



Southwest Gas Holdings (SWX)

Updated May 15th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$76	5 Year CAGR Estimate:	6.7%	Market Cap:	\$5.3 B
Fair Value Price:	\$63	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	05/14/2024
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	06/03/2024
Dividend Yield:	3.3%	5 Year Price Target:	\$92	Years of Dividend Growth:	15
Dividend Risk Score:	C	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Southwest Gas Holdings Inc. is a holding company that operates in two business segments, Natural Gas Operations and Utility Infrastructure Services. The Natural Gas business, Southwest Gas Corp., purchases, distributes and transports natural gas in Arizona, California and Nevada and serves over 2 million customers. The corporation also owns and operates an interstate pipeline through its subsidiary Great Basin Gas Transmission Company. Great Basin also runs a peak shaving LNG storage facility. The Utility business, Centuri Group Inc. delivers a multitude of energy solutions to North America's gas and electric providers. Centuri operates across the U.S. and Canada.

The holdings company trades under the ticker symbol SWX on the NYSE and has a market capitalization of \$5.3 billion. Southwest Gas Holdings Inc. is headquartered in Las Vegas, Nevada. Its regulated natural gas utility, Southwest, was incorporated in March 1931.

On February 14th, 2023, SouthWest completed the sale of MountainWest, and used the proceeds to reduce debt. Furthermore, in April 2024, Southwest Gas completed the IPO of Centuri, now CTRI on the NYSE, and received net proceeds of \$329 million. Southwest continues to own 81% of CTRI. With its remaining stake, Southwest may sell the remaining shares or distribute them to SWX shareholders.

In January 2024, Bill Fehrman joined Centuri as President and CEO. Bill previously worked as President and CEO of Berkshire Hathaway Energy.

Southwest Gas Holdings reported first quarter 2024 results on May 8th, 2024, for the period ending March 31st, 2024. SWX reported diluted earnings per share of \$1.22 for Q1 compared to \$0.67 per share in the year-ago quarter. Adjusted EPS declined by 23% to \$1.37 from \$1.77 a year ago.

Leadership reaffirmed its 2024 guidance, seeing full year net income of \$228 million to \$238 million, and \$830 million of capex. Between 2024 to 2026, Southwest expects annual adjusted net income growth of 10% to 12%, capex of \$2.4 billion, and annual utility rate base growth of 6.5% to 7.5%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.01	\$2.92	\$3.18	\$4.04	\$3.68	\$3.94	\$4.14	\$4.00	\$3.00	\$3.36	\$3.39	\$4.98
DPS	\$1.43	\$1.58	\$1.76	\$1.94	\$2.06	\$2.16	\$2.26	\$2.36	\$2.46	\$2.48	\$2.48	\$2.74
Shares¹	46.5	47.4	47.5	48.1	53.0	55.0	56.9	60.6	67.2	71.9	75.0	85.0

Southwest Gas has grown its business fairly consistently over the past decade into 2021. For the nine and five years leading up to 2021, Southwest grew its earnings-per-share by roughly 1.9% and 1.3%, respectively. From 2014 to 2023, Southwest increased its EPS by just 1.2% per year on average.

The share count has also grown steadily, at a moderate pace, with a 5% annual share count increase since 2013.

With upcoming regulated rate increases, expansion projects, increasing operating margin, and customer additions, Southwest should see earnings per share growth come in at around 8.0% per annum in the intermediate term. We

¹ In millions

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expect the dividend to grow by 2%, as the payout has been eclipsing its historical range between 40% to 60%. The sale of MountainWest and the spin-off of Centuri should see Southwest Gas as a more efficient and nimble company in the coming years as it transitions to a pure play natural gas utility.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	18.1	19.3	22.7	25.0	18.0	22.5	18.3	15.3	27.9	27.4	22.5	18.5
Avg. Yld.	2.5%	2.7%	2.4%	2.3%	2.7%	2.5%	3.2%	3.4%	3.2%	4.0%	3.3%	3.0%

The current P/E of 22.5 is above Southwest's historical PE ratio. In the past ten years, the average PE was 21.5. In the past five years, this average PE was 22.3. We peg fair value at 18.5 times earnings, which implies the potential for moderate valuation contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

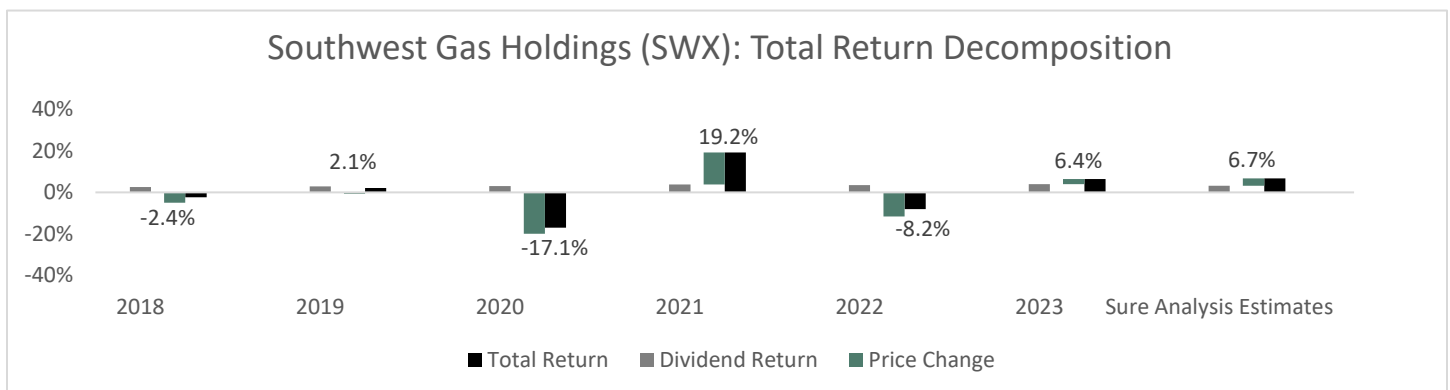
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	47%	54%	55%	48%	56%	55%	54%	59%	82%	74%	73%	55%

The payout ratio historically has been below 60%, but since 2022 it has remained elevated. The dividend still appears to be safe though, barring a significant downturn, as EPS should outpace DPS growth. Utilities businesses are generally safe during a recession, especially Southwest Gas, who primarily provides energy to residential customers. The corporation provides a necessary product in all economic climates. While the company is resilient to recessions, it is not immune, and in the great financial crisis, earnings dropped 25% at the worst point. The company surpassed the earnings prior to the financial crisis in only one year and has remained above those earnings levels since. Southwest believes it has an advantage by communicating directly with home builders and commercial property developers to recommend natural gas appliances be installed in new builds, and thus is successful in providing many of these new homes with natural gas for the lifetime of the property and increase customer growth. The company also prefers to remain uninvolved in cross-country pipeline and electric transmission projects, likely due to strict regulations in getting these projects off the ground, which could be costly.

Final Thoughts & Recommendation

Southwest Gas Holdings is a strong, consistent, and fairly recession-resistant business. So far, the corporation has increased its dividend for fifteen consecutive years, and we see this continuing into the future. We estimate that the company is trading at 121% of fair value today and could produce 6.7% annualized total returns in the next five years. We estimate 8.0% earnings per share growth, and the company has a 3.3% starting yield, which will be partly offset by a -3.8% valuation headwind. SWX earns 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
Revenue	2,122	2,464	2,460	2,549	2,880	3,120	3,299	3680	4960	5434
Gross Profit	585	608	657	652	667	737	818	821	995	1019
Gross Margin	27.6%	24.7%	26.7%	25.6%	23.1%	23.6%	24.8%	22.3%	20.1%	18.8%
D&A Exp.	253	270	289	251	249	303	332	371	470	441
Operating Profit	284	288	315	343	357	372	423	370	431	490
Op. Margin	13.4%	11.7%	12.8%	13.5%	12.4%	11.9%	12.8%	10.0%	8.7%	9.0%
Net Profit	141	138	152	194	182	214	232	201	-203	151
Net Margin	6.7%	5.6%	6.2%	7.6%	6.3%	6.9%	7.0%	5.5%	-4.1%	2.8%
Free Cash Flow	(50)	64	71	(254)	(237)	(438)	(199)	-604	-452	-363
Income Taxes	78	80	78	65	62	56	66	40	-76	42

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,208	5,359	5,581	6,237	7,358	8,170	8,736	12,765	13197	11870
Cash & Equivalents	40	36	28	44	85	50	83	223	123	107
Goodwill & Int.	191	163	178	179	359	343	345	1,781	787	790
Total Liabilities	3,722	3,766	3,920	4,425	5,106	5,664	6,061	9,811	9979	8455
Accounts Payable	168	165	185	228	249	239	231	353	662	347
Long-Term Debt	1,656	1,589	1,600	2,038	2,292	2,675	2,880	6,322	5991	5281
Total Equity	1,489	1,594	1,663	1,815	2,252	2,506	2,675	2,954	3059	3310
LTD/E Ratio	1.11	1.00	0.96	1.12	1.02	1.07	1.08	2.14	1.96	1.60

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.9%	2.6%	2.8%	3.3%	2.7%	2.8%	2.7%	1.9%	-1.6%	1.2%
Return on Equity	9.7%	9.0%	9.3%	11.1%	9.0%	9.0%	9.0%	7.1%	-6.8%	4.6%
ROIC	4.7%	4.4%	4.7%	5.5%	4.3%	4.4%	4.3%	2.7%	-2.2%	1.7%
Shares Out.	46.5	47.4	47.5	48.1	53.0	55.0	57.2	60.6	65.56	70.99
Revenue/Share	45.20	51.99	51.46	53.11	58.21	57.44	58.83	62.11	75.66	76.55
FCF/Share	(1.08)	1.35	1.48	(5.29)	(4.79)	(8.06)	(3.55)	-10.20	-6.89	-5.12

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

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