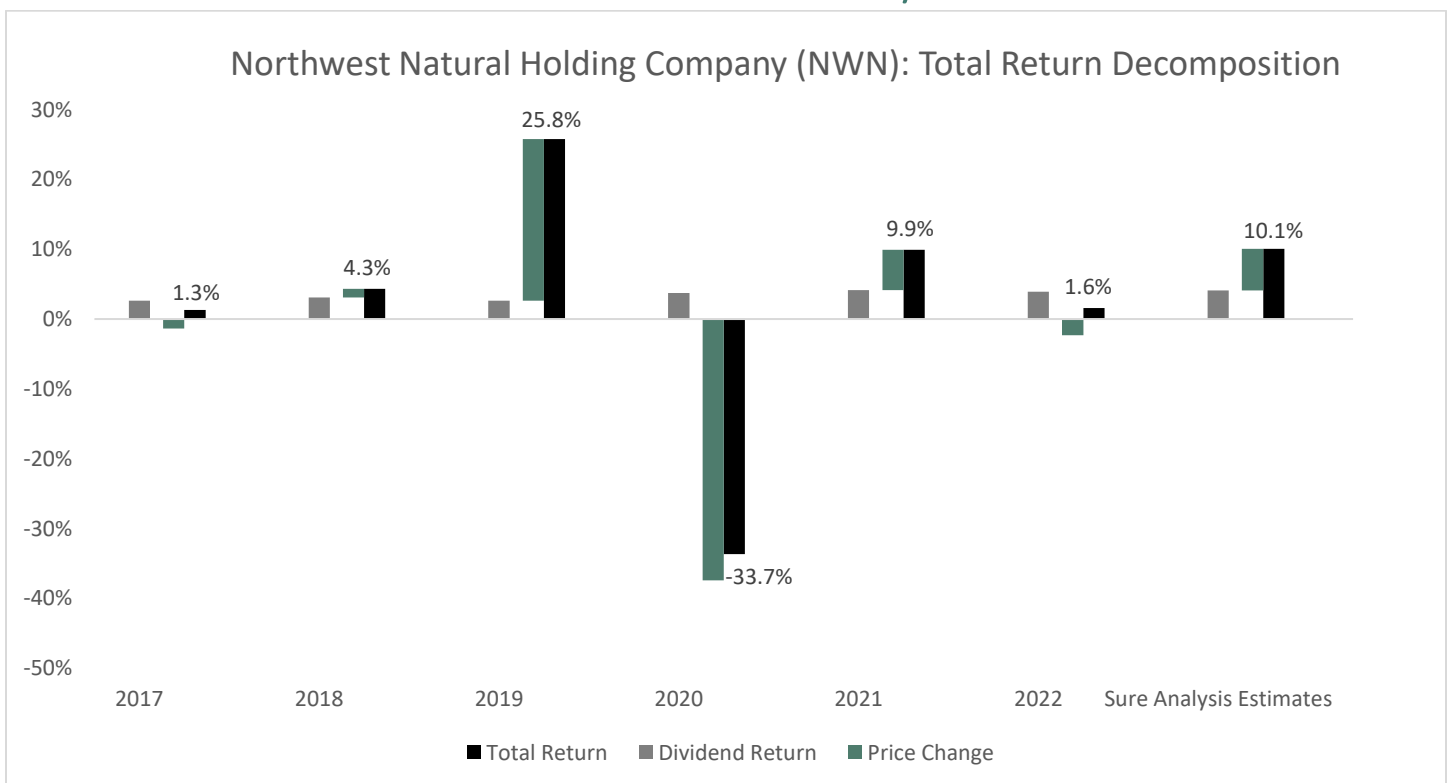
NW Natural’s quality metrics have been very steady in the past decade. Seventy-six percent of its total assets are encumbered by debt, which is completely acceptable for a utility. Its interest coverage is fairly strong at 3.6, so there are certainly no financing concerns moving forward. The payout ratio 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

We forecast 10.1% annualized total returns moving forward thanks to a combination of an attractive and growing dividend, solid earnings per share growth, and some expected multiple expansion. As a result, we rate it a Buy.

Total Return Breakdown by Year



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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.

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