



Atmos Energy Corp. (ATO)

Updated February 24th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$113	5 Year CAGR Estimate:	11.7%	Market Cap:	\$17 B
Fair Value Price:	\$125	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	02/23/24
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	03/11/24
Dividend Yield:	2.8%	5 Year Price Target	\$176	Years Of Dividend Growth:	40
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Atmos Energy can trace its beginnings all the way back to 1906 when it was formed in Texas. Since that time, it has grown both organically and through mergers to a \$17 billion market capitalization. The company distributes and stores natural gas in eight states, serves over 3 million customers, and should generate about \$5 billion in revenue this year. Atmos has a 40-year history of raising dividends, putting it in rare company among dividend stocks.

Atmos posted first quarter earnings on February 6th, 2024, and results were fairly strong. Earnings-per-share came to \$2.08, or \$311 million on a dollar basis. Capital expenditures for the quarter were \$770 million, with 82% of that capex being focused on safety and reliability, with the balance on growth projects. Atmos ended the quarter with \$3.2 billion in available liquidity. In addition, Atmos implemented \$162 million in annualized regulatory outcomes, including the settlement of the company's Texas general rate case.

Atmos reaffirmed its outlook for \$6.45 to \$6.65 in earnings-per-share for this year, and we've slightly boosted our estimate for this year to \$6.60, up a dime from our initial estimate. The management team continues to expect 6% to 8% annual earnings-per-share growth, in line with our estimate.

The company expects \$2.9 billion in capital expenditures for the year, with the overwhelming majority intended for safety and reliability projects.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.96	\$3.09	\$3.38	\$3.60	\$4.00	\$4.35	\$4.69	\$5.12	\$5.60	\$6.08	\$6.60	\$9.26
DPS	\$1.48	\$1.56	\$1.68	\$1.80	\$1.94	\$2.10	\$2.30	\$2.57	\$2.72	\$2.96	\$3.22	\$4.73
Shares¹	91	100	101	104	106	117	123	132	140	145	148	160

Atmos' earnings-per-share has risen steadily in the past decade as the company continues to grow both organically and through acquisitions. We are forecasting a five-year annual growth rate of 7% moving forward, in line with our prior estimate.

The company can achieve this growth through continued improvements in gross margin, reductions in operating costs as a percentage of revenue, and top line growth via acquisitions as well as customer growth. Along with margin improvements, Atmos should be able to produce mid-to-upper single-digit earnings-per-share growth annually. It continues to file favorable rate cases with its various localities that provide for small revenue increases over time as well, as we saw again in 2020 full-year results, and indeed in 2021 and 2022 results. The distribution segment continues to lead the way while pipeline and storage struggles relatively. The company is working to modernize its pipeline and storage business, including heavy capex investment, in the hopes that this may translate into more efficient operating and therefore, better margins.

We are forecasting similar growth for the dividend as years of weak dividend growth have given way to a management team that is more willing to boost the payout. The company's payout ratio is just half of earnings, thus a dividend

¹ Share count 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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growth rate congruent with earnings-per-share growth, or slightly higher, looks reasonable given recent history. Indeed, the most recent dividend increase was 8.8%. We see the dividend rising to \$4.73 over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.1	17.5	20.8	22.0	21.8	23.5	22.4	18.8	18.2	16.3	17.1	19.0
Avg. Yld.	3.1%	2.9%	2.4%	2.3%	2.2%	2.0%	2.2%	2.7%	2.7%	2.8%	2.8%	2.7%

Atmos, like many other utilities and dividend stocks in general, has seen a sizable increase in its valuation in recent years. Shares are valued roughly equivalent to our last update, and stand today at 17.1 times this year's earnings. Thus, we are forecasting a small tailwind to total returns based upon a return to a more normalized valuation level of a price-to-earnings ratio of 19. We see the yield remaining about where it is today, at 2.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	50%	51%	50%	50%	49%	48%	49%	50%	49%	49%	49%	51%

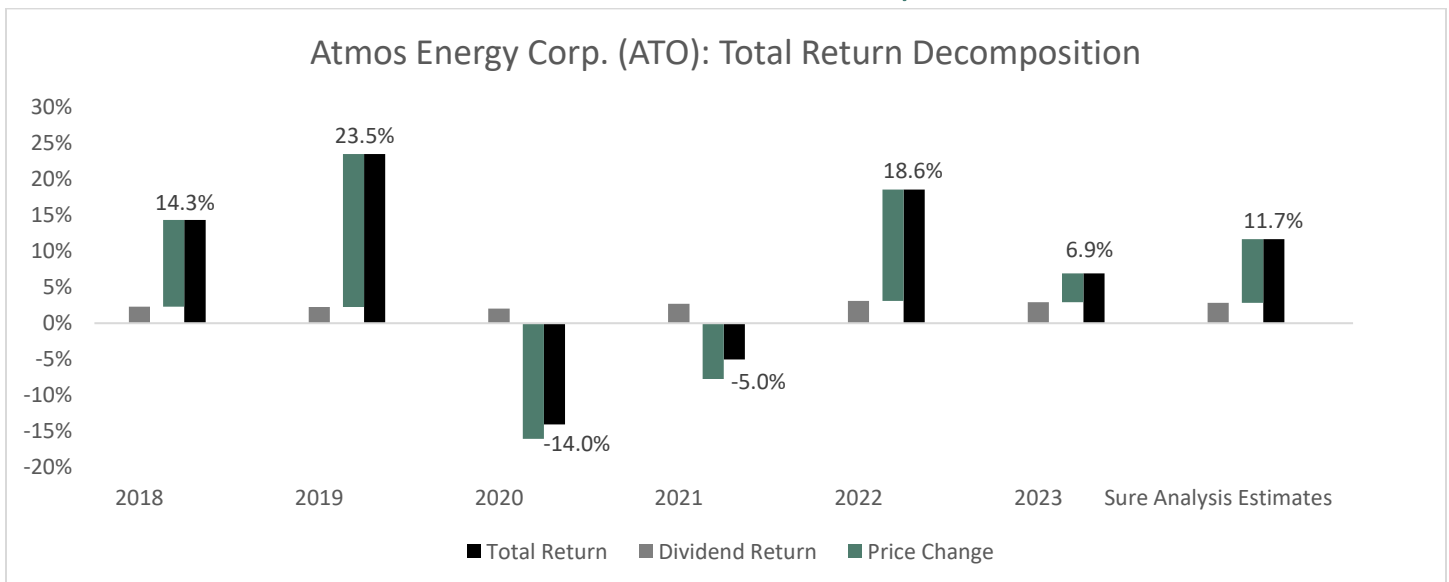
Atmos' payout ratio has drifted lower in recent years as dividend increases have been a lower priority than other spending. We expect the payout ratio to remain around 50% or slightly higher, as dividend increases roughly match the growth rate of earnings in the coming years. Atmos' dividend is safe and with the 2.8% yield, we see the payout as attractive compared to the broader market.

The company's competitive advantage is in its wide distribution area and lack of direct competition in its service areas for residential and commercial customers. In addition, discretionary use of natural gas is low as people use what they need, regardless of economic conditions, meaning Atmos' recession performance is likely to be resilient, as seen in 2020.

Final Thoughts & Recommendation

Atmos has strong fundamentals and a long track record of solid performance, but the valuation has improved. We are forecasting total annual returns of 11.7%, consisting of the current 2.8% yield, 7% earnings-per-share growth and a 2.1% potential tailwind from the valuation. Given this, we're reiterating the stock at 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
Revenue	4941	2927	2455	2760	3116	2902	2,821	3,407	4,202	4,275
Gross Profit	1582	1631	1708	1834	1948	2043	2,162	2,375	2,519	2,058
Gross Margin	32.0%	55.7%	69.6%	66.5%	62.5%	70.4%	76.6%	69.7%	59.9%	48.1%
D&A Exp.	254	275	293	320	361	391	430	478	536	604
Operating Profit	611	612	657	736	728	746	824	905	921	1,067
Operating Margin	12.4%	20.9%	26.8%	26.7%	23.4%	25.7%	29.2%	26.6%	21.9%	25.0%
Net Profit	290	315	350	396	603	511	601	666	774	886
Net Margin	5.9%	10.8%	14.3%	14.4%	19.4%	17.6%	21.3%	19.5%	18.4%	20.7%
Free Cash Flow	-92	-152	-292	-270	-343	-725	-898	-3,054	-1,467	654
Income Tax	187	190	197	221	8	139	145	154	78	114

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	8595	9075	10011	10750	11874	13368	15,359	19,609	22,193	22,517
Cash & Equivalents	42	29	48	26	14	25	21	117	52	15
Accounts Receivable	263	205	120	135	139	127	140	343	258	329
Inventories	285	249	185	189	174	136	119	178	384	246
Goodwill & Int. Ass.	742	743	727	730	730	731	731	731	731	823
Total Liabilities	5508	5880	6548	6851	7104	7617	8,568	11,702	12,774	11,647
Accounts Payable	78	79	114	143	135	177	141	423	259	218
Long-Term Debt	2653	2895	3269	3515	3644	3994	4,523	4,930	8,095	6,893
Shareholder's Equity	3086	3195	3463	3899	4770	5750	6,791	7,907	9,419	10,870
LTD/E Ratio	0.86	0.91	0.94	0.90	0.76	0.69	0.67	0.62	0.86	0.63

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.5%	3.6%	3.7%	3.8%	5.3%	4.1%	4.2%	3.8%	3.7%	4.0%
Return on Equity	10.2%	10.0%	10.5%	10.8%	13.9%	9.7%	9.6%	9.1%	8.9%	8.7%
ROIC	5.2%	5.3%	5.5%	5.6%	7.6%	5.6%	5.7%	5.0%	4.8%	5.0%
Shares Out.	91	100	101	104	106	117	123	130	138	145
Revenue/Share	50.62	28.73	23.71	26.01	28.06	24.70	22.96	26.24	30.43	29.45
FCF/Share	-0.94	-1.49	-2.82	-2.54	-3.09	-6.17	-7.31	-23.52	-10.62	4.50

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

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