

**COMPANY UPDATE /
ESTIMATE CHANGE**
Key Metrics

ATO - NYSE - as of	2/6/18	\$78.03
Price Target		--
52-Week Range	\$72.58 -	\$93.56
Shares Outstanding (mm)		111.0
Market Cap. (\$mm)		\$8,658.1
1-Mo. Average Daily Volume		703,925
Institutional Ownership		69.0%
LT Debt/Total Capital	Q1'18	40.2%
ROE	TTM	14.7%
Book Value / Share	Q1'18	\$42.04
Price / Book Value		1.9x
Dividend Yield		2.5%
LTM EBITDA Margin		38.4%

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

		Prior	Current		Prior	Current
	2017A	2018E	2018E	A	2019E	2019E
1Q	\$1.08	--	*\$1.40	A	--	--
2Q	\$1.53	\$1.55	\$1.49		--	--
3Q	\$0.67	\$0.70	\$0.70		--	--
4Q	\$0.34	\$0.42	\$0.42		--	--
Year	\$3.61	\$3.83	\$4.02		\$4.07	\$4.20
P/E	21.6x		19.4x		--	18.6x

2017 restated ex-AEM; *1x TCJA adjusted

Firm Gross Profit (\$MM)

		Prior	Current		Prior	Current
	2017A	2018E	2018E	A	2019E	2019E
1Q	\$469	--	\$522	A	--	--
2Q	\$561	\$597	\$553		--	--
3Q	\$412	\$443	\$435		--	--
4Q	\$392	\$429	\$421		--	--
Year	\$1,834	\$1,977	\$1,932		\$2,110	\$1,999

Company Description: *Headquartered in Dallas, Texas, Atmos is the largest fully regulated natural gas-only distributor in the US, serving over three million customers across 8 states from the Blue Ridge Mountains in the East to the Rocky Mountains in the West. ATO also manages company-owned natural gas pipeline and storage assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Natural Gas Utilities

Analyst: Spencer E. Joyce, CFA
502.588.8402 // sjoyce@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 // gmoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
February 7, 2018

Atmos Energy Corp.

ATO — NYSE — Neutral-1

Strong Fiscal Q1'18 from ATO, but Aided by Tax.

Investment Highlights

- Atmos reported fiscal Q1'18 (October-December) adjusted EPS from continuing ops of \$1.40 vs. \$1.08 in Q1'17. Results exceeded our Street-high estimate of \$1.16 by \$0.24, aided in part by a lower effective tax rate (+\$0.15). Otherwise, margin gains fell to net income, offset by +2.9% average shares outstanding.
- GAAP EPS in Q1 were \$2.89, but reflect a large one-time gain from re-measuring deferred tax liabilities, compelled by the US Tax Cuts and Jobs Act (TCJA).
- ATO placed a \$400MM equity secondary just after Thanksgiving that priced at ~\$87.75/sh. Dilution will factor into EPS over this year, but is accounted for in EPS and rate base stretch guidance (through 2022).
- Total gross profit grew 11.4% in Q1, exceeding our +8.3% estimate. The Distribution and Pipeline segments grew 10.5% and 14.6%, respectively, although we expect growth to slow as tariffs are adjusted to reflect a lower tax burden post-TCJA.
- Operations & Maintenance (O&M) was higher by 3.7% in the first quarter, ahead of our call for 2% growth, but reasonable given margin gains. Margin growth has outpaced O&M for the last 10 quarters.
- ATO's regulatory calendar remains sufficiently full, in our view; by our count, 11 separate filings are likely to be finalized over the balance of fiscal 2018.
- ATO ended Q1'18 with net debt / total capital of 42.3%, down 500bps yr/yr and 390bps sequentially. We expect negligible new equity over the rest of fiscal 2018, but expect measured usage of a \$500MM at-the-market program across 2019-2022.
- ATO raised FY 2018 EPS guidance to the range of \$3.85 to \$4.05, a hike of \$0.10 to both ends. Our 2018/2019 EPS estimates rise \$0.19/\$0.13, to \$4.02 and \$4.20, respectively.
- We are reiterating our Neutral rating. Retention of tax benefits qualifies most of the Q1 'beat,' and we remain patient across the Utilities sector.

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

ADDITIONAL DISCUSSION—MULTIPLE ITEMS

The TCJA compelled a non-cash \$1.49/share gain in Q1 upon the remeasurement of deferred tax liabilities, although this item holds few implications for operating results going forward. ATO is currently working through various regulatory procedures across its 8-state regulated distribution footprint to reduce tariff rates as appropriate under the TCJA; news flow will likely be incremental across 2018, but by our interpretation, the majority of margin generation should be operating under adjusted (reduced) tariffs as-of fiscal Q2. As one of the fastest growers of rate base we follow in the gas space, the loss of these tax cash flows is a real loss for Atmos, in our view, but one that does not disqualify the stock from potentially being attractive. ATO noted on this morning's call that the TCJA likely raised long-term capital needs by \$500MM-\$600MM over the thru-2022 planning horizon, although we do not expect all of this will be incremental equity.

Q1 results were strong in our view, but about two-thirds of our EPS beat was driven by a lower effective tax rate that was not-yet accompanied by meaningful rate adjustments (or accumulation of deferred liabilities). We assert a more fair comparison for next year, or a normalized adjusted EPS figure versus the \$1.08 earned in Q1'17, would be about \$1.25. That said, margin grew at the best rate we have seen since fiscal Q4'14, which in our view speaks to the sustainability of the ATO story. Cap Ex of \$383MM in the quarter was higher by about \$85MM yr/yr; FY Cap Ex is still projected in the range of \$1.3B to \$1.4B.

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 maintains a large portion of its operations in the state of Texas, including the entirety of its Pipeline segment and much of its Distribution segment. A material deterioration in the operating environment or regulatory relations in the state could have a major negative impact on results and/or financial condition.

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					
Income Statement ('000s)		FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E
Total Operating Revenues	4,142,136												-	-
Total Purchased Gas Cost	2,462,119													
Gross Profit	1,680,017	1,708,456	468,863	560,692	412,325	392,319	1,834,199	522,275	553,109	435,178	421,421	1,931,983	1,999,427	
Operating Expenses														
O & M	541,868	538,592	124,938	132,239	128,690	160,931	546,798	129,567	137,530	136,410	167,370	570,880	582,300	
D & A	274,796	290,791	76,958	77,667	80,023	84,800	319,448	88,374	90,430	92,420	94,720	365,940	401,000	
Other Tax	231,958	221,843	57,049	65,614	62,948	54,796	240,407	62,773	65,690	65,980	57,860	252,300	262,230	
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Op Exp	1,048,622	1,051,226	258,945	275,520	271,661	300,527	1,106,653	280,714	293,650	294,810	319,950	1,189,120	1,245,530	
Operating Income	631,395	657,230	209,918	285,172	140,664	91,792	727,546	241,561	259,459	140,368	101,471	742,863	753,897	
Misc Inc / (Exp)	(4,389)	(234)	(994)	833	(289)	(2,820)	(3,270)	(2,035)	(1,000)	(1,000)	(2,820)	(6,860)	(6,860)	
Interest	116,241	114,812	31,030	26,944	28,498	33,710	120,182	31,509	31,009	31,659	33,784	127,960	152,510	
Pre-Tax Income	510,765	542,184	177,894	259,061	111,877	55,262	604,094	208,017	227,450	107,709	64,867	608,043	594,527	
Income Tax	195,690	196,642	63,856	97,049	41,069	19,409	221,383	(106,115)	63,690	30,160	18,160	5,900	130,800	
Net Income--Cont'd Ops	315,075	345,542	114,038	162,012	70,808	35,853	382,711	314,132	163,760	77,549	46,707	602,143	463,727	
Net Income--Disc Ops	-	4,562	10,994	2,716	-	-	13,710	-	-	-	-	-	-	
Net Income	\$315,075	\$350,104	125,032	164,728	70,808	35,853	\$396,421	314,132	163,760	77,549	46,707	\$602,143	\$463,727	
Average Shares Outstanding (FD)	101,892	103,524	105,475	105,935	106,364	106,814	106,100	108,564	110,083	110,085	110,086	109,705	110,406	
Net Income per Share	\$3.10	\$3.39	\$1.19	\$1.55	\$0.67	\$0.34	\$3.74	\$2.89	\$1.49	\$0.70	\$0.42	\$5.51	\$4.20	
MTM gains (losses)	(\$0.01)	\$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	\$1.49				\$1.49	\$0.00	
Adjusted EPS [Cont'd Ops]	\$3.11	\$3.35	\$1.08	\$1.53	\$0.67	\$0.34	\$3.61	\$1.40	\$1.49	\$0.70	\$0.42	\$4.02	\$4.20	
Adjusted EPS	\$3.11	\$3.39	\$1.19	\$1.55	\$0.67	\$0.34	\$3.74	\$1.40	\$1.49	\$0.70	\$0.42	\$4.02	\$4.20	
Dividends per share	\$1.560	\$1.680	\$0.450	\$0.450	\$0.450	\$0.450	\$1.800	\$0.485	\$0.485	\$0.485	\$0.485	\$1.940	\$2.080	
				*AEM sale closed in Jan-- \$40MM cash	*tightened guide by +\$0.10 low end +\$0.02 high end			*hiked EPS guide by \$0.10 on both ends					Cont'd Ops EPS Guide: \$3.85-\$4.05	
Rate of Change Analysis:														
Gross Margin	6.2%	1.7%	7.9%	9.4%	5.3%	6.1%	7.4%	11.4%	-1.4%	5.5%	7.4%	5.3%	3.5%	
O&M Expense	7.3%	-0.6%	4.3%	3.4%	-2.1%	0.9%	1.5%	3.7%	4.0%	6.0%	4.0%	4.4%	2.0%	
Operating Income	3.3%	4.1%	8.9%	13.3%	9.6%	8.7%	10.7%	15.1%	-9.0%	-0.2%	10.5%	2.1%	1.5%	
Adjusted EPS	5.2%	9.2%	18.4%	12.9%	-3.0%	2.6%	10.3%	18.4%	-4.3%	5.8%	26.4%	7.4%	4.5%	
Adjusted EPS--Cont'd Ops	5.2%	7.8%	9.4%	10.1%	4.4%	0.8%	7.9%	29.8%	-2.7%	5.8%	26.4%	11.3%	4.5%	
Margin Analysis:														
O&M / GM	32.3%	31.5%	26.6%	23.6%	31.2%	41.0%	29.8%	24.8%	24.9%	31.3%	39.7%	29.5%	29.1%	
Other Tax / GM	13.8%	13.0%	12.2%	11.7%	15.3%	14.0%	13.1%	12.0%	11.9%	15.2%	13.7%	13.1%	13.1%	
Operating Income / GM	37.6%	38.5%	44.8%	50.9%	34.1%	23.4%	39.7%	46.3%	46.9%	32.3%	24.1%	38.5%	37.7%	
Tax Rate	38.3%	36.3%	35.9%	37.5%	36.7%	35.1%	36.6%	-51.0%	28.0%	28.0%	28.0%	1.0%	22.0%	

Source: Company reports and Hilliard Lyons estimates

Atmos Energy Corp. FYE Sept		dec mar june sept											
Summary Balance Sheet ('000s)	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E
Cash	\$28,653	\$47,534	\$44,624	\$45,403	\$69,777	\$26,409	\$26,409	\$54,750	\$58,180	\$61,480	\$56,030	\$56,030	\$54,290
A/R	295,160	300,007	458,813	336,637	250,224	222,263	222,263	489,217	346,740	257,730	228,930	228,930	235,800
Gas Stored Underground	236,603	233,316	163,763	120,026	151,656	184,653	184,653	163,959	120,030	151,660	184,650	184,650	184,650
Other CAs	100,569	100,829	312,232	61,018	62,725	70,562	106,321	70,984	62,240	63,980	108,450	108,450	110,620
Total Current Assets	630,985	681,686	979,432	563,084	534,382	539,646	539,646	778,910	587,190	534,850	578,060	578,060	585,360
Net PP&E	7,430,580	8,268,606	8,552,962	8,738,487	8,924,381	9,259,182	9,259,182	9,518,792	9,728,360	9,970,940	10,226,220	10,226,220	11,100,220
Goodwill & Intangibles	742,702	726,962	729,673	729,673	729,673	730,132	730,132	730,132	730,130	730,130	730,130	730,130	730,130
Deferred Charges and Other	288,678	333,635	317,088	330,222	310,339	220,636	220,636	236,886	346,730	325,860	231,670	231,670	243,250
Total Assets	9,092,945	\$10,010,889	\$10,579,155	\$10,361,466	\$10,498,775	\$10,749,596	\$10,749,596	\$11,264,720	\$11,392,410	\$11,561,780	\$11,766,080	\$11,766,080	\$12,658,960
ST Debt	457,927	829,811	940,747	670,607	258,573	447,745	447,745	336,919	136,920	396,920	121,920	121,920	456,920
A/P + Othr Accrued	238,942	259,434	268,647	185,212	164,365	233,050	233,050	285,675	185,210	164,370	233,050	233,050	233,050
Current Maturity LT Debt	-	250,000	250,000	250,000	-	-	-	-	450,000	450,000	450,000	450,000	125,000
Other CLs	457,954	449,036	490,421	390,253	322,721	332,904	332,904	336,816	409,770	338,860	349,550	349,550	367,030
Total Current Liabilities	1,154,823	1,788,281	1,949,815	1,496,072	745,659	1,013,699	1,013,699	959,410	1,181,900	1,350,150	1,154,520	1,154,520	1,182,000
LTD	2,455,388	2,188,779	2,314,199	2,314,620	3,066,734	3,067,045	3,067,045	3,067,469	2,617,470	2,617,470	3,117,470	3,117,470	3,692,470
Deferred Income Tax	1,411,315	1,603,056	1,725,433	1,810,160	1,853,564	1,878,699	1,878,699	1,033,206	1,041,350	1,043,330	1,045,280	1,045,280	1,055,010
Deferred Credits and Other (Reg Liabs)	876,622	967,714	890,733	905,750	931,108	891,487	891,487	1,641,015	1,657,430	1,674,000	1,674,000	1,674,000	1,724,730
Shareholders' Equity	\$3,194,797	\$3,463,059	\$3,698,975	\$3,834,864	\$3,901,710	\$3,898,666	\$3,898,666	\$4,563,620	\$4,894,260	\$4,876,830	\$4,774,810	\$4,774,810	\$5,004,750
Total Liab & SE	\$9,092,945	\$10,010,889	\$10,579,155	\$10,361,466	\$10,498,775	\$10,749,596	\$10,749,596	\$11,264,720	\$11,392,410	\$11,561,780	\$11,766,080	\$11,766,080	\$12,658,960
Summary Cash Flow (000's)	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E
Net Income	315,075	350,104	125,032	164,728	70,808	35,853	396,421	314,132	163,760	77,550	46,710	602,140	463,730
D&A	274,796	293,096	77,143	77,667	80,023	84,800	319,633	88,374	90,430	92,420	94,720	365,940	401,000
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Tax	192,886	193,556	67,241	81,416	39,599	38,927	227,183	53,149	8,142	1,980	1,946	65,220	9,730
Cash Provided (Used) by Wrk Cap	114,191	(20,246)	(147,058)	130,524	(35,303)	30,236	(21,601)	(279,386)	295,639	(39,110)	30,710	7,850	8,440
Operating C.F.	896,948	816,510	122,358	454,335	155,127	189,816	921,636	176,269	557,971	132,840	174,086	1,041,150	882,900
Cap Ex	(975,132)	(1,086,950)	(297,962)	(261,423)	(252,763)	(324,941)	(1,137,089)	(383,238)	(300,000)	(335,000)	(350,000)	(1,368,240)	(1,275,000)
(Acquisitions) / Divestitures	-	-	(85,714)	133,560	6,279	-	54,125	-	-	-	-	-	-
Dividends	(160,018)	(175,126)	(47,740)	(47,574)	(47,761)	(48,856)	(191,931)	(51,837)	(53,390)	(53,390)	(53,390)	(212,010)	(229,640)
Free C.F.	(238,202)	(445,566)	(309,058)	278,898	(139,118)	(183,981)	(353,259)	(258,806)	204,581	(255,550)	(229,304)	(539,100)	(621,740)
Net Proceeds (Repayment) ST Debt	254,780	371,884	110,936	(270,140)	(412,034)	189,172	(382,066)	(110,929)	(200,000)	260,000	(275,000)	(325,930)	335,000
LT Debt Proceeds	493,538	-	125,000	-	759,911	-	884,911	-	-	-	500,000	500,000	700,000
(Repayment) of LT debt	(500,000)	-	-	-	(250,000)	-	(250,000)	-	-	-	-	-	(450,000)
Issued Stock	30,952	132,852	58,398	7,986	55,044	3,850	125,278	400,759	100	100	100	401,060	40,000
Repurchased Stock & Eq Awards	(7,985)	-	-	-	-	-	-	0	(1,250)	(1,250)	(1,250)	(3,750)	(5,000)
Net C.F.	46,447	33,500	(14,724)	16,744	13,803	(2,285)	13,538	31,024	3,431	3,300	(5,454)	32,280	(1,740)
Selected Financial Statistics	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E
Book Value	\$31.25	\$33.08	\$35.07	\$36.20	\$36.68	\$36.50	\$36.50	\$42.04	\$44.46	\$44.30	\$43.37	\$43.37	\$45.25
Tangible BV	\$23.99	\$26.14	\$28.15	\$29.31	\$29.82	\$29.66	\$29.66	\$35.31	\$37.83	\$37.67	\$36.74	\$36.74	\$38.65
Price / Book	1.9x	2.3x	2.1x	2.2x	2.3x	2.3x	2.3x	2.0x	1.8x	1.8x	1.8x	1.8x	1.7x
LTD / Total Capital	43.5%	41.3%	40.9%	40.1%	44.0%	44.0%	44.0%	40.2%	38.5%	38.6%	42.8%	42.8%	43.3%
Total Net Debt / Total Capital	47.4%	48.2%	48.3%	45.4%	45.5%	47.2%	47.2%	42.3%	39.1%	41.1%	43.2%	43.2%	45.7%
ROE (TTM)-unadjusted	10.0%	10.5%	10.8%	11.1%	10.7%	10.5%	10.5%	14.7%	13.9%	13.4%	13.1%	13.1%	9.3%

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

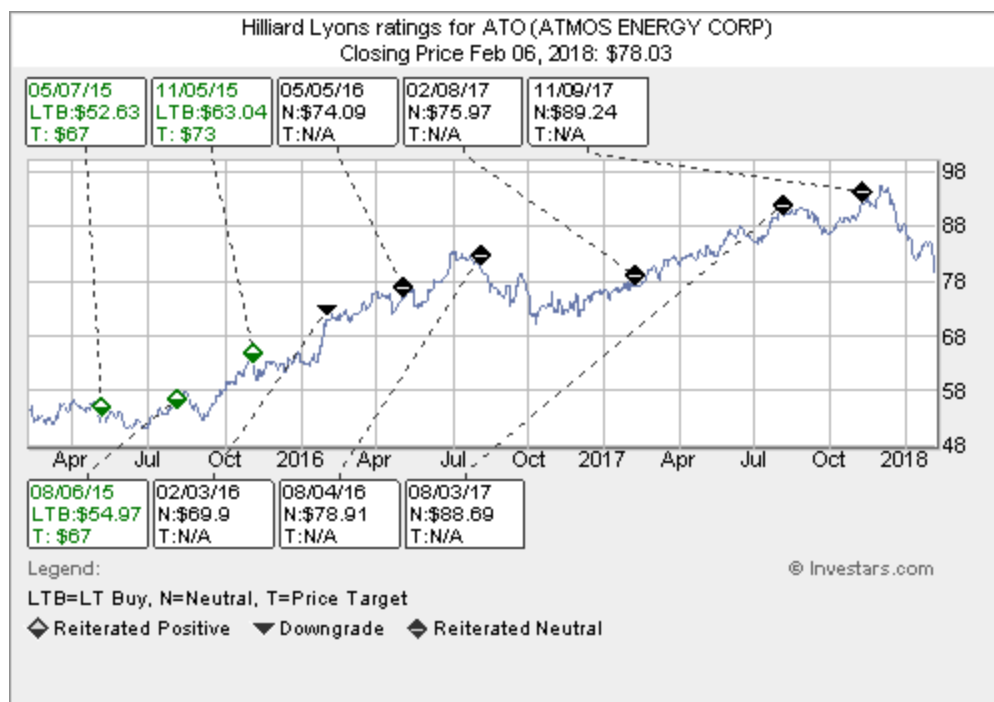
Investment Ratings

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.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.