



# National Fuel Gas Co. (NFG)

Updated February 16<sup>th</sup>, 2024 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$48	<b>5 Year CAGR Estimate:</b>	12.6%	<b>Market Cap:</b>	\$4.3 B
<b>Fair Value Price:</b>	\$66	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	3/28/2024 <sup>1</sup>
<b>% Fair Value:</b>	73%	<b>5 Year Valuation Multiple Estimate:</b>	6.5%	<b>Dividend Payment Date:</b>	4/12/2024 <sup>1</sup>
<b>Dividend Yield:</b>	4.1%	<b>5 Year Price Target</b>	\$76	<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 \$4.3 billion. With 53 years of consecutive dividend increases, National Fuel Gas qualifies to be a Dividend King.

In early February, National Fuel Gas reported (2/7/24) financial results for the first quarter of fiscal 2024. The company grew its production 11% 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 -17%, from \$3.02 to \$2.51. As a result, adjusted earnings-per-share declined -21%, from \$1.84 to \$1.46. On the bright side, they exceeded the analysts' consensus by \$0.12. The company has beaten the analysts' estimates in 16 of the last 19 quarters.

The price of natural gas has plunged to a 3-year low lately due to record U.S. production and a milder-than-normal winter. As a result, National Fuel Gas lowered its guidance for fiscal 2024. It lowered its estimate for the average gas price in the rest of fiscal 2024 from \$3.25 to \$2.40 and thus it lowered its guidance for its annual earnings-per-share from \$5.40-\$5.90 to \$4.90-\$5.20. Accordingly, we have lowered our forecast from \$5.65 to \$5.05. The drastic revision of guidance in just three months is just a reminder of the high sensitivity of National Fuel Gas to the swings of the price of natural gas.

## 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>\$5.05</b>	<b>\$5.85</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 cyclicity of the price of natural gas, we expect earnings-per-share to grow by 3.0% per year on average over the next five years. 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	9.5	13.0
Avg. Yld.	2.5%	2.1%	2.5%	3.1%	2.9%	3.2%	4.1%	3.8%	2.8%	3.4%	4.1%	2.9%

National Fuel Gas is trading at a price-to-earnings ratio of 9.5, 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 6.5% 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%	39.2%	38.3%

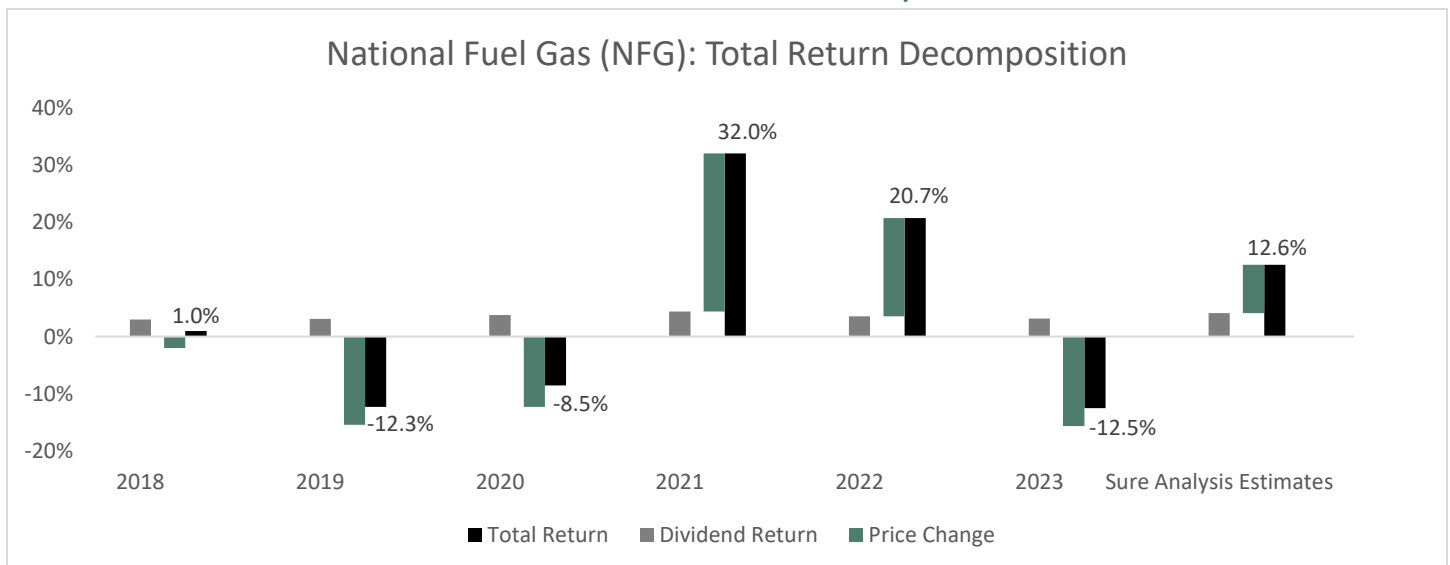
National Fuel Gas has a healthy balance sheet while its interest coverage level stands at a strong 5.5. Moreover, its dividend payout ratio is sufficiently low to enable continued dividend growth even if earnings stall temporarily. Management has always targeted a dividend payout ratio around 50% in order to have a wide margin of safety against the wide fluctuations of the price of natural gas. As the 4.1% dividend yield of National Fuel Gas is more than triple the yield of the S&P (1.3%), 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 -35% off its peak in 2022. It could now offer a 12.6% average annual return over the next five years thanks to 3.0% growth of earnings-per-share, a 4.1% dividend and a 6.5% 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	2,174
<b>Gross Profit</b>	1,123	1,075	1,055	1,080	1,014	1,031	568	760	903	848
<b>Gross Margin</b>	53.2%	61.0%	72.6%	68.4%	63.7%	60.9%	36.7%	43.6%	41.3%	39.0%
<b>Operating Profit</b>	570	515	532	594	520	512	479	665	802	755
<b>Operating Margin</b>	27.0%	29.3%	36.6%	37.6%	32.6%	30.2%	31.0%	38.2%	36.7%	34.7%
<b>Net Profit</b>	299	(379)	(291)	283	392	304	(124)	364	566	477
<b>Net Margin</b>	14.2%	-21.5%	-20.0%	17.9%	24.6%	18.0%	-8.0%	20.9%	25.9%	21.9%
<b>Free Cash Flow</b>	(5)	(165)	7	234	31	(94)	(482)	40	1	227
<b>Income Tax</b>	190	(319)	(233)	161	(7)	85	19	115	117	165

## 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	8,280
<b>Cash &amp; Equivalents</b>	37	114	130	556	230	20	21	32	46	55
<b>Accounts Receivable</b>	150	105	133	112	141	140	144	205	362	161
<b>Inventories</b>	67	65	71	74	78	80	85	120	172	81
<b>Goodwill &amp; Int. Ass.</b>	5	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	5,317
<b>Accounts Payable</b>	137	180	108	126	160	132	134	172	179	152
<b>Long-Term Debt</b>	1,723	2,084	2,086	2,384	2,131	2,189	2,660	2,787	2,692	2,672
<b>Shareholder's Equity</b>	2,411	2,025	1,527	1,704	1,937	2,139	1,972	1,786	2,080	2,963
<b>D/E Ratio</b>	0.71	1.03	1.37	1.40	1.10	1.02	1.35	1.56	1.29	0.90

## 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%	5.9%
<b>Return on Equity</b>	13.0%	-17.1%	-16.4%	17.5%	21.5%	14.9%	-6.0%	19.4%	29.3%	18.9%
<b>ROIC</b>	7.5%	-9.2%	-7.5%	7.4%	9.6%	7.2%	-2.8%	7.9%	12.1%	9.2%
<b>Shares Out.</b>	84.2	84.6	85.1	85.5	86.0	86.8	91.0	91.9	92.1	92.3
<b>Revenue/Share</b>	24.87	20.87	17.12	18.37	18.43	19.51	17.58	19.01	23.73	23.55
<b>FCF/Share</b>	(0.06)	(1.95)	0.09	2.72	0.36	(1.09)	(5.47)	0.43	0.01	2.46

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

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