

National Fuel Gas Company

1Q24 Recap: Volume beat; remain U/P: still see regulated businesses as a relative drag

Reiterate Rating: UNDERPERFORM | PO: 55.00 USD | Price: 45.81 USD

Beat on accelerated activity & better productivity

NFG adj EPS of \$1.46 beat consensus and BofA's estimate of \$1.33. Vs our estimate, the main delta is higher quarterly volumes of 1,095 MMcf/d that exceeded our forecast of 1,021 MMcf/d. This drove a 5c and 3c beat in the E&P and gathering segments due to a combination of accelerated activity in its Eastern Development area along with better productivity. The regulated businesses (Pipeline & Storage, and Utilities) are approximately in-line with our expectations with the remaining delta corporate / other.

FY volumes lifted with bump in capex related to Utilities

Given the strong performance out of the upstream segment, NFG has lifted FY fiscal 2024 production guidance to 395-410 Bcfe from 390-410 Bcfe prior, which does not consider potential curtailments. However, it has also raised FY 2024 corporate spending to \$885-\$1,000mm from \$865-\$975mm prior with the increase entirely related to the Utility business due to the New York's Roadway Excavation Quality Assurance Act (REQAA). This requires contractors to pay state published prevailing wages to workers for projects that need a permit to operate in a public right away. While NFG does expect these costs to be recoverable and are part of its ongoing rate case in New York, look for additional color on the call on the potential impact to future free cash flow as well as how management thinks of spending in this segment in 2025 and beyond. As for its Supply rate case for its Pipeline & Storage Segment, NFG anticipates that a decision will likely be finalized in the coming days and weeks.

Remain Underperform with PO unchanged at \$55

All-in-all, we see 1Q24 as solid benefitting from higher volumes. However, we reiterate our Underperform rating versus our broader E&P coverage where our preference for gas weighted 'pure play' E&P's reflects our constructive view on long-term price of natural gas. While the timeline for an improving gas price outlook has been pushed out based on the timing of LNG infrastructure, on a relative basis versus some of its gas weighted peers, we believe that NFG's potential upside may be less attractive longer term due to its regulated businesses that we continue to view as a potential a drag on relative performance. Our \$55 PO is unchanged, assuming long-term \$4 HH (from 2026).

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.88	5.17	5.30	6.33	7.57
GAAP EPS	6.14	5.17	5.30	6.33	7.57
EPS Change (YoY)	37.4%	-12.1%	2.5%	19.4%	19.6%
Consensus EPS (Bloomberg)			4.79	6.39	7.17
DPS	1.86	1.94	2.02	2.00	1.98
Valuation (Sep)					
P/E	7.8x	8.9x	8.6x	7.2x	6.1x
GAAP P/E	7.5x	8.9x	8.6x	7.2x	6.1x
Dividend Yield	4.1%	4.2%	4.4%	4.4%	4.3%
EV / EBITDA*	5.3x	5.6x	5.3x	4.8x	4.3x
Free Cash Flow Yield*	-1.3%	5.4%	3.0%	9.5%	11.3%

* For full definitions of *IQmethod*SM measures, see page 5.

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Equity

John H. Abbott
Research Analyst
BofA
+1 713 247 7144
john.h.abbott@bofa.com

Doug Leggate
Research Analyst
BofA
doug.leggate@bofa.com

Kalei Akamine
Research Analyst
BofA
kalei.akamine@bofa.com

Noah Hungness
Research Analyst
BofA
noah.hungness@bofa.com

Carlos Escalante
Research Analyst
BofA
carlos.escalante@bofa.com

Stock Data

Price	45.81 USD
Price Objective	55.00 USD
Date Established	5-Jan-2024
Investment Opinion	B-3-7
52-Week Range	45.53 USD - 59.28 USD
Mkt Val (mn) / Shares Out (mn)	4,207 USD / 91.8
Free Float	98.5%
Average Daily Value (mn)	22.91 USD
BofA Ticker / Exchange	NFG / NYS
Bloomberg / Reuters	NFG US / NFG.N
ROE (2024E)	15.4%
Net Dbt to Eqty (Sep-2023A)	78.6%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

Abbreviations

HH: Henry Hub

MMcf / d: Million cubic feet of gas equivalent

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iQprofileSM National Fuel Gas Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.9%	8.4%	7.3%	7.8%	8.6%
Return on Equity	28.0%	18.9%	15.4%	16.2%	17.1%
Operating Margin	36.7%	34.7%	35.1%	37.7%	41.3%
Free Cash Flow	(56)	227	126	401	473

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.5x	2.6x	2.2x	2.1x	1.8x
Asset Replacement Ratio	2.3x	2.5x	2.0x	1.6x	1.6x
Tax Rate	17.1%	25.7%	24.6%	24.8%	24.9%
Net Debt-to-Equity Ratio	98.0%	78.6%	69.9%	56.6%	43.0%
Interest Cover	6.7x	6.7x	6.4x	7.3x	8.5x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,186	2,174	2,144	2,308	2,474
% Change	25.4%	-0.6%	-1.4%	7.6%	7.2%
Gross Profit	2,186	2,174	2,144	2,308	2,474
% Change	25.4%	-0.6%	-1.4%	7.6%	7.2%
EBITDA	1,226	1,165	1,232	1,372	1,528
% Change	22.6%	-5.0%	5.8%	11.3%	11.4%
Net Interest & Other Income	(132)	(114)	(103)	(92)	(92)
Net Income (Adjusted)	542	477	490	584	699
% Change	38.0%	-12.0%	2.7%	19.3%	19.6%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	566	477	490	584	699
Depreciation & Amortization	370	410	480	499	502
Change in Working Capital	(248)	159	(29)	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	125	192	158	115	77
Capital Expenditure	(869)	(1,010)	(973)	(798)	(805)
Free Cash Flow	-56	227	126	401	473
% Change	NM	NM	-44.6%	218.7%	18.0%
Share / Issue Repurchase	(9)	(7)	(4)	0	0
Cost of Dividends Paid	(168)	(176)	(184)	(185)	(182)
Change in Debt	0	(252)	0	0	0

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	46	55	5	221	513
Trade Receivables	362	161	190	190	190
Other Current Assets	353	198	222	222	222
Property, Plant & Equipment	6,566	7,300	7,784	8,083	8,385
Other Non-Current Assets	569	566	712	712	712
Total Assets	7,896	8,280	8,913	9,428	10,022
Short-Term Debt	2,083	2,384	2,386	2,386	2,386
Other Current Liabilities	1,943	806	807	807	807
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,790	2,126	2,314	2,411	2,469
Total Liabilities	5,816	5,317	5,507	5,603	5,661
Total Equity	2,080	2,963	3,407	3,824	4,360
Total Equity & Liabilities	7,896	8,280	8,913	9,428	10,022

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Oil & Gas Producers

Company Description

National Fuel Gas Company (NFG) is a diversified energy company with production, gathering, transportation, distribution and marketing assets for natural gas. NFG operates an integrated business with assets across western New York and Pennsylvania that utilize Appalachian natural gas. Natural gas production largely comes from Marcellus and Utica wells and NFG's pipelines transport gas to various markets and end users.

Investment Rationale

Our Underperform rating mainly reflects our view that NFG's regulated businesses continue to be a drag on relative performance versus our broader E&P coverage

Stock Data

Average Daily Volume

500,122

Quarterly Earnings Estimates

	2023	2024
Q1	1.84A	1.44A
Q2	1.53A	1.68E
Q3	1.00A	1.10E
Q4	0.80A	1.07E

1Q24 Earnings Summary

The table below compares actuals to estimates and prior qoq and yoy results.

Exhibit 1: Y/Y and Q/Q Comparison (\$ in Millions, except in per share data)

Y/Y and Q/Q Comparison (\$ in Millions, except in per share data)-Beat mainly from higher volumes

Adj earnings by segment	1Q24A	4Q23E	1Q23A	YoY	4Q23A	QoQ
Exploration and Production	56	51	88	-37%	35	60%
Pipeline and storage	24	25	27	-10%	23	3%
Gathering	29	26	25	17%	27	9%
Utility	27	27	5	474%	(7)	-470%
Corporate / All other	0	(6)	(2)	-118%	(6)	-105%
Adjusted earnings	135	123	142	-5%	72	89%
Special items	(2)	-	(34)	-93%	2	-208%
Reported Earnings	133	123	108	23%	74	81%
Earnings (Adjusted)	1.46	1.33	1.54	-5%	0.78	89%
Earnings (Reported)	1.44	1.33	1.17	23%	0.80	81%
Dividend	0.50	0.50	0.48	4%	0.50	0%

Source: BofA Global Research estimates, company data

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Estimate changes

Adjusting for results and updated guidance, our estimates change as follows.

Exhibit 2: NFG Earnings Estimates

Estimate move higher, in part, as we have lowered corporate / all other segment costs

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2023A	1.84	1.53	1.00	0.80	5.17	5.22
2024E	1.44	1.68	1.10	1.07	5.30	4.79
Previous	1.33	1.56	0.97	0.96	4.83	n/a
2025E	1.62	1.97	1.39	1.35	6.33	6.39
Previous	1.52	1.99	1.29	1.20	6.01	n/a
2026E	1.91	2.19	1.80	1.67	7.57	7.17
Previous	1.81	2.20	1.71	1.52	7.24	n/a

Source: BofA Global Research, Bloomberg

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Price objective basis & risk

National Fuel Gas Company (NFG)

Our \$55 PO on NFG is based on a sum of the parts. We value E&P assuming 15yrs of inventory to hold volumes flat after which we assume a gradual PDP decline. We assume long-term \$4.00 HH and apply a long-term (post-tax) WACC of about 8%, which is based on the BofA strategy team's assumed risk premium and a 5-year beta.

For the gathering segment, we similarly assume 15yrs of relatively flat volumes before falling into decline like E&P and also a WACC of about 8% as the majority of revenue comes from the E&P segment

For pipeline & storage, we also assume 15yrs of relatively flat volumes before falling to decline and a WACC of 5.5% as this is a regulated business. The beta is derived from public midstream companies.

For the utility, we assume an about 4% WACC (derived from more pure play natural gas utilities), a rate base of \$1.2bn and a weighted ROE of 9.1% which assumes 2/3rds NY at 8.7% and 1/3 PA at 10%. Note PA is a best guess as the ROE is undisclosed. On top of this, we are giving credit to the PA rate case where NFG has applied for a \$28mm annual increase

We model the utility to 2028, after which we assume free CF grows by 2% annually through 2050, which is a continuation of the implied growth rate from the prior years.

Upside risks: Favorable rate cases, New York regulatory environment improves and if regional differentials narrow. Downside risks: Potentially limited takeaway in region, challenging NY regulator environment and risk of unfavorable rate cases.

Analyst Certification

I, John H. Abbott, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APA Corporation	APA	APA US	Doug Leggate
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Granite Ridge Resources, Inc	GRNT	GRNT US	John H. Abbott
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OVV CN	Doug Leggate
	Ovintiv Inc	OVV	OVV US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Suncor	YSU	SU CN	Doug Leggate
	Suncor	SU	SU US	Doug Leggate

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL				
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	CNX Resources	CNX	CNX US	John H. Abbott
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	HF Sinclair Corporation	DINO	DINO US	Doug Leggate
	Marathon Petroleum Company	MPC	MPC US	Doug Leggate
	PBF Energy	PBF	PBF US	Doug Leggate
	Permian Resources Corporation	PR	PR US	Doug Leggate
	Phillips 66	PSX	PSX US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate
UNDERPERFORM				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate
	National Fuel Gas Company	NFG	NFG US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott
RSTR				
	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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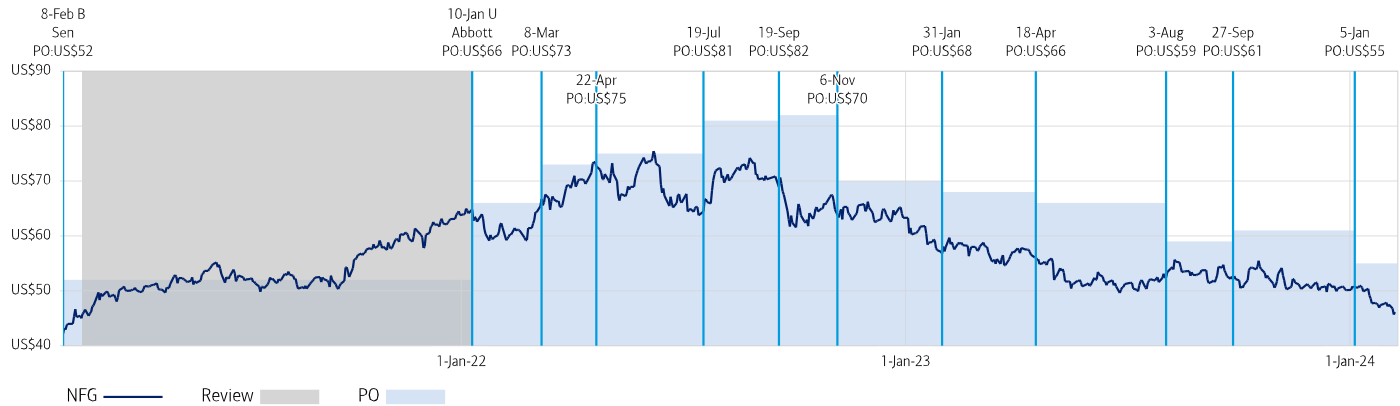
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National Fuel Gas (NFG) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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