



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

CPK - NYSE - as of	2/27/17	\$68.10
Price Target		\$75.00
52-Week Range	\$56.10 -	\$70.00
Shares Outstanding (mm)		16.3
Market Cap. (\$mm)		\$1,110.1
1-Mo. Average Daily Volume		42,111
Institutional Ownership		61.1%
LT Debt/Total Capital	Q4'16	23.5%
ROE	TTM	11.2%
Book Value / Share	Q4'16	\$27.29
Price / Book Value		2.5x
Dividend Yield		1.6%
LTM EBITDA Margin		-

EPS FY 12/31

		Prior	Current	Prior	Current
	2015A	2016E	2016E	2017E	2017E
1Q	\$1.44	--	\$1.33	A --	--
2Q	*\$0.35	--	\$0.52	A --	--
3Q	\$0.33	--	\$0.29	A --	--
4Q	\$0.56	--	\$0.73	A --	--
Year	\$2.72	--	\$2.86	\$3.11	\$3.10
P/E	25.0x		23.8x		22.0x

*adjusted for special items

Total Firm Gross Margin (\$MM)

		Prior	Current	Prior	Current
	2015A	2016E	2016E	2017E	2017E
1Q	\$78.2	--	\$77.4	A --	--
2Q	\$51.3	--	\$57.8	A --	--
3Q	\$50.8	--	\$55.5	A --	--
4Q	\$59.4	--	\$70.2	A --	--
Year	\$239.2	--	\$260.8	\$282.3	\$282.3

Company Description: Chesapeake Utilities Corp. is a diversified utility company engaged in natural gas distribution, transmission and marketing, electric distribution, propane gas distribution and wholesale marketing, advanced information services, and other related services. Its service territories include portions of Delaware, Maryland, and Florida.

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 28, 2017

Chesapeake Utilities Corp.

CPK — NYSE — Long-term Buy-3

Strong Q4'16 from CPK; Reiterating Long-term Buy Rating and \$75 Price Target.

Investment Highlights

- CPK reported Q4'16 EPS of \$0.73 versus \$0.56 in Q4'15; EPS fell short of our call for \$0.77, but nonetheless rose 29.0% yr/yr despite 6.7% greater shares outstanding. FY 2016 EPS grew 5.1% to \$2.86, a tenth consecutive record year for the company.
- Total gross margin grew 18.1% and 9.0% in Q4 and for the year, respectively. Q4 margin of \$70.2MM exceeded our expectation by \$0.6MM, with propane trading the only real drag on the quarter. We expect margin growth to slow slightly in 2017, but see easier comps and expect quicker growth in 1H'17.
- Operations + Maintenance expense (O&M) grew 12.1% in Q4 and 8.9% for FY 2016. Eight Flags will drive incremental O&M until the project's anniversary in June, but we expect CPK is positioned for expense growth to lag margin growth over 2017-2018.
- CPK's 2017 capital budget is currently \$260MM, with ~90% focused on the Regulated segment. If fully executed, this would outpace CPK's prior high water mark of investment by about \$90MM.
- CPK ended 2016 at an equity ratio of 55.7%, well within the desired 50%-60% range thanks to a Q3 secondary. We do not expect new equity in 2017, but 2018 is likely contingent on how much reversion to a more 'normal' level of Cap Ex spend plays out.
- Our 2017/2018 EPS estimates slip slightly to \$3.10/\$3.47, but are de-risked by the strong Q4'16.
- We are reiterating our LTB rating and 2-year price target of \$75 ahead of a full review of CPK's 10-k and March 1 conference call. At \$75, CPK would trade ~22x our 2018E EPS, which we believe is attainable given our growth outlook and peer multiples. Our methodology is unchanged.

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

ADDITIONAL DISCUSSION—FINAL THOUGHTS

CPK is reacting well to Q4 news, and while valuation has extended somewhat in recent months, we believe the prudent move is to stay bullish. As alluded to in our bullet points, 1H'17 holds fairly easy comps based on weather, and the fact that Eight Flags (contributed ~\$5MM of gross margin in 2016) will be adding margin from a zero base until the project's in service date hits its 1-year anniversary in Q3. Furthermore from a qualitative perspective, we continue to view Chesapeake as a unique growth opportunity in the Utilities sector, at a time when we are growing increasingly comfortable with the sector's positioning in the current macro and political environment.

SUITABILITY

We assign CPK a suitability rating of '3.' A complete description of our suitability scale is on page 5. Smaller than most diversified utility peers, we see a path for Chesapeake to outpace average growth across the utility sector over an extended timeframe; this growth outlook is accompanied by a slightly elevated risk profile due to reliance on individual discrete projects. CPK's material exposure to non-regulated operations brings an element of cyclicity to earnings, which helps push the stock below our more conservative '2' rating. Alternatively, below-sector leverage, generally consistent earnings/cash flow/dividends, multiple regulated franchises with monopoly status, and secular tailwinds for growth keep CPK well above our speculative/most aggressive '4' 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 by customers in order to reduce consumption.

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.

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 profitability.

CPK has been acquisitive in recent years, and we expect CPK may remain a net buyer of assets over the next few years. Risk from a growth-by-acquisition strategy includes: potential for additional growth to not materialize, overpayment for assets (impairments), managerial distraction and stressing the balance sheet.

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Chesapeake Utilities Corp.														
Income Statements (000's)	FY'13	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	FY'17E	FY'18E
Regulated Revenue	\$264,637	\$300,442	\$109,582	\$62,060	\$63,796	\$66,464	\$301,902	\$89,216	\$67,395	\$70,019	\$79,059	\$305,689		
Regulated Cost of Sales	118,818	134,560	57,129	21,124	23,161	21,399	122,814	34,905	21,635	24,644	28,425	109,609		
Regulated Energy Gross Margin	145,819	165,882	52,453	40,936	40,635	45,065	179,088	54,311	45,760	45,375	50,634	196,080	218,330	248,280
Unregulated Revenue	166,723	184,961	60,996	30,622	28,117	38,944	162,108	57,080	34,947	38,329	67,417	203,778	170,270	164,870
Other Revenue	12,946	13,431				(841)	(4,766)				(4,602)	(10,607)		0
Unreg & Other energy cost of sales	126,017	143,556	35,234	20,272	17,959	23,762	97,228	34,024	22,934	28,183	43,291	128,434	106,310	106,310
UnReg & Other Gross Margin	53,652	54,836	25,762	10,350	10,158	14,341	60,114	23,056	12,013	10,146	19,524	64,737	63,960	58,560
Total Firm Gross Margin	199,471	220,718	78,215	51,286	50,793	59,406	239,202	77,367	57,773	55,521	70,158	260,817	282,290	306,840
Operating Expenses														
Operations	91,452	102,197	26,945	26,190	26,388	28,042	107,562	27,159	28,087	30,126	32,200	117,571	120,750	124,020
Transaction costs	0	0					0					-	0	0
Gain on Settlement				(1,500)			(1,500)		(130)			(130)		
Terminated acquisition costs	0	0					0					-	0	0
Maintenance	7,509	9,706	2,703	2,727	2,603	3,769	11,803	2,479	2,904	3,542	3,466	12,391	13,010	13,660
Impairment	-	6,881	-	-	-	-	-	-	-	-	-	-	-	-
D & A	23,965	26,316	6,975	7,543	7,636	7,817	29,972	7,503	7,780	8,209	8,667	32,159	37,950	43,580
Other Tax	13,811	13,339	3,587	3,156	3,257	3,607	13,607	3,846	3,390	3,488	4,006	14,730	14,870	15,020
Total Operating Expenses	136,737	158,439	40,210	38,116	39,884	43,235	161,444	40,987	42,031	45,365	48,339	176,721	186,580	196,280
Operating Income	62,734	62,279	38,005	13,170	10,909	16,171	77,758	36,380	15,742	10,156	21,819	84,096	95,710	110,560
Gain on Sale	0	7,139					0					-		
Other Income, Net	372	101	133	(171)	36	297	293	(34)	(8)	(28)	(372)	(441)	200	200
Interest	8,234	9,482	2,448	2,485	2,492	2,582	10,006	2,650	2,624	2,722	2,643	10,639	12,440	17,460
EBT	54,872	60,037	35,690	10,514	8,453	13,886	68,045	33,696	13,110	7,406	18,804	73,016	83,470	93,300
Income Tax	22,085	23,945	14,084	4,220	3,334	5,267	26,905	13,329	5,081	2,990	6,941	28,341	32,730	36,550
Net Income—Cont'd Ops	32,787	36,092	21,606	6,294	5,119	8,619	41,140	20,367	8,029	4,416	11,863	44,675	50,740	56,750
Net Income	\$32,787	\$36,092	\$21,606	\$6,294	\$5,119	\$8,619	\$41,140	\$20,367	\$8,029	\$4,416	\$11,863	\$44,675	\$50,740	\$56,750
Diluted Avg Shares	14,543	14,605	14,656	15,281	15,307	15,321	15,143	15,331	15,353	15,413	16,349	15,613	16,349	16,349
EPS														
Continuing Ops	\$2.26	\$2.47	\$1.47	\$0.41	\$0.33	\$0.56	\$2.78	\$1.33	\$0.52	\$0.29	\$0.73	\$2.86	\$3.10	\$3.47
Ex.Special Items	\$2.24	\$2.47		\$0.35			\$2.72							
Dividends	\$1.0133	\$1.0667	\$0.2700	\$0.2875	\$0.2875	\$0.2875	\$1.1325	\$0.2875	\$0.3050	\$0.3050	\$0.3050	\$1.2025	\$1.2650	\$1.2800
Rate of Change Analysis:														
Gross Margin	11.3%	10.7%	10.6%	8.2%	11.3%	4.2%	8.4%	-1.1%	12.6%	9.3%	18.1%	9.0%	8.2%	8.7%
Operating Income	10.8%	-0.7%	20.2%	25.9%	40.0%	30.3%	24.9%	-4.3%	19.5%	-6.9%	34.9%	8.2%	13.8%	15.5%
EPS	14.2%	10.2%	21.2%	0.4%	53.7%	-17.6%	10.4%	-9.9%	48.2%	-14.3%	29.0%	5.1%	8.4%	11.8%
O+M Expense	10.2%	13.1%	3.0%	6.8%	3.8%	13.1%	6.7%	0.0%	7.2%	16.1%	12.1%	8.9%	2.9%	2.9%
EBITDA	9.5%	10.1%	17.6%	20.5%	27.3%	-5.8%	12.8%	-2.4%	13.6%	-1.0%	27.1%	7.9%	15.0%	15.3%
Margin Analysis:														
Operations/GM	45.8%	46.3%	34.4%	51.1%	52.0%	47.2%	45.0%	35.1%	48.6%	54.3%	45.9%	45.1%	42.8%	40.4%
Maintenance/GM	3.8%	4.4%	3.5%	5.3%	5.1%	6.3%	4.9%	3.2%	5.0%	6.4%	4.9%	4.8%	4.6%	4.5%
Other Tax/GM	6.9%	6.0%	4.6%	6.2%	6.4%	6.1%	5.7%	5.0%	5.9%	6.3%	5.7%	5.6%	5.3%	4.9%
Operating income/GM	31.5%	28.2%	48.6%	25.7%	21.5%	27.2%	32.5%	47.0%	27.2%	18.3%	31.1%	32.2%	33.9%	36.0%
Net Income/GM	16.4%	16.4%	27.6%	12.3%	10.1%	14.5%	17.2%	26.3%	13.9%	8.0%	16.9%	17.1%	18.0%	18.5%
Tax rate	40.2%	39.9%	39.5%	40.1%	39.4%	37.9%	39.5%	39.6%	38.8%	40.4%	36.9%	38.8%	39.2%	39.2%
			*Gatherco close, includes 593k shares											
			*\$1.5MM/\$0.9MM pre/AT gain on settlmt											
							*Expect Sandpiper and DE Div rate case filings							
											*Sandpiper rates			*Expect ESNG major expansion online Q1

Source: Company reports and Hilliard Lyons estimates

Chesapeake Utilities Corp.														
Summary Balance Sheet														
	FY'13	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	FY'17E	FY'18E
Cash	\$3,356	\$4,574	\$16,170	\$2,104	\$3,781	\$2,855	\$2,855	\$3,315	\$3,266	\$1,536	\$4,178	\$4,178	\$6,350	\$28,030
A/R	75,293	53,300	62,062	42,270	39,861	41,007	41,007	44,434	41,851	47,103	62,803	62,803	63,430	64,060
Propane Inventory	10,456	7,250	4,550	4,151	4,211	6,619	6,619	5,412	4,285	4,106	6,457	6,457	6,780	7,120
Other Current Assets	37,304	57,249	30,512	29,993	39,837	62,057	62,057	47,214	37,494	49,411	67,713	67,713	68,390	69,070
Total Current Assets	126,409	122,373	113,294	78,518	87,690	112,538	112,538	100,375	86,896	102,156	141,151	141,151	144,950	168,280
Net PP&E	631,246	689,762	709,195	790,449	819,190	854,950	854,950	881,229	908,807	936,048	986,664	986,664	1,178,710	1,255,130
Regulatory Assets	66,584	78,136	79,657	77,657	77,332	8,268	8,268	76,934	7,042	76,343	7,694	7,694	7,770	7,850
Goodwill	4,354	4,952	4,952	16,048	16,048	14,548	14,548	15,070	15,070	15,070	15,070	15,070	15,070	15,070
Other	8,929	9,246	8,153	7,964	8,182	78,282	78,282	8,376	79,232	10,893	78,640	78,640	79,430	80,220
Total Assets	837,522	\$904,469	\$913,707	\$970,636	\$1,008,442	\$1,068,586	\$1,068,586	\$1,081,984	\$1,097,047	\$1,140,510	\$1,229,219	\$1,229,219	\$1,425,930	\$1,526,550
CP/LT Debt	11,353	9,109	9,116	9,127	9,139	9,151	9,151	9,163	12,075	12,087	12,099	12,099	4,000	4,000
ST Borrowing	105,666	88,231	66,772	94,713	127,093	173,397	173,397	172,742	180,042	154,490	209,871	209,871	227,870	160,870
A/P	53,482	44,610	46,284	38,173	41,129	39,300	39,300	36,299	35,496	41,297	56,935	56,935	57,500	58,080
Other Current Liabilities	51,441	52,285	64,181	57,595	59,502	57,745	57,745	56,245	56,279	55,179	55,146	55,146	55,700	56,260
Total Current Liabilities	221,942	194,235	188,353	199,608	236,863	279,593	279,593	274,449	283,892	263,053	334,051	334,051	345,070	279,210
LTD	117,592	158,486	158,083	156,247	155,909	149,340	149,340	148,602	143,865	143,525	136,954	136,954	250,040	344,800
Deferred Income Tax	142,597	160,232	160,055	173,821	172,247	193,431	193,431	197,416	199,623	205,562	222,894	222,894	230,890	238,890
Accrued Asset Removal Cost	39,510	-	-	-	-	-	-	-	-	-	-	-	-	-
Other LT Liabilities	37,108	91,194	91,470	89,784	90,108	88,084	88,084	87,265	90,113	90,070	89,234	89,234	90,130	91,030
Shareholders' Equity	278,773	300,322	317,746	351,176	353,315	358,138	358,138	374,252	379,554	438,300	446,086	446,086	509,800	572,620
Total Liab & SE	\$837,522	\$904,469	\$913,707	\$970,636	\$1,008,442	\$1,068,586	\$1,068,586	\$1,081,984	\$1,097,047	\$1,140,510	\$1,229,219	\$1,229,219	\$1,425,930	\$1,526,550
Book Value	\$19.15	\$20.51	\$21.68	\$22.98	\$23.08	\$23.38	\$23.38	\$24.41	\$24.72	\$28.44	\$27.29	\$27.29	\$31.18	\$35.02
Tangible BV	\$18.85	\$20.17	\$21.34	\$21.93	\$22.03	\$22.43	\$22.43	\$23.43	\$23.74	\$27.46	\$26.36	\$26.36	\$30.26	\$34.10
Price / Book	2.1x	2.4x	2.3x	2.3x	2.3x	2.4x	2.4x	2.6x	2.7x	2.1x	2.5x	2.5x	2.2x	1.9x
Equity / Total Cap (inc ST Debt + CP)	54.7%	54.4%	59.3%	57.6%	55.1%	52.1%	52.1%	53.4%	53.3%	58.7%	55.7%	55.7%	51.7%	54.3%
Net Indebtedness / Total Capital	45.3%	45.6%	40.7%	42.4%	44.9%	47.9%	47.9%	46.6%	46.7%	41.3%	44.3%	44.3%	48.3%	45.7%
LT Debt / Total Capital	29.7%	34.5%	33.2%	30.8%	30.6%	29.4%	29.4%	28.4%	27.5%	24.7%	23.5%	23.5%	32.9%	37.6%
Summary Cash Flow														
	FY'13	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	FY'17E	FY'18E
Net Income	\$32,787	\$36,092	\$21,606	\$6,294	\$5,119	\$8,619	\$41,140	\$20,367	\$8,029	\$4,416	\$11,863	\$44,675	\$50,740	\$56,750
D&A	30,088	32,893	8,664	9,340	9,431	9,515	36,950	9,149	9,570	10,131	10,643	39,493	37,950	43,580
Deferred Income Tax	14,860	22,235	(496)	(870)	211	21,675	20,520	4,326	1,836	5,842	19,253	31,257	32,820	34,470
(Inc.) dec. in working cap.	(13,665)	(2,774)	34,245	6,013	(2,632)	(29,360)	8,266	8,122	12,661	(12,289)	(20,748)	(12,254)	11,440	0
Operating C.F.	64,070	88,446	64,019	20,777	12,129	10,449	106,876	41,964	32,096	8,100	21,011	103,171	132,950	134,800
Cap Ex	(97,120)	(97,164)	(27,508)	(29,842)	(44,701)	(42,567)	(144,618)	(36,847)	(33,198)	(36,806)	(63,010)	(169,861)	(230,000)	(120,000)
Acquisition, net	(20,201)	10,797	-	(20,930)	-	164	(20,766)	-	-	-	174	174	-	-
Dividends	(13,081)	(13,887)	(3,763)	(3,769)	(4,193)	(4,199)	(15,924)	(4,204)	(4,249)	(4,511)	(4,518)	(17,482)	(20,680)	(20,920)
Free CF	(66,332)	(11,808)	32,748	(33,764)	(36,765)	(36,153)	(74,432)	913	(5,351)	(33,217)	(46,343)	(83,998)	(117,730)	(6,120)
ST Borrowing (Repayments)	46,133	(16,513)	(19,269)	23,383	31,784	46,280	82,178	839	4,327	(26,545)	53,905	32,526	18,000	(67,000)
LTD Proceeds	27,000	49,975	-	-	-	-	-	-	-	-	-	-	110,000	100,000
LTD (Repaid)	(15,191)	(9,969)	(76)	(3,858)	(328)	(6,558)	(10,820)	(402)	(1,824)	(355)	(6,565)	(9,146)	(8,100)	(5,200)
Stock Issued	-	-	-	-	-	-	-	-	-	57,360	-	57,360	-	-
Issuance (Purchase) for DRIP	(1,342)	(165)	217	200	216	180	813	195	234	171	211	811	-	-
Net Cash Flow	(9,732)	11,520	13,620	(14,039)	(5,093)	3,749	(2,261)	1,545	(2,614)	(2,586)	1,208	(2,447)	2,170	21,680
EBITDA	\$86,699	\$95,476	\$44,980	\$20,713	\$18,545	\$23,988	\$107,730	\$43,883	\$23,522	\$18,365	\$30,486	\$116,255	\$133,660	\$154,140
EBITDA / GM	43.5%	43.3%	57.5%	40.4%	36.5%	40.4%	45.0%	56.7%	40.7%	33.1%	43.5%	44.6%	47.3%	50.2%
EV / TTM EBITDA	8.2x	9.3x	8.6x	9.2x	8.8x	9.5x	9.5x	10.4x	10.5x	9.9x	10.7x	10.7x	10.2x	9.3x
TTM-ROE	12.2%	12.3%	13.3%	13.2%	13.3%	12.4%	12.4%	11.5%	11.6%	10.9%	11.2%	11.2%	10.5%	10.4%

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.

Hilliard Lyons has received investment banking compensation from Chesapeake Utilities Corp. within the past 12 months.

Hilliard Lyons has acted as a manager or co-manager of an offering of securities of Chesapeake Utilities Corp. within the past 12 months.

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

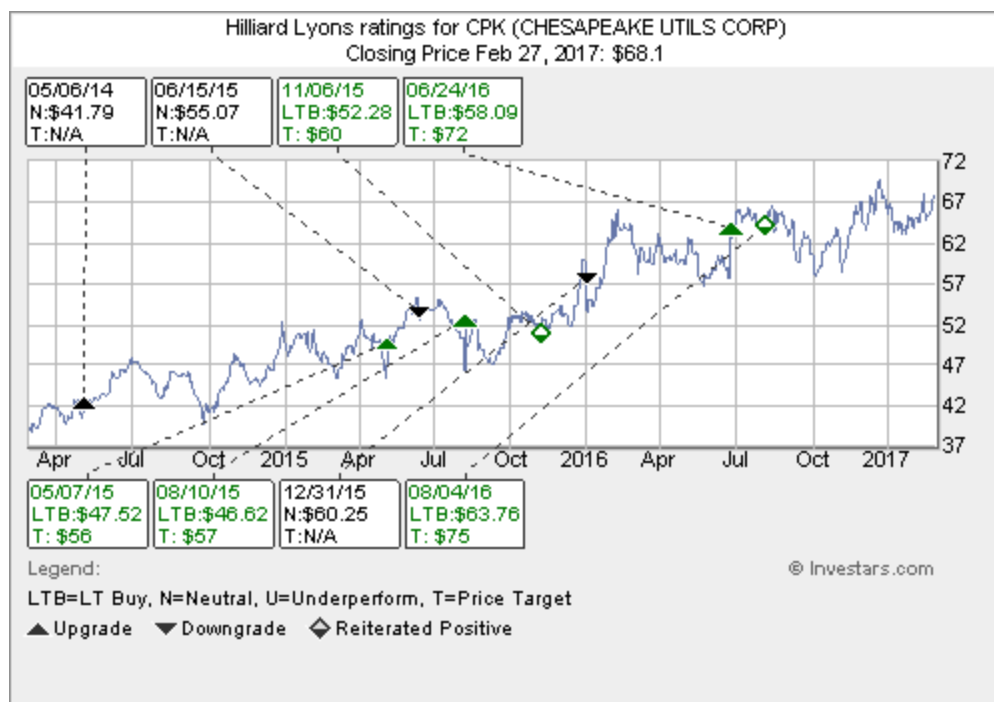
Investment Ratings

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	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

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.