

Atmos Energy Corp. (ATO)

\$105.13 (As of 03/09/20)

Price Target (6-12 Months): **\$111.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

Shares of Atmos Energy have outperformed the industry in the past 12 months. The five-year capital expenditure plan in the tune of \$10-\$11 billion will strengthen distribution and pipeline & storage facilities, as well as improve the reliability of its services. Improvement of economic conditions and customer growth are likely to boost the demand for natural gas. Returns within one year of investment and positive regulatory outcomes will continue to boost the company's performance. However, the mishap in the company's Northwest Dallas operation is a stark reminder of the fact that distributing and transporting natural gas involve risks. Dependence on a single state for bulk of its revenues exposes it to vagaries of weather, and economic conditions of that state.

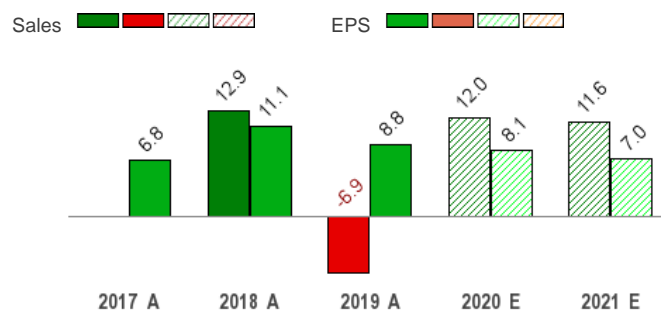
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$121.08 - \$98.66
20 Day Average Volume (sh)	1,080,462
Market Cap	\$12.9 B
YTD Price Change	-6.0%
Beta	0.34
Dividend / Div Yld	\$2.30 / 2.2%
Industry	Utility - Gas Distribution
Zacks Industry Rank	Top 18% (45 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.3%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.2%
Expected Report Date	05/05/2020
Earnings ESP	2.6%
P/E TTM	23.6
P/E F1	22.4
PEG F1	3.4
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,627 E
2020	876 A	1,130 E	526 E	488 E	3,250 E
2019	878 A	1,095 A	486 A	444 A	2,902 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.56 E	\$1.95 E	\$0.85 E	\$0.70 E	\$5.03 E
2020	\$1.47 A	\$1.94 E	\$0.76 E	\$0.57 E	\$4.70 E
2019	\$1.38 A	\$1.82 A	\$0.68 A	\$0.49 A	\$4.35 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

Overview

Founded in 1906, Atmos Energy Corporation, along with its subsidiaries, is engaged in regulated natural gas distribution and storage business. The company serves in excess of three million natural gas distribution customers in more than 1,400 communities in eight states from the Blue Ridge Mountains in the East to the Rocky Mountains in the West. The company operates more than 75,000 miles of transmission and distribution lines.

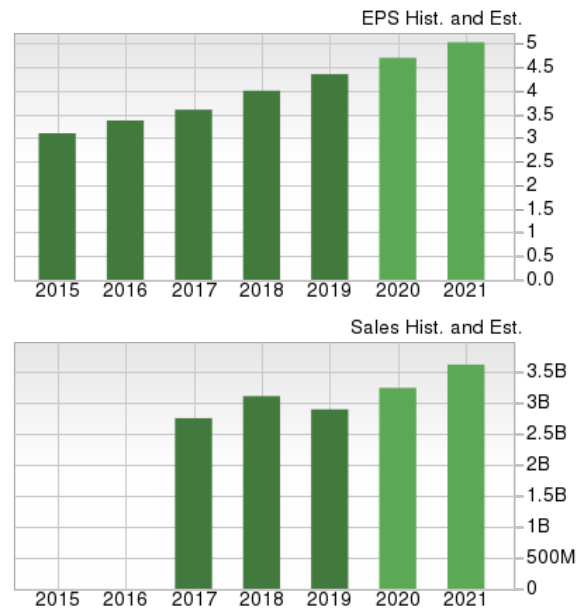
The company manages its operation through the following reportable segments.

Distribution segment is primarily comprised of the company's regulated natural gas distribution and related sales operations in eight states, and storage assets located in Kentucky and Tennessee. At the end of fiscal 2019, this segment contributed nearly \$2,745.5 million to its total revenues.

Pipeline and storage segment is primarily comprised of the pipeline and storage operations of Atmos Pipeline-Texas division, and the company's natural gas transmission operations in Louisiana. The company operates five storage facilities, having a combined storage capacity of 46 billion cubic feet. This segment contributed \$567.1 million to total fiscal 2019 revenues.

Inter-segment elimination had an adverse impact of \$410.7 million on fiscal 2019 revenues.

Till Dec 31, 2016, the company had a non-regulated natural gas marketing business that was conducted by Atmos Energy Marketing (AEM). However, effective Jan 1, 2017, it sold all of the equity interests of AEM to a subsidiary of CenterPoint Energy Inc. As a result of the sale, Atmos Energy fully exited from the non-regulated natural gas marketing business. Accordingly, these operations have been reported as discontinued operations.



Reasons To Buy:

- ▲ In the past six months, Atmos Energy's shares have lost 4.1% narrower than the industry's 21.8% decline. Atmos Energy has a sturdy capital expenditure plan, helping the company to increase safety and reliability of its natural gas pipelines. In fiscal 2019, the company invested \$1,693 million, out of which 87% was utilized to improve the safety and reliability of distribution and transportation systems.

During the period fiscal 2015 to 2019 the company invested \$6.4 billion on replacing aging infrastructure and modernizing the system. In fiscal 2020, the company intends to invest in the range of \$1,850-\$1,950 million to strengthen its infrastructure. Its long-term capital expenditure plans call for investment in the tune of \$10-\$11 billion over the next five years, indicating an improvement of 7-8% annually over that time frame.

The company aims to replace up to 6,000 miles of old transmission and distribution lines over the next five years to make its systems more reliable. The company will replace all old cast iron pipelines by 2021, making its distribution system more reliable. The planned investment will result in 6-8% annual earnings growth over the same time frame.

- ▲ The planned capital investment will allow Atmos Energy to lower emissions from its system. It aims at reducing methane emissions by 10-15% in the next five years from the current levels. The company also aims at lowering methane emissions by 50% within 2035.

It is carrying out investment for the expansion of its gas storage facility. Atmos Energy is presently making investment to develop the Bethel Salt Dome project, which was started in fiscal 2019 and is estimated to be completed in 2025. The company plans to invest between \$100 million and \$120 million to develop a third salt-dome cavern at the Bethel storage facility. The company anticipates finishing required compliance work on all 3 caverns, which should come into service by late 2025. These storage facilities will allow Atmos Energy to meet the growing demand in the North Texas market and in turn gain from the same.

- ▲ More than 90% of Atmos Energy's annual capital investments start earning returns within six months and nearly 99% in no more than 12 months. Customers and investors gain from the constructive rate outcomes. Owing to positive regulatory outcome, \$116.7 million and \$59.2 million increase in rates had been implemented in fiscal 2019 and 2020, respectively. In addition, nearly \$21.3 million rate cases are in progress for implementation this fiscal year.

The company worked with regulators to ensure that utility customers receive full benefits of tax reform in their gas bills. Atmos Energy has agreed with the regulators and reduced customer bills, in order to reflect the lower statutory federal rate. Taking advantage of lower rates, the company reduced the weighted average cost of debt to 4.32% from 6.2% at end of fiscal 2014, which undoubtedly had a positive impact on margins.

- ▲ Consistent performance of the company has enabled it to reward its shareholders through consistent increase in annual dividend rates. The company has raised annual dividend for 36 consecutive years. Its board of directors has declared a quarterly dividend of 57.5 cents per common share. The new dividend for fiscal 2020 is \$2.30, which represents a 9.5% increase from fiscal 2019.

Given solid capital-expenditure plans, addition of customers and increase in consumption, it is expected that the company will continue with the annual dividend-increase policy over the long run.

Solid capital expenditure plan, new storage facility, returns within one year of investment, customer additions and positive regulatory outcomes will continue to boost the company's performance.

Reasons To Sell:

- ▼ Operations of the company are capital intensive, and despite making significant investment to upgrade and maintain infrastructure, there is always a possibility of accident and mishap. Sudden and unexplained leakage leading to three gas-related accidents in 1.5 square mile area of company's operation in Northwest Dallas is a reminder that despite undertaking precaution at the time of distributing, transporting and storing natural gas, there will be a possibility of mishap.
- ▼ Courtesy of regulated operations, it does not face direct competition from any other distributor of natural gas to residential and commercial customers within its service areas. However, the company has to compete with other suppliers of natural gas and alternative fuels for sales to industrial customers. In addition, the company has to compete with electric utilities like natural gas, as well as electricity used for space and water heating, and cooking market.
- ▼ Nearly 70% of Atmos Energy's consolidated operations are located in the State of Texas. Its operations and financial results are vulnerable to state economic conditions, weather patterns and regulatory decisions. More than 50% of the company's distribution customers and most of its pipeline and storage assets and operations are located in the State of Texas.

Stringent regulation, capital intensive operation and dependence on a single state for major contribution are headwinds.

Last Earnings Report

Atmos Energy Q1 Earnings Lag Estimates, Sales Drop Y/Y

Atmos Energy Corporation posted first-quarter fiscal 2020 earnings of \$1.47 per share, which lagged the Zacks Consensus Estimate of \$1.49 by 1.3%.

However, the reported earnings improved 6.5% from the prior-year figure. The year-over-year improvement in earnings was due to positive rate outcomes.

Total Revenues

Total revenues of \$875.6 million decreased 0.3% from the year-ago figure of \$877.8 million. The year-over-year decline in revenues was due to lower contribution from the distribution segment.

Segment Revenues

Distribution: Revenues from the segment decreased 1.2% to \$828.5 million from \$838.8 million in the prior-year quarter.

Pipeline and Storage: Revenues from the segment increased 10.2% to \$148.2 million from \$134.5 million in the year-ago quarter. The improvement was driven by increase in rates, marginally offset by increase in operation and maintenance expenses.

Quarterly Highlights

Total expenses in the reported quarter decreased 2.9% from the year-ago level to \$622.8 million due to lower purchased gas cost, offset by higher operation and maintenance expenses, as well as depreciation and amortization costs.

Operating income in the reported quarter was up 6.9% year over year to \$252.8 million.

The company incurred interest expenses of \$27.3 million, down 2.2% from the year-ago period.

Financial Highlights

As of Dec 31, 2019, Atmos Energy had cash and cash equivalents of \$189.3 million compared with \$24.6 million on Sep 30, 2019.

Long-term debt was \$4.3 billion as of Dec 31, 2019, up from \$3.53 billion on Sep 30, 2019.

The company's cash flow from operating activities in first-quarter fiscal 2020 was \$172.5 million, up from \$164.7 million recorded in the year-ago period.

It invested \$529.2 million in fiscal first-quarter 2020 compared with \$414.4 million in fiscal first-quarter 2019. The increase in capital spending was due to continued spending for infrastructure replacements and enhancements.

Guidance

Atmos Energy reiterated its fiscal 2020 earnings guidance in the range of \$4.58-\$4.73 per share. The Zacks Consensus Estimate for fiscal 2020 earnings is \$4.68 per share. Capital expenditure is expected in the range of \$1.85-\$1.95 billion for fiscal 2020.

Quarter Ending 12/2019

Report Date	Feb 04, 2020
Sales Surprise	NA
EPS Surprise	-1.34%
Quarterly EPS	1.47
Annual EPS (TTM)	4.46

Valuation

Atmos Energy shares are down 6.1% in the year- to-date period, and up 4.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector are down 22.9% and 7.4% in the year- to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16% and 11.6% respectively.

The S&P 500 index is down 14.8% in the year- to-date period and down 2.3% in the past year.

The stock is currently trading at 21.71X of forward 12 months earnings, which compares to 18.24X for the Zacks sub-industry, 13.58X for the Zacks sector and 17.01X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.07X and as low as 16.25X, with a 5-year median of 21.69X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$111 price target reflects 22.93X of forward 12 months earnings.

The table below shows summary valuation data for ATO

Valuation Multiples - ATO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.71	18.24	13.58	17.01
	5-Year High	26.07	23.03	15.36	19.34
	5-Year Low	16.25	16.66	12.58	15.18
	5-Year Median	21.74	20.39	13.77	17.42
P/S F12M	Current	3.76	1.97	2.9	3.14
	5-Year High	4.24	2.3	3.31	3.44
	5-Year Low	0.93	1.01	1.76	2.54
	5-Year Median	2.76	1.66	2.03	3.01
P/B TTM	Current	2.1	2.1	3.64	3.99
	5-Year High	2.51	2.68	4.07	4.56
	5-Year Low	1.6	1.53	2.02	2.85
	5-Year Median	2.19	2.21	2.59	3.63

As of 3/9/2020

Industry Analysis Zacks Industry Rank: Top 18% (45 out of 253)



Top Peers

CenterPoint Energy, Inc. (CNP)	Neutral
MDU Resources Group, Inc. (MDU)	Neutral
NewJersey Resources Corporation (NJR)	Neutral
ONE Gas, Inc. (OGS)	Neutral
Spire Inc. (SR)	Neutral
UGI Corporation (UGI)	Neutral
National Fuel Gas Company (NFG)	Underperform
Southwest Gas Corporation (SWX)	Underperform

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	ATO Neutral	X Industry	S&P 500	MDU Neutral	NJR Neutral	SWX Underperform
VGM Score	D	-	-	B	F	B
Market Cap	12.85 B	4.05 B	19.13 B	5.42 B	3.34 B	3.63 B
# of Analysts	4	2	13	1	1	3
Dividend Yield	2.19%	3.07%	2.26%	3.07%	3.57%	3.31%
Value Score	D	-	-	B	D	C
Cash/Price	0.01	0.01	0.05	0.01	0.00	0.01
EV/EBITDA	14.72	12.05	11.99	10.17	18.94	10.21
PEG Ratio	3.44	2.98	1.68	2.57	NA	2.86
Price/Book (P/B)	2.10	1.80	2.64	1.90	1.73	1.44
Price/Cash Flow (P/CF)	13.62	9.61	10.70	9.16	11.81	6.96
P/E (F1)	22.37	16.76	15.44	15.45	16.74	17.17
Price/Sales (P/S)	4.43	1.58	2.05	1.01	1.40	1.16
Earnings Yield	4.47%	5.88%	6.47%	6.47%	5.97%	5.82%
Debt/Equity	0.71	0.95	0.70	0.81	0.84	0.92
Cash Flow (\$/share)	7.72	3.61	7.01	2.95	2.96	9.47
Growth Score	D	-	-	B	F	A
Hist. EPS Growth (3-5 yrs)	9.11%	6.00%	10.85%	10.39%	5.31%	7.66%
Proj. EPS Growth (F1/F0)	7.99%	7.39%	6.25%	3.55%	7.18%	-2.54%
Curr. Cash Flow Growth	12.19%	7.77%	6.09%	20.75%	-18.24%	19.86%
Hist. Cash Flow Growth (3-5 yrs)	11.14%	7.61%	8.52%	7.61%	3.04%	5.91%
Current Ratio	0.96	0.78	1.24	1.50	0.86	0.80
Debt/Capital	41.37%	48.80%	42.57%	44.79%	45.69%	48.76%
Net Margin	18.36%	8.18%	11.69%	6.28%	7.21%	6.86%
Return on Equity	9.25%	9.05%	16.74%	12.29%	9.89%	8.83%
Sales/Assets	0.22	0.32	0.54	0.70	0.54	0.40
Proj. Sales Growth (F1/F0)	12.00%	5.01%	3.76%	0.00%	-3.01%	4.19%
Momentum Score	C	-	-	D	C	C
Daily Price Chg	-5.50%	-6.19%	-7.65%	-8.50%	-8.02%	-6.19%
1 Week Price Chg	7.75%	3.88%	-0.67%	6.53%	7.73%	8.66%
4 Week Price Chg	-11.14%	-12.67%	-19.26%	-12.67%	-17.96%	-14.48%
12 Week Price Chg	-3.04%	-9.96%	-17.26%	-7.97%	-21.09%	-12.85%
52 Week Price Chg	4.54%	-15.95%	-6.83%	2.35%	-30.22%	-20.47%
20 Day Average Volume	1,080,462	423,884	2,684,709	1,684,930	593,755	423,884
(F1) EPS Est 1 week change	0.16%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.16%	0.00%	-0.06%	0.00%	-2.79%	-0.04%
(F1) EPS Est 12 week change	0.70%	-1.03%	-0.46%	9.38%	-2.79%	-6.24%
(Q1) EPS Est Mthly Chg	1.31%	0.00%	-0.40%	NA	10.48%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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