

## Atmos Energy Corp. (ATO)

**\$114.98** (As of 01/17/20)

Price Target (6-12 Months): **\$122.00**

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: C

Momentum: C

### Summary

Shares of the Atmos Energy have outperformed its industry in the past six months. The company is benefiting from its investments incurred to improve the reliability of its services. The company is gaining from new rates and customer growth. Its five-year capital expenditure plan will further strengthen distribution and pipeline & storage facilities. Improvement in economic conditions and customer additions are likely to boost the demand for natural gas. 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.

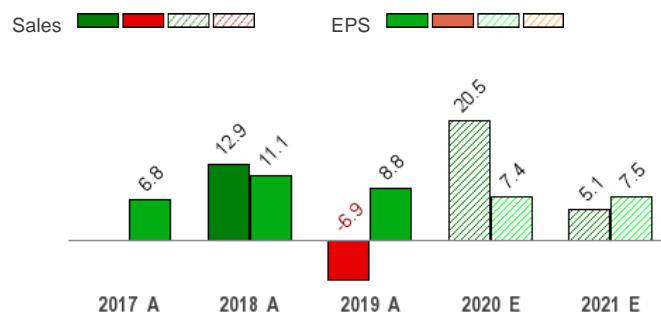
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$115.19 - \$93.86</b>
20 Day Average Volume (sh)	<b>643,285</b>
Market Cap	<b>\$14.1 B</b>
YTD Price Change	<b>2.8%</b>
Beta	<b>0.15</b>
Dividend / Div Yld	<b>\$2.30 / 2.0%</b>
Industry	<a href="#">Utility - Gas Distribution</a>
Zacks Industry Rank	<b>Bottom 23% (195 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>2.1%</b>
Last Sales Surprise	<b>-23.2%</b>
EPS F1 Est- 4 week change	<b>0.1%</b>
Expected Report Date	<b>02/04/2020</b>
Earnings ESP	<b>4.2%</b>
P/E TTM	<b>26.3</b>
P/E F1	<b>24.6</b>
PEG F1	<b>3.8</b>
P/S TTM	<b>4.8</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,678 E
2020					3,498 E
2019	878 A	1,095 A	486 A	444 A	2,902 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$5.02 E
2020	\$1.44 E	\$1.90 E	\$0.80 E	\$0.59 E	\$4.67 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 01/17/2020. The reports text is as of 01/20/2020.

## 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.

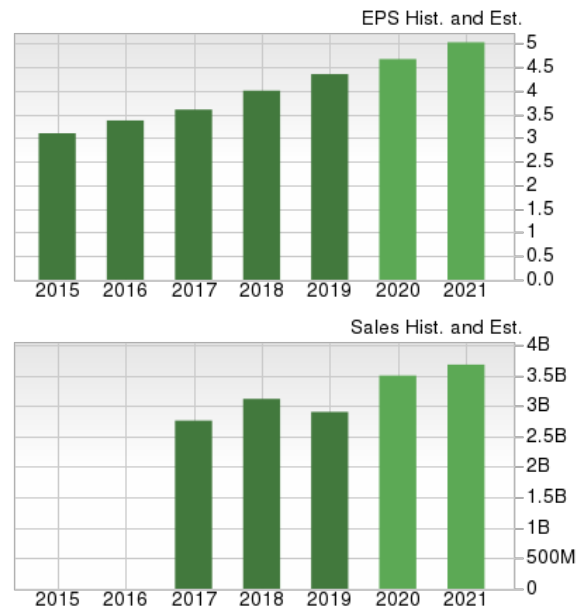
The company manages its operation through the following reportable segments.

**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.



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## Reasons To Buy:

- ▲ In the past six months, Atmos Energy's shares have returned 7% compared with its industry's 5.7% rally. Atmos Energy has a sturdy capital expenditure plan, helping the company to increase safety and reliability of its natural gas pipelines. The company's total capital expenditure in fiscal 2019 was \$1,693 million, a major portion of which will be invested to increase systems and pipeline integrity through replacement of pipelines, leak repairs and cathodic protection. In fiscal 2019, the company invested 87% 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. 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 also investing for the expansion of its gas storage facility. Atmos Energy is presently developing the third cavern at the Bethel Salt Cavern Storage project. The third cavern will be ready by late 2022 and is designed to add 5-6 Bcf of working gas capacity. Expansion of the storage project will assist the company to meet the projected demand for natural gas in its service territories.

- ▲ 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 \$56.8 million increase in rates had been implemented in fiscal 2019 and 2020, respectively. In addition, nearly \$6.3 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.

- ▲ 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, returns within one year of investment, customer additions and positive regulatory outcomes will continue to boost the company's performance.

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### 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 Q4 Earnings Beat Estimates by a Penny

Atmos Energy Corporation posted fourth-quarter fiscal 2019 earnings of 49 cents per share, which surpassed the Zacks Consensus Estimate of 48 cents by 2.1%.

The reported earnings also improved 19.5% from the prior-year figure. The year-over-year improvement in earnings was due to positive rate outcomes, and higher margins in its pipeline and storage segment.

Quarter Ending **09/2019**

Report Date	<b>Nov 06, 2019</b>
Sales Surprise	<b>-23.21%</b>
EPS Surprise	<b>2.08%</b>
Quarterly EPS	<b>0.49</b>
Annual EPS (TTM)	<b>4.37</b>

### Total Revenues

Total revenues of \$443.7 million lagged the Zacks Consensus Estimate of \$578 million by 23.2%. Moreover, the figure was marginally lower than the year-ago total revenues of \$444.7 million by 0.2%. The year-over-year decline in revenues was due to lower contribution from the distribution segment.

### Segment Revenues

**Distribution:** Revenues from the segment decreased 0.9% to \$403.8 million from \$407.5 million in the prior-year quarter.

**Pipeline and Storage:** Revenues from the segment increased 11.3% to \$147.7 million from \$132.7 million in the year-ago quarter. The improvement was driven by increase in rates, wider spreads, and positive supply and demand dynamics in the Permian Basin.

### Quarterly Highlights

Total operating expenses in the reported quarter increased 9.5% from the year-ago level to \$340.3 million due to higher operation and maintenance expenses, as well as depreciation and amortization costs.

Operating income in the reported quarter was down 1.1% year over year to \$89.7 million due to higher operating expenses. Higher contribution from distribution and pipeline, and storage segments was more than offset by increased operation and maintenance, and depreciation expenses in the quarter.

The company incurred interest expenses of \$28.8 million, up 17.6% from the year-ago period.

### Financial Highlights

As of Sep 30, 2019, Atmos Energy had cash and cash equivalents of \$24.5 million compared with \$13.8 million in the corresponding period of 2018.

Long-term debt was \$3.53 billion as of Sep 30, 2019, up from \$2.49 billion in the comparable year-ago period.

The company's cash flow from operating activities in fiscal 2019 was \$968.8 million, down from \$1,124.6 million recorded a year ago.

It invested \$1.69 billion in fiscal 2019 compared with \$15 billion in fiscal 2018. The increase in capital spending was due to continued spending for infrastructure replacements and enhancements.

### Guidance

Atmos Energy expects fiscal 2020 earnings in the range of \$4.58-\$4.73 per share. The Zacks Consensus Estimate for fiscal 2020 is \$4.63 per share. Capital expenditure is expected in the range of \$1.85-\$1.95 billion for fiscal 2020.

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## Valuation

Atmos Energy shares are up 7% in the last six months period, and up 20.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector are up 5.7% and 7.2% in the last six months period, respectively. Over the past year, the Zacks sub-industry is up 17.4% and Zacks sector is up 4.3%.

The S&P 500 index is up 12.3% in the last six months period and up 23.8% in the past year.

The stock is currently trading at 24.08X of forward 12 months earnings, which compares to 20.61X for the Zacks sub-industry, 13.83X for the Zacks sector and 19.2X 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 21.64X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$122 price target reflects 25.57X 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	24.08	20.61	13.83	19.2
	5-Year High	26.07	23.03	15.33	19.34
	5-Year Low	16.25	16.66	12.61	15.17
	5-Year Median	21.64	20.42	13.7	17.44
P/S F12M	Current	3.96	2.33	2.98	3.57
	5-Year High	4.24	2.33	3.26	3.57
	5-Year Low	0.93	0.98	1.7	2.54
	5-Year Median	2.74	1.6	1.95	3
P/B TTM	Current	2.45	2.72	4.16	4.55
	5-Year High	2.51	2.72	4.16	4.55
	5-Year Low	1.6	1.53	2.01	2.85
	5-Year Median	2.18	2.16	2.55	3.61

As of 1/17/2020

## Industry Analysis Zacks Industry Rank: Bottom 23% (195 out of 254)



## Top Peers

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

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	ATO Neutral	X Industry	S&P 500	MDU Outperform	NJR Neutral	SWX Underperform
<b>VGM Score</b>	<b>D</b>	-	-	<b>A</b>	<b>B</b>	<b>D</b>
Market Cap	14.06 B	4.64 B	24.65 B	5.93 B	3.97 B	4.19 B
# of Analysts	4	2	13	1	1	2
Dividend Yield	2.00%	2.73%	1.73%	2.80%	2.84%	2.84%
<b>Value Score</b>	<b>D</b>	-	-	<b>B</b>	<b>C</b>	<b>B</b>
Cash/Price	0.00	0.01	0.04	0.01	0.00	0.01
EV/EBITDA	15.21	13.50	14.11	13.08	21.43	13.45
PEG Ratio	3.79	2.94	2.08	2.90	2.56	3.27
Price/Book (P/B)	2.36	2.08	3.39	2.12	2.55	1.72
Price/Cash Flow (P/CF)	14.90	12.20	13.81	11.85	14.86	8.79
P/E (F1)	24.62	20.45	19.19	17.41	20.49	19.63
Price/Sales (P/S)	4.84	2.01	2.69	1.15	1.53	1.37
Earnings Yield	4.06%	4.81%	5.21%	5.74%	4.88%	5.10%
Debt/Equity	0.61	0.99	0.72	0.81	0.99	1.02
Cash Flow (\$/share)	7.72	3.40	6.94	2.50	2.96	8.73
<b>Growth Score</b>	<b>C</b>	-	-	<b>B</b>	<b>B</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	9.06%	5.57%	10.56%	7.43%	4.31%	7.23%
Proj. EPS Growth (F1/F0)	7.30%	9.36%	7.57%	6.25%	10.26%	4.60%
Curr. Cash Flow Growth	12.19%	7.46%	14.73%	8.11%	-18.24%	1.58%
Hist. Cash Flow Growth (3-5 yrs)	11.14%	6.65%	9.00%	-0.03%	3.04%	3.36%
Current Ratio	0.38	0.77	1.24	1.41	1.15	0.98
Debt/Capital	38.03%	49.94%	42.99%	44.78%	49.76%	51.24%
Net Margin	17.62%	8.72%	11.14%	6.17%	6.54%	6.26%
Return on Equity	9.19%	8.85%	17.16%	11.90%	11.31%	8.11%
Sales/Assets	0.23	0.35	0.55	0.70	0.61	0.40
Proj. Sales Growth (F1/F0)	20.56%	4.13%	4.16%	NA	11.84%	2.85%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>C</b>	<b>B</b>	<b>F</b>
Daily Price Chg	0.24%	0.24%	0.27%	0.58%	-0.65%	-0.13%
1 Week Price Chg	0.25%	-1.23%	0.39%	-1.23%	-3.06%	-0.76%
4 Week Price Chg	3.76%	0.41%	2.95%	0.34%	-2.09%	1.01%
12 Week Price Chg	1.38%	1.38%	7.76%	5.45%	-0.25%	-13.85%
52 Week Price Chg	21.04%	9.64%	22.29%	20.13%	-4.86%	-3.05%
20 Day Average Volume	643,285	313,139	1,536,375	1,032,385	531,396	313,139
(F1) EPS Est 1 week change	0.09%	0.00%	0.00%	0.00%	0.00%	-1.01%
(F1) EPS Est 4 week change	0.09%	0.00%	0.00%	0.00%	0.00%	-6.20%
(F1) EPS Est 12 week change	0.76%	-0.01%	-0.40%	6.25%	-0.69%	-6.20%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	0.00%	-4.19%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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	C
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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