



# RGC Resources, Inc. (RGCO)

Updated February 17<sup>th</sup>, 2025, by Yiannis Zourmpanos

## Key Metrics

<b>Current Price:</b>	\$21	<b>5 Year CAGR Estimate:</b>	12.5%	<b>Market Cap:</b>	\$212 M
<b>Fair Value Price:</b>	\$24.60	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	04/15/2025 <sup>1</sup>
<b>% Fair Value:</b>	85%	<b>5 Year Valuation Multiple Estimate:</b>	3.2%	<b>Dividend Payment Date:</b>	05/01/2025 <sup>2</sup>
<b>Dividend Yield:</b>	3.8%	<b>5 Year Price Target</b>	\$33	<b>Years Of Dividend Growth:</b>	20
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

RGC Resources, Inc. (RGCO) operates as a distributor and seller of natural gas to industrial, commercial, and residential customers through its subsidiaries: Roanoke Gas, Midstream, and Diversified Energy. Residential customers are the company's largest customer segment, accounting for ~58% of the total revenues, followed by commercial customers at 34%. The company operates in three segments: Gas Utility, the key revenue generator; Investment in Affiliates; and Parent & Other. The company was founded in 1883 and generates just under \$100 million in annual revenue.

On February 10<sup>th</sup>, 2025, RGC Resources announced its Q1 2025 results. The company posted non-GAAP EPS of \$0.51, beating the market's estimate by \$0.01, and total revenues of \$27.29 million, which were up 11.8% year over year.

The improvement was primarily driven by higher utility margins, supported by new base rates effective July 1<sup>st</sup>, 2024, and stronger gas usage from Roanoke Gas' largest transportation customer. These gains were partially offset by higher interest expenses and lower equity earnings from the company's investment in the Mountain Valley Pipeline (MVP), which contributed \$854,213 in equity earnings, compared to \$1.47 million in the prior-year period when the project was still under construction and generating AFUDC income.

CEO Paul Nester highlighted the company's ongoing infrastructure investments aimed at enhancing system reliability and expanding customer reach, which contributed to higher earnings and improved operational efficiency. Colder-than-average temperatures in December also played a role in driving increased demand, further supporting financial results. As RGC Resources moves forward, the company remains committed to sustainable growth through infrastructure upgrades and disciplined capital investment. While geopolitical uncertainties and energy price fluctuations remain potential headwinds, management remains optimistic about continued financial stability and long-term value creation for shareholders.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$0.72	\$0.81	\$0.86	\$0.95	\$1.08	\$1.30	\$1.22	-\$3.48	\$1.14	\$1.16	<b>\$1.23</b>	<b>\$1.65</b>
<b>DPS</b>	\$0.51	\$0.54	\$0.58	\$0.62	\$0.66	\$0.70	\$0.74	\$0.78	\$0.79	\$0.80	<b>\$0.83</b>	<b>\$1.11</b>
<b>Shares<sup>3</sup></b>	7.1	7.2	7.2	8.0	8.1	8.2	8.4	9.1	9.9	9.9	<b>10.3</b>	<b>12.4</b>

RGC Resources is highly dependent on Roanoke Gas' natural gas distribution business, which accounts for more than 98% of the firm's total revenues. The continued demand for natural gas ensures that the company is stable with consistent financial performance over time. Although the net loss posted in fiscal 2022 may reflect otherwise, it is essential to consider the earnings and dividend growth posted by the company over time and that the net loss was due to an impairment charge related to the Mountain Valley Pipeline.

The company is expected to continue its growth trajectory in the coming years owing to a strong demand for natural gas as it remains the cheapest heat source compared with electricity and fuel. However, it is also important to realize that

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> Shares 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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the company operates in a highly regulated industry, and its topline remains highly dependent on gas costs, consumption patterns, and weather/economic conditions. The increase or decrease in gas prices is passed on to customers through the PGA mechanism, which means that sometimes, regulators do not allow price increases.

Therefore, we have matched analysts' EPS estimate for 2025 at \$1.23, but we revised the growth forecast to 6.0% to align with the company's long-term average, leading to our EPS estimate of \$1.65 for 2030. In addition, the company will likely grow its dividends at a healthy pace, and we have assumed a dividend growth rate of 6.0% for the next five years.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	19.2	19.1	28.7	28.2	26.3	19.2	18.8	-6.6	18.7	17.7	17.1	20.0
Avg. Yld.	3.7%	3.5%	2.3%	2.3%	2.3%	2.8%	3.2%	3.4%	3.7%	3.4%	3.8%	3.4%

RGC Resources is trading at a forward P/E of 17.1, slightly below its ten-year average of 18.9. We believe the higher multiple reflects the growth pathway for the company going forward. We have assumed a target P/E of 20.0 to value the company in 2030, leading to our five-year price target of \$33.

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

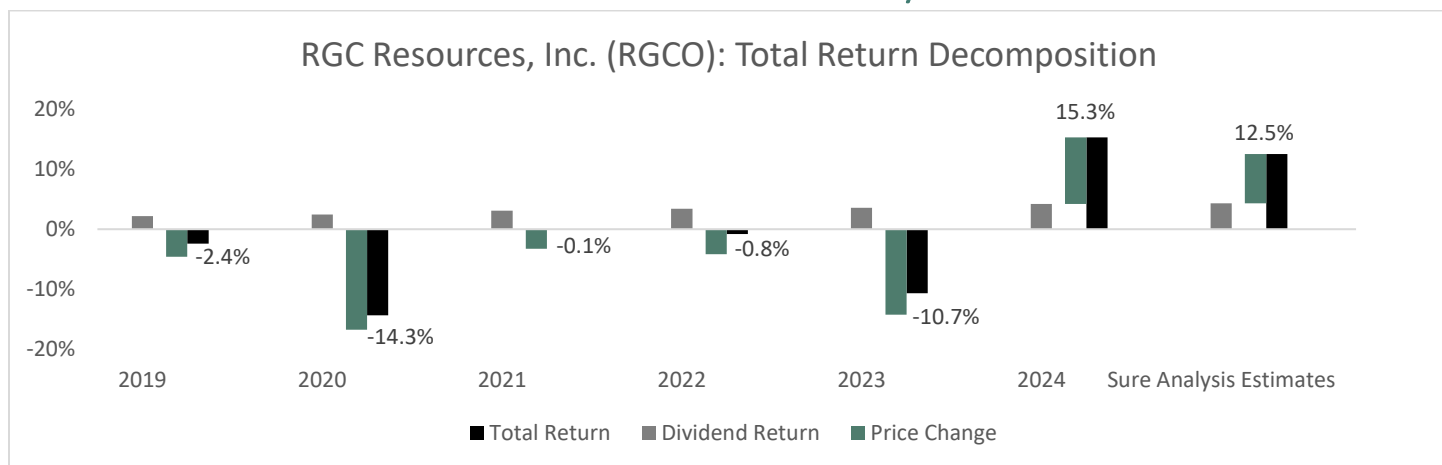
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	71%	67%	67%	65%	61%	54%	61%	-22%	69%	69%	67%	67%

RGC Resources has maintained a healthy payout ratio and has increased the dividends at a CAGR of 5.4% from 2015 to 2024. The company has continuously paid regularly scheduled cash dividends for the past 78 years and has increased dividend payments over the past 20 years. The company's consistently high payout ratio reflects the ability of RGC Resources, Inc. to generate sufficient cash flow in all business cycles. In addition, RGC Resources, Inc. would not be overly affected by a possible recession since gas is a utility product that is generally considered a necessity, especially in winter, which keeps the demand alive for the company despite the state of the economy.

## Final Thoughts & Recommendation

As a utility company operating in a highly regulated sector, RGC Resources has demonstrated mostly steady growth. Owing to natural gas demand and the company's extensive record of solid execution, we believe that RGC Resources will continue delivering value to shareholders through continued dividends and consistent profitability. Therefore, we maintain our buy rating premised upon the 12.5% annualized total returns for the medium-term, with the forecasted earnings-per-share growth of 6.0%, the 3.8% dividend yield, and a valuation tailwind.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	68	59	62	66	68	63	75	84	97	85
Gross Profit	17	18	20	20	21	23	25	-	30	30
Gross Margin	24.5%	31.3%	32.5%	31.0%	31.0%	35.8%	33.9%	0.0%	30.9%	35.3%
D&A Exp.	5	6	6	7	8	8	9	-	10	11
Operating Profit	10	11	12	11	12	13	15	15	18	17
Op. Margin	14.7%	19.0%	19.6%	17.5%	17.0%	19.8%	19.7%	17.7%	18.6%	20.0%
Net Profit	5	6	6	7	9	11	10	(32)	11	12
Net Margin	7.5%	9.8%	10.0%	11.1%	12.8%	16.7%	13.4%	-37.7%	11.3%	14.1%
Free Cash Flow	3	(3)	(8)	(10)	(7)	(10)	(8)		(1.5)	(4.7)
Income Tax	3	4	4	3	3	3	3	(11)	3.5	4

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	146	166	183	220	258	282	310	290	304	321
Cash & Equivalents	1	1	0	0	2	0	2	-	1.5	0.9
Acc. Receivable	3	3	3	4	4	3	5	-	4	5
Inventories	9	8	9	9	7	7	9	-	13	10
Total Liabilities	93	110	123	140	175	193	210	197	203	213
Accounts Payable	5	5	5	5	4	4	8	-	6	5
Long-Term Debt	40	48	61	70	103	124	140	136	141	149
Total Equity	53	56	60	80	83	89	100	93	101	108
LTD/E Ratio	0.75	0.87	1.02	0.88	1.24	1.39	1.41	1.46	1.40	1.37

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	3.6%	3.7%	3.6%	3.6%	3.6%	3.9%	3.4%	-10.6%	3.8%	3.8%
Return on Equity	9.7%	10.7%	10.8%	10.5%	10.7%	12.3%	10.7%	-32.9%	11.7%	11.3%
ROIC	5.5%	5.9%	5.5%	5.4%	5.2%	5.3%	4.5%	-13.5%	4.8%	4.7%
Shares Out.	7.1	7.2	7.2	8.0	8.1	8.2	8.4	9.1	9.9	10.2
Revenue/Share	9.61	8.25	8.59	8.52	8.42	7.74	9.10	9.23	9.82	8.33
FCF/Share	0.42	(0.42)	(1.07)	(1.27)	(0.89)	(1.24)	(1.02)	-	(0.15)	(0.46)

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

## Disclaimer

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