



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

ATO - NYSE - as of	8/2/17	\$88.69
Price Target		--
52-Week Range	\$68.51 -	\$88.69
Shares Outstanding (mm)		105.3
Market Cap. (\$mm)		\$9,338.0
1-Mo. Average Daily Volume		368,998
Institutional Ownership		73.1%
LT Debt/Total Capital	Q3'17	44.0%
ROE	TTM	10.7%
Book Value / Share	Q3'17	\$36.68
Price / Book Value		2.4x
Dividend Yield		2.0%
LTM EBITDA Margin		34.8%

EPS FY 9/30 (cnt'd ops, ex-mrk-2-mkt & one-time items)

	Prior		Current		
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.99	--	\$1.08	A	--
2Q	\$1.39	--	\$1.53	A	--
3Q	\$0.64	--	\$0.67	A	--
4Q	*\$0.40	\$0.40	\$0.32	--	--
Year	*\$3.41	\$3.53	\$3.60	\$3.87	\$3.81
P/E	26.0x		24.6x	--	23.3x

*Needs restating ex-AEM

Firm Gross Profit (\$MM)

	Prior		Current		
	2016A	2017E	2017E	2018E	2018E
1Q	\$434	--	\$469	A	--
2Q	*\$518	--	\$561	A	--
3Q	*\$407	--	\$412	A	--
4Q	*\$376	\$390	\$378	--	--
Year	*\$1745	\$1,831	\$1,820	\$1,944	\$1,947

Company Description: *Headquartered in Dallas, Texas, Atmos is the largest fully regulated natural gas-only distributor in the US with customers in 9 states. It also provides natural gas marketing and procurement services and manages company owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Natural Gas Utilities

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Atmos Energy Corp.

ATO — NYSE — Neutral-1

Fiscal Q3'17 Results from ATO; Reiterating Neutral Rating and Initiating 2019 Estimates.

Investment Highlights

- CEO Kim Cocklin is moving to the role of Executive Chairman, effective October 1. Current COO Michael Haefner will elevate to the Chief Executive role.
- Atmos reported fiscal Q3'17 (April-June) EPS from continuing ops of \$0.67 vs. \$0.64 in Q3'16. EPS beat our estimate for \$0.65, which was a penny below consensus. Our prior year has been restated to reflect the 1/1/17 sale of Atmos Energy Marketing (AEM).
- Gross profit grew 5.3% in Q3, with the Distribution and Pipeline segments growing by 6.8% and 1.5%, respectively. Q3 gross profit met our estimate for \$412MM, on a steady flow of core regulatory items.
- Operations & Maintenance (O&M) slid 2.1% in Q3 versus our call for a fractional rise; O&M represented about +\$0.03 of EPS versus our model. Margin growth has now outpaced O&M for the last 8 quarters.
- Atmos Pipeline Texas' (APT) general rate case reached substantial conclusion this week, granting APT an operating income increase of \$16MM. The asset moves from an allowed ROE at 11.8% and 50/50 cap structure, to 11.5% ROE and 53% equity. In our view, this a very constructive outcome.
- ATO ended Q3'17 with net debt / total capital of 45.5%, up 80bps yr/yr. The company raised about \$50MM of equity capital in the third quarter.
- ATO adjusted its low/high bounds of FY 2017 EPS guidance by +\$0.10/- \$0.02 to a range of \$3.55-\$3.63. Reflecting Q3 results but several offsetting intra-quarter adjustments made to our forward outlook, our 2017E EPS rises to \$3.60 and our 2018E EPS slides to \$3.81. We are initiating 2019E EPS at \$4.03.
- We are reiterating our Neutral rating. The quarter was fine, in our view, although valuation still drives what we view as just average near-term risk/reward. We expect the CEO news to be a drag on the stock, although we are not necessarily certain of the timeframe.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

ADDITIONAL DISCUSSION—EXECUTIVE TRANSITION

As highlighted in our opening point, CEO Kim Cocklin will be moving to the position of Executive Chairman, effective October 1; he will replace Robert Best, who was actually the CEO of ATO prior to Mr. Cocklin. Kim oversaw what we view as a material shift in strategy for Atmos, namely refining the footprint and managing to optimum profitability versus roll-up/M&A strategy. By extension, Atmos has been one of the narrowest allocators of capital we follow over the past several years, focusing Cap Ex dollars on distribution and intrastate expansion and system integrity upgrades. If only taking the stock price as evidence, this has worked very well for Atmos, and we believe this focused strategy along with a strong history of execution are core investment themes for many investors.

Our assumption is that this guiding strategy remains unchanged. Incoming CEO Michael Haefner has been part of an executive succession plan for several years now, and although details were not discussed much on the call this morning, we expect some assurance of continuity was part of the ‘interview’ process.

SUITABILITY

We assign ATO a suitability rating of ‘1.’ A full description of our rating scale can be found on page 5 in the Important Disclosures section of this report. Atmos is the largest standalone publicly traded gas utility company in the country, and marks an attractive core holding, in our view. Though heavily reliant on the state of Texas and smaller than some Utility sector peers, ATO operates monopoly franchises in 9 states and has historically proved capable of returning capital to shareholders. Sector-appropriate leverage and a fully regulated business mix help keep Atmos just above our more aggressive ‘2’ rating.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation.

Atmos’ CFO left the company somewhat abruptly in February 2017. We see a slight element of risk tied to this event.

Gas utilities face competition from alternative fuels. In the industrial market, many customers have the capability of using both natural gas as well as another source of energy. Increases in the price of natural gas can negatively impact a competitive position by decreasing the price benefits of natural gas to the end user. The cost of natural gas from non-domestic sources may play a greater role in establishing the market price of natural gas in the future.

Gas utilities are subject to regulation at the federal and state levels. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities. Additionally, we anticipate a high level of capital expenditure over the coming years; inability to access the capital markets may negatively impact the company’s growth prospects.

Our Suitability rating is 1 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Atmos Energy Corp. FYE Sept		dec	mar	jun	sept	dec	mar	jun	sept	FY'17E	FY'18E	FY'19E			
Income Statement ('000s)		FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Total Operating Revenues	4,940,916	4,142,136						3,349,949					-	-	-
Total Purchased Gas Cost	3,358,490	2,462,119						1,605,053							
Gross Profit	1,582,426	1,680,017	434,427	512,684	391,629	376,011	1,744,896	468,863	560,692	412,325	378,148	1,820,028	1,947,205	2,074,538	
Operating Expenses															
O & M	505,154	541,868	119,828	127,857	131,388	164,808	560,766	124,938	132,239	128,690	156,600	542,470	562,920	584,140	
D & A	253,987	274,796	70,656	71,391	72,880	76,426	293,096	76,958	77,667	80,023	83,560	318,210	348,060	376,780	
Other Tax	211,936	231,958	51,214	61,780	58,965	50,144	223,016	57,049	65,614	62,948	51,310	236,920	252,650	269,630	
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Op Exp	971,077	1,048,622	241,698	261,028	263,233	291,378	1,076,878	258,945	275,520	271,661	291,470	1,097,600	1,163,630	1,230,550	
Operating Income	611,349	631,395	192,729	251,656	128,396	84,633	668,018	209,918	285,172	140,664	86,678	722,428	783,575	843,988	
Misc Inc / (Exp)	(5,235)	(4,389)	(879)	(329)	1,118	(532)	(1,593)	(994)	833	(289)	(530)	(980)	(980)	(980)	
Interest	129,295	116,241	29,537	27,559	27,679	30,207	115,948	31,030	26,944	28,498	31,048	117,520	130,420	145,720	
Pre-Tax Income	476,819	510,765	162,313	223,768	101,835	53,894	550,477	177,894	259,061	111,877	55,100	603,928	652,175	697,288	
Income Tax	187,002	195,690	60,767	80,765	35,692	19,654	200,373	63,856	97,049	41,069	20,660	222,630	244,570	261,480	
Net Income--Cont'd Ops	289,817	315,075	101,546	143,003	66,143	34,240	350,104	114,038	162,012	70,808	34,440	381,298	407,605	435,808	
Net Income--Disc Ops	-	-	1,315	(1,193)	5,050	-	5,172	10,994	2,716	-	-	13,710	-	-	
Net Income	\$289,817	\$315,075	102,861	141,810	71,193	34,240	\$355,276	125,032	164,728	70,808	34,440	\$395,008	\$407,605	\$435,808	
Average Shares Outstanding (FD)	97,608	101,892	102,713	102,946	103,750	104,687	103,524	105,475	105,935	106,364	106,420	106,048	107,125	108,253	
Net Income per Share	\$3.02	\$3.10	\$1.00	\$1.38	\$0.69	\$0.33	\$3.39	\$1.19	\$1.55	\$0.67	\$0.32	\$3.73	\$3.81	\$4.03	
MTM gains (losses)	\$0.07	(\$0.01)				(\$0.07)	\$0.00					\$0.00	\$0.00	\$0.00	
One-time benefits (charges)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00		\$0.00	\$0.00	\$0.00	
Adjusted EPS [Cont'd Ops]	\$2.95	\$3.11	\$0.99	\$1.39	\$0.64	\$0.40	\$3.41	\$1.08	\$1.53	\$0.67	\$0.32	\$3.60	\$3.81	\$4.03	
Adjusted EPS	\$2.95	\$3.11	\$1.00	\$1.38	\$0.69	\$0.40	\$3.46	\$1.19	\$1.55	\$0.67	\$0.32	\$3.73	\$3.81	\$4.03	
Dividends per share	\$1.480	\$1.560	\$0.420	\$0.420	\$0.420	\$0.420	\$1.680	\$0.450	\$0.450	\$0.450	\$0.450	\$1.800	\$1.920	\$1.920	
									*AEM sale closed in Jan--	*tightened \$40MM cash guide by	*tightened +\$0.10 low end +\$0.02 high end		Cont'd Ops EPS Guide: \$3.55-\$3.63		
Rate of Change Analysis:															
Gross Margin	12.1%	6.2%	2.6%	-1.5%	2.6%	6.1%	3.9%	7.9%	9.4%	5.3%	0.6%	4.3%	7.0%	6.5%	
O&M Expense	3.5%	7.3%	1.1%	-4.2%	-0.8%	4.7%	3.5%	4.3%	3.4%	-2.1%	-5.0%	-3.3%	3.8%	3.8%	
Operating Income	21.8%	3.3%	2.7%	0.6%	9.2%	11.6%	5.8%	8.9%	13.3%	9.6%	2.4%	8.1%	8.5%	7.7%	
Adjusted EPS	16.5%	5.2%	10.0%	1.0%	26.7%	36.9%	11.5%	18.4%	12.9%	-3.0%	-18.5%	7.7%	2.1%	5.8%	
Adjusted EPS--Cont'd Ops	19.4%	5.2%	8.6%	1.9%	17.7%	36.9%	9.9%	9.4%	10.1%	4.4%	-18.5%	5.5%	5.8%	5.8%	
Margin Analysis:															
O&M / GM	31.9%	32.3%	27.6%	24.9%	33.5%	43.8%	32.1%	26.6%	23.6%	31.2%	41.4%	29.8%	28.9%	28.2%	
Other Tax / GM	13.4%	13.8%	11.8%	12.1%	15.1%	13.3%	12.8%	12.2%	11.7%	15.3%	13.6%	13.0%	13.0%	13.0%	
Operating Income / GM	38.6%	37.6%	44.4%	49.1%	32.8%	22.5%	38.3%	44.8%	50.9%	34.1%	22.9%	39.7%	40.2%	40.7%	
Tax Rate	39.2%	38.3%	37.4%	36.1%	35.0%	36.5%	36.4%	35.9%	37.5%	36.7%	37.5%	36.9%	37.5%	37.5%	

Source: Company reports and Hilliard Lyons estimates

Atmos Energy Corp. FYE Sept

Summary Balance Sheet ('000s)	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Cash	\$42,258	\$28,653	\$78,903	\$47,918	\$66,206	\$47,534	\$47,534	\$44,624	\$45,403	\$69,777	\$152,900	\$152,900	\$150,550	\$203,200
A/R	343,400	295,160	456,904	361,582	277,362	300,007	300,007	458,813	336,637	250,224	309,010	309,010	318,280	327,830
Gas Stored Underground	278,917	236,603	236,017	190,961	244,841	233,316	233,316	163,763	120,026	151,656	233,320	233,320	233,320	233,320
Other CAs	111,265	70,569	91,446	52,451	60,504	100,829	100,829	312,232	61,018	62,725	102,850	102,850	104,910	107,010
Total Current Assets	775,840	630,985	863,270	652,912	648,913	681,686	681,686	979,432	563,084	534,382	798,080	798,080	807,060	871,360
Net PP&E	6,725,906	7,430,580	7,653,287	7,839,413	8,053,547	8,280,511	8,280,511	8,552,962	8,738,487	8,924,381	9,115,820	9,115,820	9,902,760	10,660,980
Goodwill & Intangibles	742,029	742,702	742,029	742,702	742,702	743,407	743,407	729,673	729,673	729,673	729,670	729,670	729,670	729,670
Deferred Charges and Other	350,929	288,678	296,067	308,899	282,206	305,285	305,285	317,088	330,222	310,339	320,550	320,550	336,580	353,410
Total Assets	\$8,594,704	\$9,092,945	\$9,554,653	\$9,543,926	\$9,727,368	\$10,010,889	\$10,010,889	\$10,579,155	\$10,361,466	\$10,498,775	\$10,964,120	\$10,964,120	\$11,776,070	\$12,615,420
ST Debt	196,695	457,927	763,236	373,783	410,452	829,811	829,811	940,747	670,607	258,573	478,570	478,570	258,570	288,570
A/P + Othr Accrued	308,086	238,942	280,487	226,641	198,882	259,434	259,434	268,647	185,212	164,365	259,430	259,430	259,430	259,430
Current Maturity LT Debt	-	-	-	-	250,000	250,000	250,000	250,000	250,000	-	-	-	450,000	125,000
Other CLs	405,869	457,954	471,333	626,929	670,466	449,036	449,036	490,421	390,253	322,721	471,490	471,490	495,060	519,810
Total Current Liabilities	910,650	1,154,823	1,515,056	1,227,353	1,529,800	1,788,281	1,788,281	1,949,815	1,496,072	745,659	1,209,490	1,209,490	1,463,060	1,192,810
LTD	2,455,986	2,455,388	2,455,474	2,455,559	2,205,645	2,188,779	2,188,779	2,314,199	2,314,620	3,066,734	3,066,730	3,066,730	3,116,730	3,441,730
Deferred Income Tax	1,286,616	1,411,315	1,441,325	1,557,790	1,585,500	1,603,056	1,603,056	1,725,433	1,810,160	1,853,564	1,854,560	1,854,560	2,049,990	2,257,890
Deferred Credits and Other	855,220	876,622	870,689	958,659	939,699	967,714	967,714	890,733	905,750	931,108	931,110	931,110	959,320	988,390
Shareholders' Equity	\$3,086,232	\$3,194,797	\$3,272,109	\$3,344,565	\$3,466,724	\$3,463,059	\$3,463,059	\$3,698,975	\$3,834,864	\$3,901,710	\$3,902,230	\$3,902,230	\$4,186,970	\$4,734,600
Total Liab & SE	\$8,594,704	\$9,092,945	\$9,554,653	\$9,543,926	\$9,727,368	\$10,010,889	\$10,010,889	\$10,579,155	\$10,361,466	\$10,498,775	\$10,964,120	\$10,964,120	\$11,776,070	\$12,615,420
Summary Cash Flow ('000's)	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Net Income	289,817	315,075	102,861	141,810	71,193	34,240	355,276	125,032	164,728	70,808	34,440	395,010	407,600	435,810
D&A	253,987	274,796	71,239	71,972	74,442	75,443	293,096	77,143	77,667	80,023	83,560	318,390	348,060	376,780
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Tax	189,952	192,886	59,299	73,157	38,586	22,514	193,556	67,241	81,416	39,599	1,000	189,260	195,430	207,900
Cash Provided (Used) by Wrk Cap	(13,062)	114,191	(127,111)	81,123	38,065	(12,323)	(20,246)	(147,058)	130,524	(35,303)	63,259	11,420	12,240	-
Operating C.F.	720,694	896,948	106,288	368,062	222,286	119,874	821,682	122,358	454,335	155,127	182,259	914,080	963,330	1,020,490
Cap Ex	(835,251)	(975,132)	(291,674)	(246,559)	(257,775)	(290,942)	(1,086,950)	(297,962)	(261,423)	(252,763)	(275,000)	(1,087,150)	(1,135,000)	(1,135,000)
(Acquisitions) / Divestitures	-	-	-	-	-	-	-	(85,714)	133,560	6,279	-	54,130	-	-
Dividends	(146,248)	(160,018)	(43,636)	(43,173)	(43,554)	(44,763)	(175,126)	(47,740)	(47,574)	(47,761)	(47,890)	(190,970)	(205,680)	(207,840)
Free C.F.	(260,805)	(238,202)	(229,022)	78,330	(79,043)	(215,831)	(440,394)	(309,058)	278,898	(139,118)	(140,631)	(309,910)	(377,350)	(322,350)
Net Proceeds (Repayment) ST Debt	(165,865)	254,780	305,309	(136,307)	43,537	159,345	371,884	110,936	(270,140)	(412,034)	220,000	(351,240)	(220,000)	30,000
LT Debt Proceeds	-	493,538	-	-	-	-	-	125,000	-	759,911	-	884,910	500,000	700,000
(Repayment) of LT debt	-	(500,000)	-	-	-	-	-	-	-	(250,000)	-	(250,000)	-	(450,000)
Issued Stock	394,479	30,952	8,729	8,912	107,519	7,692	132,852	58,398	7,986	55,044	5,000	126,430	100,000	100,000
Repurchased Stock & Eq Awards	(8,717)	(7,985)	-	-	-	-	-	-	-	-	(1,250)	(1,250)	(5,000)	(5,000)
Net C.F.	(40,908)	46,447	85,016	(49,065)	72,013	(48,794)	64,342	(14,724)	16,744	13,803	83,119	98,940	(2,350)	52,650
Selected Financial Statistics	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Book Value	\$30.48	\$31.25	\$31.86	\$32.49	\$33.41	\$33.08	\$33.08	\$35.07	\$36.20	\$36.68	\$36.67	\$36.67	\$38.93	\$43.57
Tangible BV	\$23.15	\$23.99	\$24.63	\$25.27	\$26.26	\$25.98	\$25.98	\$28.15	\$29.31	\$29.82	\$29.81	\$29.81	\$32.15	\$36.85
Price / Book	1.6x	1.9x	2.0x	2.3x	2.4x	2.3x	2.3x	2.1x	2.2x	2.3x	2.4x	2.4x	2.3x	2.0x
LTD / Total Capital	44.3%	43.5%	42.9%	42.3%	41.5%	41.3%	41.3%	40.9%	40.1%	44.0%	44.0%	44.0%	46.0%	43.0%
Total Net Debt / Total Capital	45.8%	47.4%	49.0%	45.4%	44.7%	48.2%	48.2%	48.3%	45.4%	46.5%	46.5%	46.5%	46.7%	43.5%
ROE (TTM)	9.9%	10.0%	10.1%	10.0%	10.3%	10.5%	10.5%	10.8%	11.1%	10.7%	10.5%	10.5%	9.9%	9.7%

Source: Company reports and Hilliard Lyons Estimates

Analyst Certification

I, Spencer E. Joyce, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

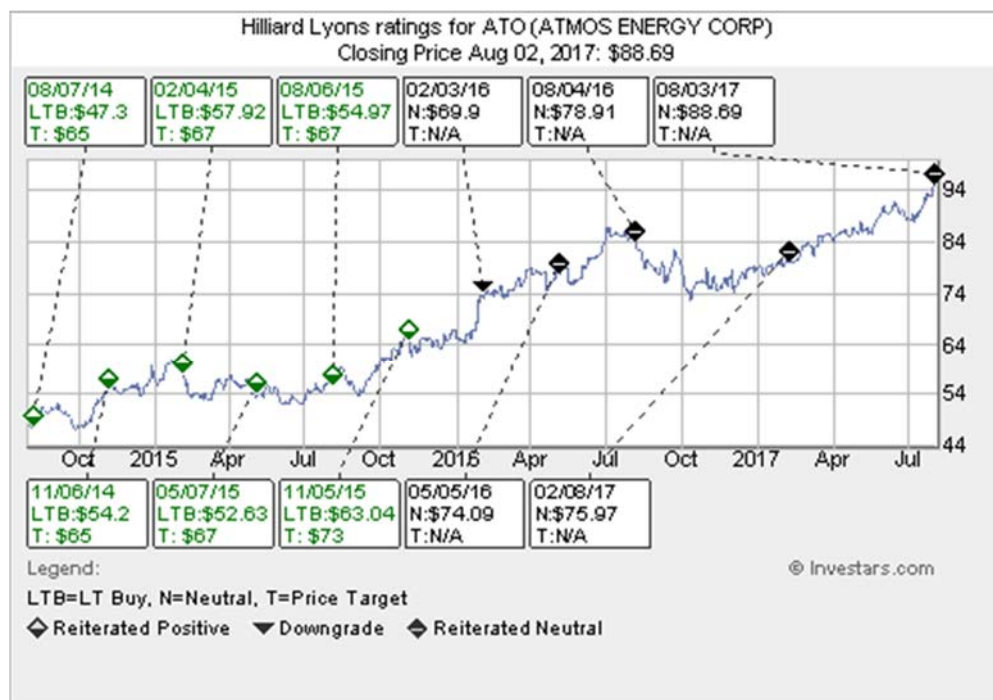
Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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