



Northwest Natural Holding Company (NWN)

Updated August 20th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$39.3	5 Year CAGR Estimate:	8.7%	Market Cap:	\$1.5 B
Fair Value Price:	\$34.5	5 Year Growth Estimate:	7.5%	Ex-Dividend Date:	10/30/24 ¹
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	11/15/24 ²
Dividend Yield:	5.0%	5 Year Price Target	\$50	Years Of Dividend Growth:	68
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

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 68 consecutive years. NW Natural trades with a market capitalization of \$1.5 billion.

Northwest Natural Holding Company (NWN) reported a net loss of \$2.8 million, or \$0.07 per share, for the second quarter of 2024, compared to a net income of \$1.2 million, or \$0.03 per share, for the same period in 2023. For the first six months of 2024, net income was \$61.0 million, or \$1.60 per share, down from \$72.9 million, or \$2.03 per share, for the same period in 2023, primarily due to regulatory lag. The company added nearly 16,000 gas and water utility connections in the last 12 months, driven by strong water acquisitions, and reaffirmed its 2024 earnings guidance in the range of \$2.20 to \$2.40 per share. For the second quarter of 2024, NW Natural Holdings' net income decreased by \$4.0 million compared to the same period in 2023. For the first six months of 2024, net income decreased by \$11.9 million compared to the same period in 2023. The results reflected regulatory lag from higher depreciation and increased pension expenses, partially offset by higher margins from customer growth and cost savings initiatives. The Natural Gas Distribution segment's net income decreased by \$2.7 million due to higher depreciation and pension expenses. Operations and maintenance expenses decreased by \$3.5 million due to lower payroll and contractor costs. Other business activities saw a net income decrease of \$1.3 million due to a settlement gain in 2023 and higher asset management revenues in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.16	\$2.29	\$2.19	\$2.24	\$2.33	\$2.41	\$2.30	\$2.56	\$2.54	\$2.59	\$2.30	\$3.30
DPS	\$1.85	\$1.86	\$1.87	\$1.88	\$1.90	\$1.91	\$1.91	\$1.92	\$1.93	\$1.94	\$1.95	\$2.05
Shares³	27.3	27.4	28.6	28.8	28.9	30.5	30.6	31.2	35.5	37.7	38.7	40

We are forecasting an average growth rate of 7.5% 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 68 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.

¹ Estimated Date

² Estimated Date

³ In millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.7	23.7	26.9	31.9	26.5	30.2	22.2	18	19.5	13.4	17.1	15.0
Avg. Yld.	4.1%	3.4%	3.2%	2.6%	3.1%	2.6%	3.7%	4.2%	3.9%	5.6%	5.0%	4.1%

NW Natural's price-to-earnings multiple rose from 15.2 in 2009 to 30.2 in 2019 before declining back to 17.1 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 15 times earnings, even though NWN was trading for over 30 times earnings not too long ago. As a result, the stock is slightly overvalued right now according to our model.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	86%	81%	85%	84%	82%	79%	83%	75%	76%	75%	85%	62%

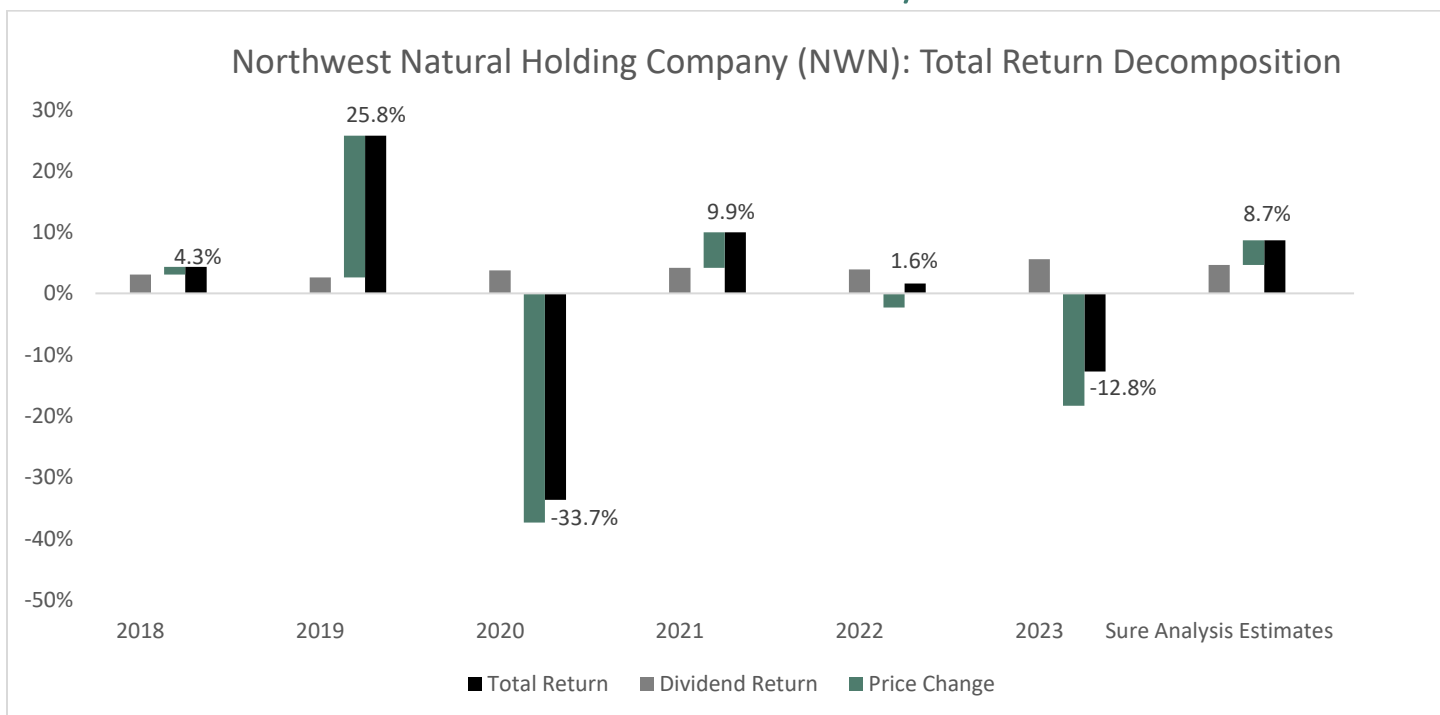
NW Natural's quality metrics have been very steady in the past decade. Seventy-six percent of its total assets are encumbered by debt, which is completely acceptable for a utility. Its interest coverage is fairly strong at 3.6, so there are certainly no financing concerns moving forward. The payout ratio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

Final Thoughts & Recommendation

We forecast 8.7% annualized total returns moving forward thanks to a combination of an attractive and growing dividend and solid earnings per share growth offset partially by expected valuation multiple contraction. As a result, we rate it a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	754	724	668	755	706	746	774	860	1,037	1,197
Gross Profit	252	239	271	278	264	283	301	329	341	375
Gross Margin	33.4%	33.0%	40.5%	36.8%	37.4%	37.9%	38.8%	38.3%	32.9%	31.3%
D&A Exp.	79	81	78	81	85	91	104	114	117	126
Operating Profit	143	124	151	151	132	143	148	163	167	185
Operating Margin	19.0%	17.2%	22.6%	20.0%	18.7%	19.2%	19.2%	19.0%	16.1%	15.4%
Net Profit	59	54	59	(56)	65	62	77	79	86	94
Net Margin	7.8%	7.4%	8.8%	-7.4%	9.1%	8.3%	9.9%	9.1%	8.3%	7.8%
Free Cash Flow	96	66	84	(7)	(50)	(56)	(136)	(134)	(191)	(47)
Income Tax	42	36	43	41	24	13	21	27	29	32

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,065	3,069	3,080	3,040	3,243	3,428	3,756	4,065	4,748	4,867
Cash & Equivalents	10	4	4	3	13	10	30	19	29	33
Accounts Receivable	70	68	67	66	67	67	88	101	169	121
Inventories	78	71	54	48	44	44	43	57	87	113
Total Liabilities	2,298	2,288	2,229	2,297	2,480	2,562	2,868	3,129	3,573	3,583
Accounts Payable	91	73	86	111	116	113	98	133	181	145
Long-Term Debt	896	864	773	834	954	1,030	1,260	1,434	1,595	1,666
Shareholder's Equity	767	781	850	743	763	866	889	935	1,175	1,284
LTD/E Ratio	1.17	1.11	0.91	1.12	1.25	1.19	1.42	1.53	1.36	1.30

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.9%	1.8%	1.9%	-1.8%	2.1%	1.9%	2.1%	2.0%	2.0%	2.0%
Return on Equity	7.7%	6.9%	7.2%	-7.0%	8.6%	7.6%	8.8%	8.6%	8.2%	7.6%
ROIC	3.5%	3.2%	3.6%	-3.5%	3.9%	3.4%	3.8%	3.5%	3.4%	3.3%
Shares Out.	27.3	27.4	28.6	28.8	28.9	30.5	30.6	31.2	35.5	37.7
Revenue/Share	27.70	26.40	24.05	26.26	24.46	25.00	25.28	27.98	30.52	33.02
FCF/Share	3.51	2.42	3.02	(0.23)	(1.74)	(1.88)	(4.43)	(4.34)	(5.62)	(1.31)

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

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