



# Atmos Energy Corp. (ATO)

Updated November 14<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$147	<b>5 Year CAGR Estimate:</b>	7.7%	<b>Market Cap:</b>	\$23 B
<b>Fair Value Price:</b>	\$136	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	11/25/24
<b>% Fair Value:</b>	108%	<b>5 Year Valuation Multiple Estimate:</b>	-1.6%	<b>Dividend Payment Date:</b>	12/09/24
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$181	<b>Years Of Dividend Growth:</b>	41
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## 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 \$23 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 41-year history of raising dividends, putting it in rare company among dividend stocks.

Atmos posted fourth quarter and full-year earnings on November 6<sup>th</sup>, 2024, and results were largely in line with expectations. The company saw just over a billion dollars in net income for the year, and \$134 million for the fourth quarter. On a per-share basis, earnings came to \$6.83 and 86 cents, respectively.

For the quarter, distribution earnings came to \$41 million, which was up from \$38 million a year ago. Pipeline and storage earnings were \$93 million, up from \$81 million in last year's Q4. For the year, distribution earnings rose from \$580 million to \$671 million. Pipeline and storage full-year earnings were up sharply from \$306 million to \$372 million, helping to drive another year of record earnings for Atmos.

Capital expenditures for the year were \$2.9 billion, about 83% of which were focused on safety and reliability. The company also implemented \$376 million in annualized regulatory outcomes.

Atmos initiated guidance for fiscal 2025 at \$7.05 to \$7.25 in adjusted earnings-per-share, and we've set our estimate at the midpoint of \$7.15. Capex is expected to be \$3.7 billion, which would mark an increase of about \$800 million from last year's levels if achieved.

Atmos' dividend was raised once more, this time adding 8.1% to a new payout of \$3.48 annually per share. This is Atmos' 41<sup>st</sup> consecutive year of boosting the dividend.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$3.09	\$3.38	\$3.60	\$4.00	\$4.35	\$4.69	\$5.12	\$5.60	\$6.08	\$6.83	<b>\$7.15</b>	<b>\$10.03</b>
<b>DPS</b>	\$1.56	\$1.68	\$1.80	\$1.94	\$2.10	\$2.30	\$2.57	\$2.72	\$2.96	\$3.22	<b>\$3.48</b>	<b>\$5.11</b>
<b>Shares<sup>1</sup></b>	100	101	104	106	117	123	132	140	145	146	<b>147</b>	<b>155</b>

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 have seen time and again over the years. The distribution segment continues to lead the way while pipeline and storage struggles relatively, although that segment did have a very strong 2024. The company is working to modernize

<sup>1</sup> Share count in millions

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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 growth rate congruent with earnings-per-share growth, or slightly higher, looks reasonable given recent history. Indeed, the most recent dividend increase was 8.1%. We see the dividend rising to \$5.11 over the next five years.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	17.5	20.8	22.0	21.8	23.5	22.4	18.8	18.2	16.3	20.3	20.6	19.0
Avg. Yld.	2.9%	2.4%	2.3%	2.2%	2.0%	2.2%	2.7%	2.7%	2.8%	2.3%	2.4%	2.7%

Atmos, like many other utilities and dividend stocks in general, has seen a sizable increase in its valuation in recent years. The valuation has risen since our last update, and stands today at 20.6 times this year's earnings. Thus, we are forecasting a small headwind to total returns based upon the current valuation. We see the yield potentially rising slightly as dividend raises outpace share price appreciation.

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

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	51%	50%	50%	49%	48%	49%	50%	49%	49%	47%	49%	51%

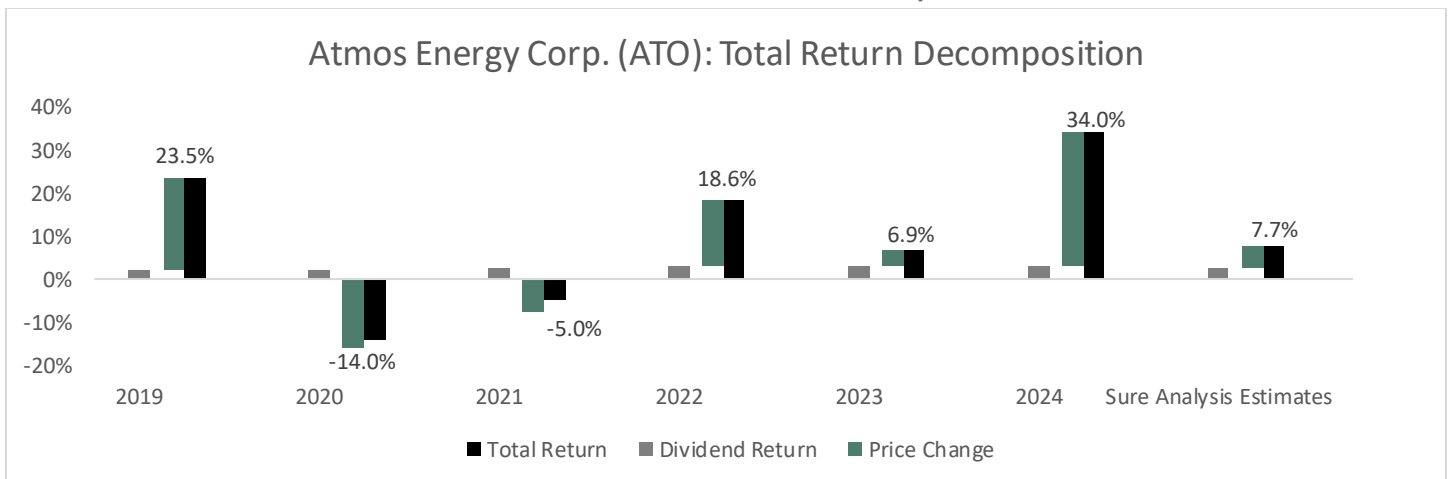
Atmos' payout ratio has drifted lower in recent years as dividend increases have been a lower priority than other spending. We expect the payout ratio to remain around 50%, as dividend increases roughly match the growth rate of earnings in the coming years. Atmos' dividend is safe and with the 2.4% yield, 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 deteriorated slightly. We are forecasting total annual returns of 7.7%, consisting of the current 2.4% yield, 7% earnings-per-share growth and a slight headwind from the valuation. Given this, we're reiterating the stock at a hold 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>	4941	2927	2455	2760	3116	2902	2,821	3,407	4,202	4,275
<b>Gross Profit</b>	1582	1631	1708	1834	1948	2043	2,162	2,375	2,519	2,058
<b>Gross Margin</b>	32.0%	55.7%	69.6%	66.5%	62.5%	70.4%	76.6%	69.7%	59.9%	48.1%
<b>D&amp;A Exp.</b>	254	275	293	320	361	391	430	478	536	604
<b>Operating Profit</b>	611	612	657	736	728	746	824	905	921	1,067
<b>Operating Margin</b>	12.4%	20.9%	26.8%	26.7%	23.4%	25.7%	29.2%	26.6%	21.9%	25.0%
<b>Net Profit</b>	290	315	350	396	603	511	601	666	774	886
<b>Net Margin</b>	5.9%	10.8%	14.3%	14.4%	19.4%	17.6%	21.3%	19.5%	18.4%	20.7%
<b>Free Cash Flow</b>	-92	-152	-292	-270	-343	-725	-898	-3,054	-1,467	654
<b>Income Tax</b>	187	190	197	221	8	139	145	154	78	114

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	8595	9075	10011	10750	11874	13368	15,359	19,609	22,193	22,517
<b>Cash &amp; Equivalents</b>	42	29	48	26	14	25	21	117	52	15
<b>Accounts Receivable</b>	263	205	120	135	139	127	140	343	258	329
<b>Inventories</b>	285	249	185	189	174	136	119	178	384	246
<b>Goodwill &amp; Int. Ass.</b>	742	743	727	730	730	731	731	731	731	823
<b>Total Liabilities</b>	5508	5880	6548	6851	7104	7617	8,568	11,702	12,774	11,647
<b>Accounts Payable</b>	78	79	114	143	135	177	141	423	259	218
<b>Long-Term Debt</b>	2653	2895	3269	3515	3644	3994	4,523	4,930	8,095	6,893
<b>Shareholder's Equity</b>	3086	3195	3463	3899	4770	5750	6,791	7,907	9,419	10,870
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	3.5%	3.6%	3.7%	3.8%	5.3%	4.1%	4.2%	3.8%	3.7%	4.0%
<b>Return on Equity</b>	10.2%	10.0%	10.5%	10.8%	13.9%	9.7%	9.6%	9.1%	8.9%	8.7%
<b>ROIC</b>	5.2%	5.3%	5.5%	5.6%	7.6%	5.6%	5.7%	5.0%	4.8%	5.0%
<b>Shares Out.</b>	91	100	101	104	106	117	123	130	138	145
<b>Revenue/Share</b>	50.62	28.73	23.71	26.01	28.06	24.70	22.96	26.24	30.43	29.45
<b>FCF/Share</b>	-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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