



# National Fuel Gas Co. (NFG)

Updated November 9<sup>th</sup>, 2023 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$51	<b>5 Year CAGR Estimate:</b>	11.5%	<b>Market Cap:</b>	\$4.8 B
<b>Fair Value Price:</b>	\$73	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	12/28/2023 <sup>1</sup>
<b>% Fair Value:</b>	69%	<b>5 Year Valuation Multiple Estimate:</b>	7.6%	<b>Dividend Payment Date:</b>	1/12/2024 <sup>1</sup>
<b>Dividend Yield:</b>	3.9%	<b>5 Year Price Target</b>	\$77	<b>Years Of Dividend Growth:</b>	53
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## 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 \$4.8 billion. With 53 years of consecutive dividend increases, National Fuel Gas qualifies to be a Dividend King.

In early November, National Fuel Gas reported (11/1/23) financial results for the fourth quarter of fiscal 2023. The company grew its production 7% over the prior year's quarter thanks to the development of core acreage positions in Appalachia. However, the average realized price of natural gas fell -18%, from \$2.84 to \$2.33. As a result, adjusted earnings-per-share declined -34%, from \$1.19 to \$0.78, and missed the analysts' consensus by \$0.07. The company has beaten the analysts' estimates in 15 of the last 18 quarters.

Despite the plunge of the price of natural gas this year vs. blowout prices last year amid the Ukrainian crisis, National Fuel Gas posted just a -12% decrease in its annual earnings-per-share thanks to strong production growth and its efficient operations. The price of natural gas has bounced in recent months thanks to the surge of U.S. consumption to all-time highs. As a result, National Fuel Gas provided strong guidance for fiscal 2024. It expects earnings-per-share of \$5.40-\$5.90, thus implying 9% growth at the mid-point. Accordingly, we expect earnings-per-share around \$5.65.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.52	-\$4.50	-\$3.43	\$3.30	\$3.34	\$3.45	\$2.92	\$4.29	\$5.88	\$5.17	<b>\$5.65</b>	<b>\$5.94</b>
<b>DPS</b>	\$1.52	\$1.56	\$1.60	\$1.64	\$1.68	\$1.72	\$1.76	\$1.80	\$1.86	\$1.94	<b>\$1.98</b>	<b>\$2.24</b>
<b>Shares<sup>2</sup></b>	84.2	84.6	85.1	85.5	86.0	86.8	91.0	91.9	92.2	92.4	<b>92.6</b>	<b>98.0</b>

National Fuel Gas pursues growth by growing its natural gas production and expanding its pipeline network. The company has grown its earnings-per-share at a 4.4% average annual rate over the last decade. Moreover, the company grew its proved reserves 8% in 2022 and 9% in 2023. 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 find support from the Ukrainian crisis in the short run 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.

<sup>1</sup> Estimated date.

<sup>2</sup> 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.6	---	---	17.2	12.8	15.6	14.6	11.1	11.1	11.0	9.0	13.0
Avg. Yld.	2.5%	2.1%	2.5%	3.1%	2.9%	3.2%	4.1%	3.8%	2.8%	3.4%	3.9%	2.9%

National Fuel Gas is trading at a price-to-earnings ratio of 9.0, which is lower than its historical 5-year average of 13.0. If the stock reverts to this valuation level over the next 5 years, it will enjoy a 7.6% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	43.2%	---	---	49.7%	50.3%	50.0%	60.3%	42.0%	31.6%	37.5%	35.0%	37.7%

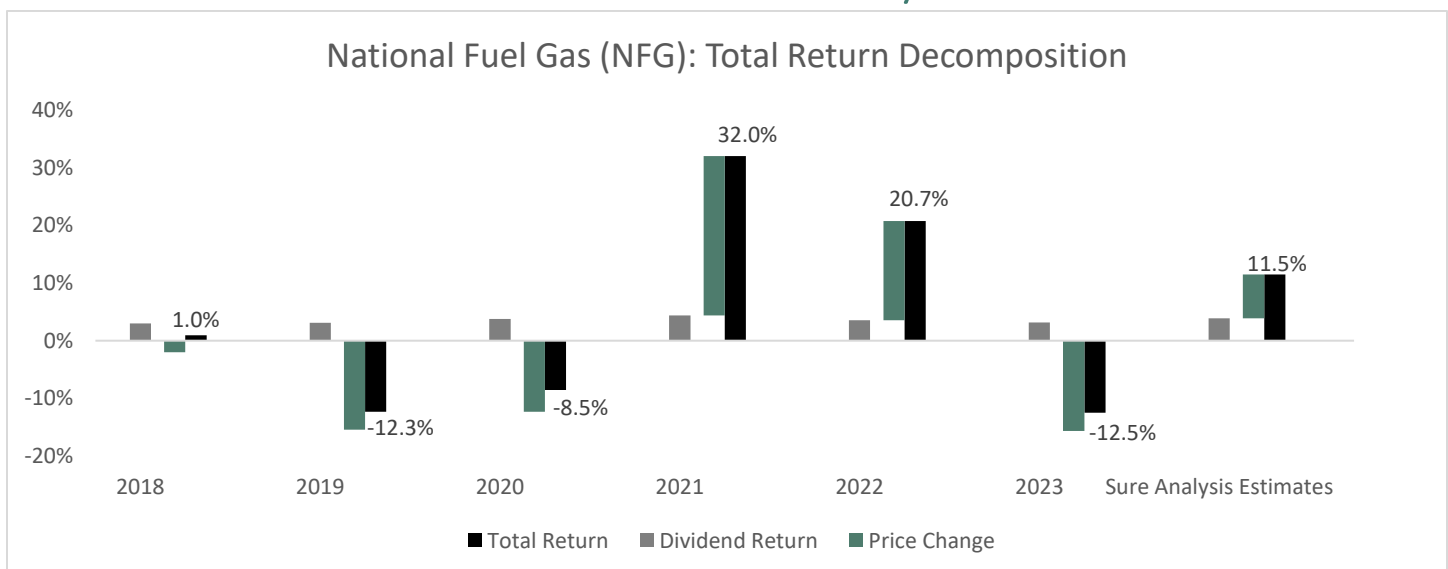
National Fuel Gas has a healthy balance sheet while its interest coverage level stands at a strong 5.7. Moreover, its dividend payout ratio is sufficiently low to enable continued dividend growth even if earnings stall temporarily. Management has always targeted a dividend payout ratio around 50% in order to have a wide margin of safety against the wide fluctuations of the price of natural gas. As the 3.9% 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 has moderated vs. blowout levels in 2022. As a result, the stock has shed -22% in the last 12 months. It could now offer an 11.5% average annual return over the next five years thanks to 1.0% growth of earnings-per-share, a 3.9% dividend and a 7.6% valuation tailwind. The stock receives a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	2,113	1,761	1,452	1,580	1,593	1,693	1,546	1,743	2,186	
<b>Gross Profit</b>	1,123	1,075	1,055	1,080	1,014	1,031	568	760	903	
<b>Gross Margin</b>	53.2%	61.0%	72.6%	68.4%	63.7%	60.9%	36.7%	43.6%	41.3%	
<b>Operating Profit</b>	570	515	532	594	520	512	479	665	802	
<b>Operating Margin</b>	27.0%	29.3%	36.6%	37.6%	32.6%	30.2%	31.0%	38.2%	36.7%	
<b>Net Profit</b>	299	(379)	(291)	283	392	304	(124)	364	566	
<b>Net Margin</b>	14.2%	-21.5%	-20.0%	17.9%	24.6%	18.0%	-8.0%	20.9%	25.9%	
<b>Free Cash Flow</b>	(5)	(165)	7	234	31	(94)	(482)	40	1	
<b>Income Tax</b>	190	(319)	(233)	161	(7)	85	19	115	117	

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	6,728	6,565	5,636	6,103	6,036	6,462	6,965	7,465	7,896	
<b>Cash &amp; Equivalents</b>	37	114	130	556	230	20	21	32	46	
<b>Accounts Receivable</b>	150	105	133	112	141	140	144	205	362	
<b>Inventories</b>	67	65	71	74	78	80	85	120	172	
<b>Goodwill &amp; Int. Ass.</b>	5	5	5	5	5	5	5	5	5	
<b>Total Liabilities</b>	4,317	4,539	4,109	4,400	4,099	4,323	4,993	5,679	5,816	
<b>Accounts Payable</b>	137	180	108	126	160	132	134	172	179	
<b>Long-Term Debt</b>	1,723	2,084	2,086	2,384	2,131	2,189	2,660	2,787	2,692	
<b>Shareholder's Equity</b>	2,411	2,025	1,527	1,704	1,937	2,139	1,972	1,786	2,080	
<b>D/E Ratio</b>	0.71	1.03	1.37	1.40	1.10	1.02	1.35	1.56	1.29	

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	4.6%	-5.7%	-4.8%	4.8%	6.5%	4.9%	-1.8%	5.0%	7.4%	
<b>Return on Equity</b>	13.0%	-17.1%	-16.4%	17.5%	21.5%	14.9%	-6.0%	19.4%	29.3%	
<b>ROIC</b>	7.5%	-9.2%	-7.5%	7.4%	9.6%	7.2%	-2.8%	7.9%	12.1%	
<b>Shares Out.</b>	84.2	84.6	85.1	85.5	86.0	86.8	91.0	91.9	92.1	
<b>Revenue/Share</b>	24.87	20.87	17.12	18.37	18.43	19.51	17.58	19.01	23.73	
<b>FCF/Share</b>	(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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