



National Fuel Gas Co. (NFG)

Updated November 20th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	9.8%	Market Cap:	\$5.7 B
Fair Value Price:	\$76	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/26/2024 ¹
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.0%	Dividend Payment Date:	1/10/2025 ¹
Dividend Yield:	3.3%	5 Year Price Target	\$88	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	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 \$5.7 billion. With 54 years of consecutive dividend increases, National Fuel Gas qualifies to be a Dividend King.

In early November, National Fuel Gas reported (11/6/24) financial results for the fourth quarter of fiscal 2024. The company reduced its production by 2% over the prior year's quarter due to depressed gas prices. Thanks to effective hedging, the average realized price of natural gas rose from \$2.33 to \$2.40. Nevertheless, due to lower output and higher interest expense, earnings-per-share dipped -1%, from \$0.78 to \$0.77, and missed the analysts' consensus by \$0.05. The company has beaten the analysts' estimates in 18 of the last 22 quarters.

Due to depressed gas prices at the time of the latest conference call, National Fuel Gas lowered its guidance for earnings-per-share in fiscal 2025 from \$5.75-\$6.25 to \$5.50-\$6.00. However, gas prices have rallied since then thanks to abnormally cold winter weather. Given also the tendency of management to issue somewhat conservative guidance, we expect earnings-per-share of \$6.00 in 2025. If this proves correct, it will mark 20% growth of earnings-per-share over the previous year. Nevertheless, the material revision of the guidance of management in each of the last four quarters is 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	-\$4.50	-\$3.43	\$3.30	\$3.34	\$3.45	\$2.92	\$4.29	\$5.88	\$5.17	\$5.01	\$6.00	\$6.96
DPS	\$1.56	\$1.60	\$1.64	\$1.68	\$1.72	\$1.76	\$1.80	\$1.86	\$1.94	\$2.02	\$2.06	\$2.33
Shares²	84.6	85.1	85.5	86.0	86.8	91.0	91.9	92.2	92.4	91.3	91.0	95.0

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 6.2% average annual rate over the last seven years. 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 cyclical nature 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 in 2022, 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.

¹ Estimated date.

² 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	---	---	17.2	12.8	15.6	14.6	11.1	11.1	11.0	10.7	10.3	12.6
Avg. Yld.	2.1%	2.5%	3.1%	2.9%	3.2%	4.1%	3.8%	2.8%	3.4%	3.8%	3.3%	2.7%

National Fuel Gas is trading at a forward price-to-earnings ratio of 10.3, which is lower than its historical 5-year average of 12.6. If the stock reverts to this valuation level over the next 5 years, it will enjoy a 4.0% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	49.7%	50.3%	50.0%	60.3%	42.0%	31.6%	37.5%	40.3%	34.3%	33.5%

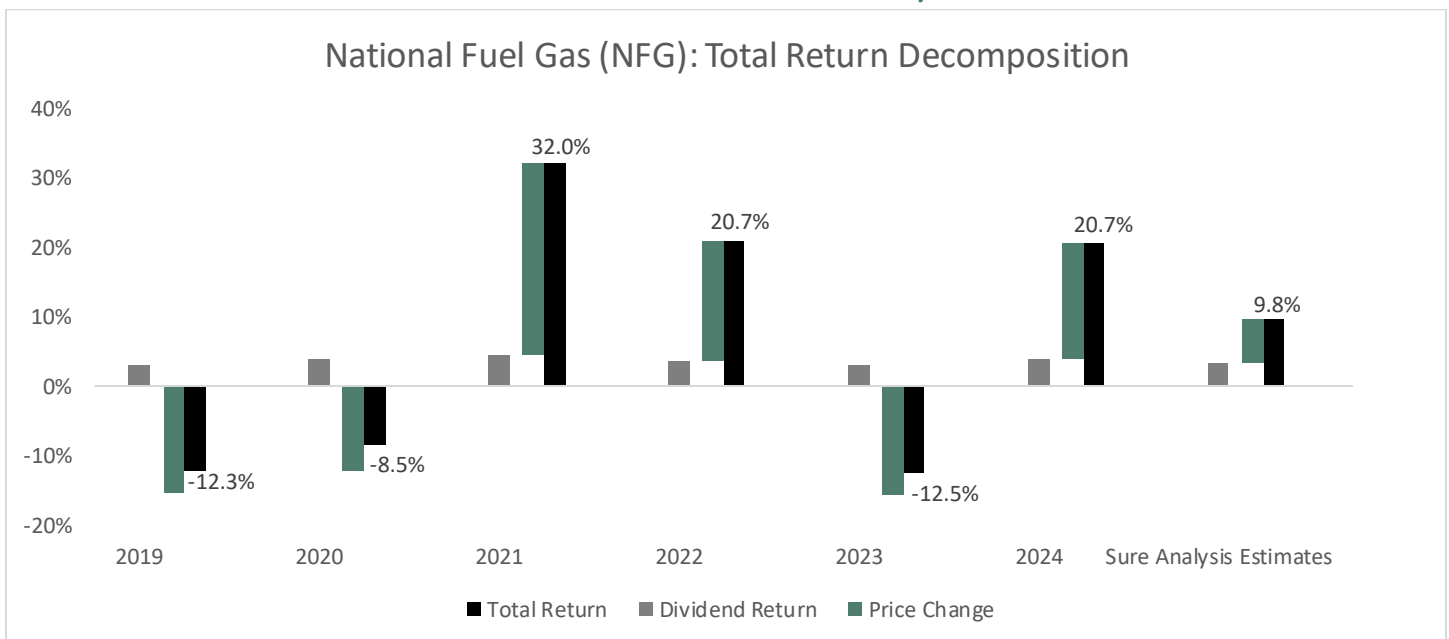
National Fuel Gas has a healthy balance sheet while its interest coverage level stands at a strong 5.2. Moreover, its dividend payout ratio is sufficiently low to enable continued dividend growth even if earnings stall temporarily. Management has always targeted a dividend payout ratio around 50% in order to have a wide margin of safety against the wide fluctuations of the price of natural gas. As the 3.3% dividend yield of National Fuel Gas is nearly triple the yield of the S&P 500 (1.2%), 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. It could offer a 9.8% average annual return over the next five years thanks to 3.0% growth of earnings-per-share, a 3.3% dividend and a 4.0% valuation tailwind. The stock receives a marginal buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	1,761	1,452	1,580	1,593	1,693	1,546	1,743	2,186	2,174	1,945
Gross Profit	1,075	1,055	1,080	1,014	1,031	568	760	903	848	818
Gross Margin	61.0%	72.6%	68.4%	63.7%	60.9%	36.7%	43.6%	41.3%	39.0%	42.0%
Operating Profit	515	532	594	520	512	479	665	802	755	729
Operating Margin	29.3%	36.6%	37.6%	32.6%	30.2%	31.0%	38.2%	36.7%	34.7%	37.5%
Net Profit	(379)	(291)	283	392	304	(124)	364	566	477	78
Net Margin	-21.5%	-20.0%	17.9%	24.6%	18.0%	-8.0%	20.9%	25.9%	21.9%	4.0%
Free Cash Flow	(165)	7	234	31	(94)	(482)	40	1	227	135
Income Tax	(319)	(233)	161	(7)	85	19	115	117	165	10

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	6,565	5,636	6,103	6,036	6,462	6,965	7,465	7,896	8,280	8,320
Cash & Equivalents	114	130	556	230	20	21	32	46	55	38
Accounts Receivable	105	133	112	141	140	144	205	362	161	127
Inventories	65	71	74	78	80	85	120	172	81	83
Goodwill & Int. Ass.	5	5	5	5	5	5	5	5	5	5
Total Liabilities	4,539	4,109	4,400	4,099	4,323	4,993	5,679	5,816	5,317	5,471
Accounts Payable	180	108	126	160	132	134	172	179	152	165
Long-Term Debt	2,084	2,086	2,384	2,131	2,189	2,660	2,787	2,692	2,672	2,779
Shareholder's Equity	2,025	1,527	1,704	1,937	2,139	1,972	1,786	2,080	2,963	2,848
D/E Ratio	1.03	1.37	1.40	1.10	1.02	1.35	1.56	1.29	0.90	0.98

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	-5.7%	-4.8%	4.8%	6.5%	4.9%	-1.8%	5.0%	7.4%	5.9%	0.9%
Return on Equity	-17.1%	-16.4%	17.5%	21.5%	14.9%	-6.0%	19.4%	29.3%	18.9%	2.7%
ROIC	-9.2%	-7.5%	7.4%	9.6%	7.2%	-2.8%	7.9%	12.1%	9.2%	1.4%
Shares Out.	84.6	85.1	85.5	86.0	86.8	91.0	91.9	92.1	92.3	92.34
Revenue/Share	20.87	17.12	18.37	18.43	19.51	17.58	19.01	23.73	23.55	21.06
FCF/Share	(1.95)	0.09	2.72	0.36	(1.09)	(5.47)	0.43	0.01	2.46	1.46

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

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