



RGC Resources, Inc. (RGCO)

Updated November 19th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	10.9%	Market Cap:	\$207.9 M
Fair Value Price:	\$22.80	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/17/2025 ¹
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	03/03/2025 ²
Dividend Yield:	3.8%	5 Year Price Target	\$31	Years Of Dividend Growth:	19
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	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 November 14th, 2024, RGC Resources announced its Q4 2024 results. The company posted non-GAAP EPS of \$0.01, beating the market's estimate by \$0.02, and total revenues of \$13.10 million, which were up 5.11% year over year.

The earnings growth was driven by higher contributions from the Mountain Valley Pipeline (MVP), primarily from Allowance for Funds Used During Construction (AFUDC) before the pipeline commenced operations in June 2024. However, revenues were impacted by reduced natural gas costs, which lowered customer bills, and rising inflationary expenses, partially offset by higher tariffs. Increased interest expenses, stemming from higher rates, further influenced the bottom line. Roanoke Gas continued strategic investments in infrastructure to support customer growth and system reliability.

For the fourth quarter, net income was \$140,822 (\$0.01 per share), compared to \$1.01 million (\$0.10 per share) in the prior-year quarter, reflecting lower MVP earnings and higher interest costs. CEO Paul Nester emphasized the significance of MVP becoming operational, noting it as a transformative achievement for the company and the region. The company also reached a settlement with the State Corporation Commission staff for a \$4.08 million annual revenue increase, pending approval. As RGC Resources continues to deliver energy services in Virginia through its subsidiaries, it remains focused on enhancing infrastructure and supporting regional growth while managing the challenges of evolving market conditions.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$0.72	\$0.81	\$0.86	\$0.95	\$1.08	\$1.30	\$1.22	-\$3.48	\$1.14	\$1.16	\$1.14	\$1.53
DPS	\$0.51	\$0.54	\$0.58	\$0.62	\$0.66	\$0.70	\$0.74	\$0.78	\$0.79	\$0.80	\$0.80	\$1.07
Shares³	7.1	7.2	7.2	8.0	8.1	8.2	8.4	9.1	9.9	9.9	10.3	12.4

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 current net loss is due to an impairment charge related to the Mountain Valley Pipeline.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ Shares in millions.

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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 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 \$1.14, but we revised the growth forecast to 6.0% to align with the company's long-term average, leading to our EPS estimate of \$1.53 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	18.4	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%	3.5%

RGC Resources is trading at a forward P/E of 18.4, slightly below its ten-year average of 19.4. 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 \$31.

Safety, Quality, Competitive Advantage, & Recession Resiliency

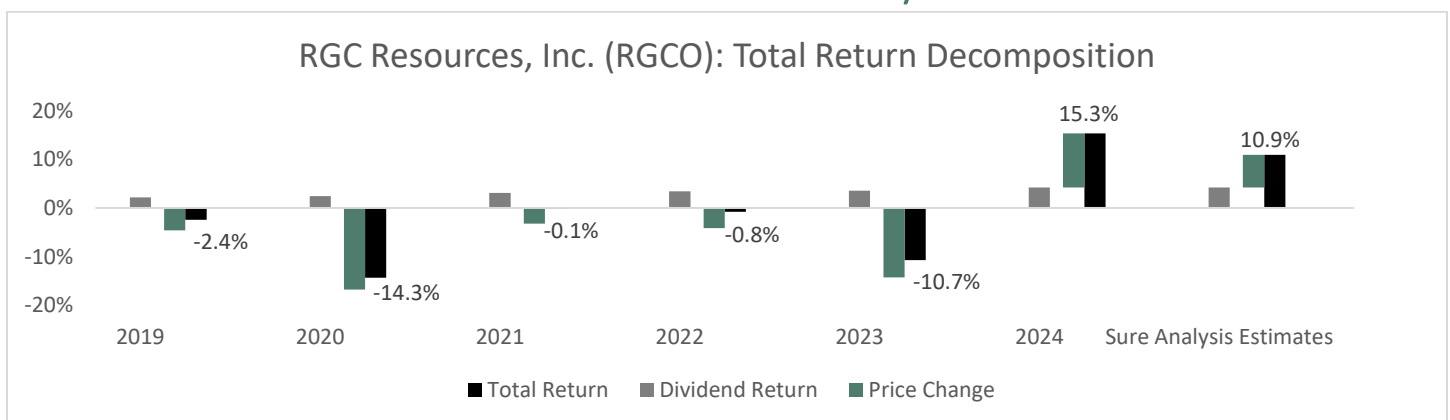
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	71%	67%	67%	65%	61%	54%	61%	-22%	69%	69%	70%	70%

RGC Resources has maintained a healthy payout ratio and has increased the dividends at a CAGR of 6.1% from 2018 to 2022. The company has continuously paid regularly scheduled cash dividends for the past 78 years and has increased dividend payments over the past 19 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 10.9% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	75	68	59	62	66	68	63	75	84	97
Gross Profit	16	17	18	20	20	21	23	25	-	30
Gross Margin	21.3%	24.5%	31.3%	32.5%	31.0%	31.0%	35.8%	33.9%	0.0%	30.9%
D&A Exp.	5	5	6	6	7	8	8	9	-	10
Operating Profit	10	10	11	12	11	12	13	15	15	18
Op. Margin	12.9%	14.7%	19.0%	19.6%	17.5%	17.0%	19.8%	19.7%	17.7%	18.6%
Net Profit	5	5	6	6	7	9	11	10	(32)	11
Net Margin	6.3%	7.5%	9.8%	10.0%	11.1%	12.8%	16.7%	13.4%	-37.7%	11.3%
Free Cash Flow	(8)	3	(3)	(8)	(10)	(7)	(10)	(8)		(1.5)
Income Tax	3	3	4	4	3	3	3	3	(11)	3.5

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	139	146	166	183	220	258	282	310	290	304
Cash & Equivalents	1	1	1	0	0	2	0	2	-	1.5
Acc. Receivable	4	3	3	3	4	4	3	5	-	4
Inventories	12	9	8	9	9	7	7	9	-	13
Total Liabilities	87	93	110	123	140	175	193	210	197	203
Accounts Payable	5	5	5	5	5	4	4	8	-	6
Long-Term Debt	39	40	48	61	70	103	124	140	136	141
Total Equity	52	53	56	60	80	83	89	100	93	101
LTD/E Ratio	0.76	0.75	0.87	1.02	0.88	1.24	1.39	1.41	1.46	1.40

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.6%	3.6%	3.7%	3.6%	3.6%	3.6%	3.9%	3.4%	-10.6%	3.8%
Return on Equity	9.3%	9.7%	10.7%	10.8%	10.5%	10.7%	12.3%	10.7%	-32.9%	11.7%
ROIC	5.6%	5.5%	5.9%	5.5%	5.4%	5.2%	5.3%	4.5%	-13.5%	4.8%
Shares Out.	7.1	7.1	7.2	7.2	8.0	8.1	8.2	8.4	9.1	9.9
Revenue/Share	10.60	9.61	8.25	8.59	8.52	8.42	7.74	9.10	9.23	9.82
FCF/Share	(1.11)	0.42	(0.42)	(1.07)	(1.27)	(0.89)	(1.24)	(1.02)	-	(0.15)

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

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