



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

CPK - NYSE - as of	5/3/17	\$71.80
Price Target		\$81.00
52-Week Range	\$56.56 -	\$74.85
Shares Outstanding (mm)		16.3
Market Cap. (\$mm)		\$1,194.7
1-Mo. Average Daily Volume		45,257
Institutional Ownership		61.1%
LT Debt/Total Capital	Q1'17	22.9%
ROE	TTM	10.4%
Book Value / Share	Q1'17	\$28.19
Price / Book Value		2.5x
Dividend Yield		1.5%
LTM EBITDA Margin		23.2%

EPS FY 12/31

		Prior	Current		Prior	Current
	2016A	2017E	2017E	A	2018E	2018E
1Q	\$1.33	--	\$1.17	A	--	--
2Q	\$0.52	\$0.48	\$0.47		--	--
3Q	\$0.29	\$0.37	\$0.38		--	--
4Q	\$0.73	\$0.91	\$0.91		--	--
Year	\$2.86	\$3.13	\$2.92		\$3.64	\$3.57
P/E	25.1x		24.6x			20.1x

*adjusted for special items

Total Firm Gross Margin (\$MM)

		Prior	Current		Prior	Current
	2016A	2017E	2017E	A	2018E	2018E
1Q	\$77.4	--	\$84.2	A	--	--
2Q	\$57.8	\$60.3	\$60.1		--	--
3Q	\$55.5	\$62.0	\$62.0		--	--
4Q	\$70.2	\$79.1	\$79.1		--	--
Year	\$260.8	\$285.7	\$285.4		\$317.1	\$320.1

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

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Chesapeake Utilities Corp.

CPK — NYSE — Long-term Buy-3

Miss to Q1'17 EPS at CPK, but Margin Gains Robust.

Investment Highlights

- CPK reported Q1'17 EPS of \$1.17 versus \$1.33 in Q1'16; EPS missed our call for \$1.37, which in turn was below consensus for \$1.41. Net income slipped ~6% on ~7% greater shares outstanding.
- Total gross margin grew 8.8%, practically in line with our model at +8.9%; both the Regulated and Non-Regulated segments approximated our estimates, in what is likely our most positive takeaway from Q1.
- Our Q1'17 EPS miss was exclusively driven by expenses, which we acknowledged as a source of uncertainty upon review of CPK's 10-K a couple of months ago. The strongest culprit, Operations + Maintenance expense (O&M) grew 22.0% in Q1, contributing EPS of -\$0.14 versus our model on a mix of higher staffing, maintenance and outside costs.
- CPK invested \$42MM in Q1, which falls below our model but above the \$37MM invested in the year-ago period. With first quarter results, Chesapeake announced its next 'major project' initiative: the Northwest Florida Expansion, expected to provide eventual gross margin of \$5.1MM.
- CPK ended Q1'17 at an equity ratio of 57.4%, well within the desired 50%-60% range; we do not expect new equity in '17, and base-case '18 in similar fashion.
- Ahead of CPK's conference call on Friday 5/5, our 2017/2018 EPS estimates fall on the miss; however, particularly for the out-year, we refrain from making major changes before parsing what may be indicative of a 'pull forward' in Op Ex and/or maintenance.
- Similarly, we are reiterating our LTB rating and \$81 2-year price target. At our target, CPK would trade just above 22x our 2018E EPS, which we believe is attainable given our growth outlook and peer multiples. Our methodology is unchanged.
- Chesapeake's conference call is scheduled for 10a ET on Friday, May 5.

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

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 cyclical 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'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Regulated Revenue	\$300,442	\$301,902	\$89,216	\$67,395	\$70,019	\$79,059	\$305,689	\$97,654					
Regulated Cost of Sales	134,560	122,814	34,905	21,635	24,644	28,425	109,609	40,244					
Regulated Energy Gross Margin	165,882	179,088	54,311	45,760	45,375	50,634	196,080	57,410	47,700	49,150	55,560	209,820	242,530
Unregulated Revenue	184,961	162,108	57,080	34,947	38,329	67,417	203,778	87,506	38,160	42,300	67,390	235,360	242,490
Other Revenue	13,431	(4,766)	-	-	-	(4,602)	(10,607)	-	-	-	-	-	0
Unreg & Other energy cost of sales	143,556	97,228	34,024	22,934	28,183	43,291	128,434	60,754	25,760	29,430	43,820	159,760	164,920
UnReg & Other Gross Margin	54,836	60,114	23,056	12,013	10,146	19,524	64,737	26,752	12,400	12,870	23,570	75,600	77,570
Total Firm Gross Margin	220,718	239,202	77,367	57,773	55,521	70,158	260,817	84,162	60,100	62,020	79,130	285,420	320,100
Operating Expenses													
Operations	102,197	107,562	27,159	28,087	30,126	32,200	117,571	32,913	29,210	31,630	33,970	127,723	134,450
Maintenance	9,706	11,803	2,479	2,904	3,542	3,466	12,391	3,231	3,050	3,720	3,640	13,641	14,320
Impairment	6,881	-	-	-	-	-	-	-	-	-	-	-	-
D & A	26,316	29,972	7,503	7,780	8,209	8,667	32,159	8,812	8,990	9,660	10,370	37,832	43,410
Other Tax	13,339	13,607	3,846	3,390	3,488	4,006	14,730	4,530	3,420	3,520	4,050	15,520	15,680
Total Operating Expenses	158,439	161,444	40,987	42,031	45,365	48,339	176,721	49,486	44,670	48,530	52,030	194,716	207,860
Operating Income	62,279	77,758	36,380	15,742	10,156	21,819	84,096	34,676	15,430	13,490	27,100	90,704	112,240
Gain on Sale	7,139	0	-	-	-	-	-	-	-	-	-	-	-
Other Income, Net	101	293	(34)	(8)	(28)	(372)	(441)	(277)	50	50	50	(130)	200
Interest	9,482	10,006	2,650	2,624	2,722	2,643	10,639	2,739	3,020	3,170	3,640	12,570	16,740
EBT	60,037	68,045	33,696	13,110	7,406	18,804	73,016	31,660	12,460	10,370	23,510	78,004	95,700
Income Tax	23,945	26,905	13,329	5,081	2,990	6,941	28,341	12,516	4,830	4,190	8,680	30,216	37,380
Net Income--Cont'd Ops	36,092	41,140	20,367	8,029	4,416	11,863	44,675	19,144	7,630	6,180	14,830	47,788	58,320
Net Income	\$36,092	\$41,140	\$20,367	\$8,029	\$4,416	\$11,863	\$44,675	\$19,144	\$7,630	\$6,180	\$14,830	\$47,788	\$58,320
Diluted Avg Shares	14,605	15,143	15,331	15,353	15,413	16,349	15,613	16,349	16,349	16,349	16,349	16,349	16,349
EPS													
Continuing Ops	\$2.47	\$2.78	\$1.33	\$0.52	\$0.29	\$0.73	\$2.86	\$1.17	\$0.47	\$0.38	\$0.91	\$2.92	\$3.57
Ex Special Items	\$2.47	\$2.72											
Dividends	\$1.0667	\$1.1325	\$0.2875	\$0.3050	\$0.3050	\$0.3050	\$1.2025	\$0.3050	\$0.3200	\$0.3200	\$0.3200	\$1.2650	\$1.2800
Rate of Change Analysis:													
Gross Margin	10.7%	8.4%	-1.1%	12.6%	9.3%	18.1%	9.0%	8.8%	4.0%	11.7%	12.8%	9.4%	12.2%
Operating Income	-0.7%	24.9%	-4.3%	19.5%	-6.9%	34.9%	8.2%	-4.7%	-2.0%	32.8%	24.2%	7.9%	23.7%
EPS	10.2%	10.4%	-9.9%	48.2%	-14.3%	29.0%	5.1%	-11.9%	-10.8%	31.9%	25.0%	2.1%	22.0%
O+M Expense	13.1%	6.7%	0.0%	7.2%	16.1%	12.1%	8.9%	22.0%	4.1%	5.0%	5.5%	8.8%	5.2%
EBITDA	10.1%	12.8%	-2.4%	13.6%	-1.0%	27.1%	7.9%	-0.9%	3.8%	26.1%	22.9%	10.6%	21.1%
Margin Analysis:													
Operations/GM	46.3%	45.0%	35.1%	48.6%	54.3%	45.9%	45.1%	39.1%	48.6%	51.0%	42.9%	44.7%	42.0%
Maintenance/GM	4.4%	4.9%	3.2%	5.0%	6.4%	4.9%	4.8%	3.8%	5.1%	6.0%	4.6%	4.8%	4.5%
Other Tax/GM	6.0%	5.7%	5.0%	5.9%	6.3%	5.7%	5.6%	5.4%	5.7%	5.7%	5.1%	5.4%	4.9%
Operating income/GM	28.2%	32.5%	47.0%	27.2%	18.3%	31.1%	32.2%	41.2%	25.7%	21.8%	34.2%	31.8%	35.1%
Net Income/GM	16.4%	17.2%	26.3%	13.9%	8.0%	16.9%	17.1%	22.7%	12.7%	10.0%	18.7%	16.7%	18.2%
Tax rate	39.9%	39.5%	39.6%	38.8%	40.4%	36.9%	38.8%	39.5%	38.8%	40.4%	36.9%	38.7%	39.1%
								*1/1/17 new base rates					
								DE distribution					
								*1/27/17 base rate filing for ESNG					
												*Expect ESNG major expansion online Q1	

Source: Company reports and Hilliard Lyons estimates

Chesapeake Utilities Corp.

Chesapeake Utilities Corp.													
Summary Balance Sheet	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	\$4,574	\$2,855	\$3,315	\$3,266	\$1,536	\$4,178	\$4,178	\$5,700	\$44,390	\$23,630	\$26,370	\$26,370	\$52,410
A/R	53,300	41,007	44,434	41,851	47,103	62,803	62,803	58,375	42,270	47,570	63,430	63,430	64,060
Propane Inventory	7,250	6,619	5,412	4,285	4,106	6,457	6,457	5,437	4,500	4,310	6,780	6,780	7,120
Other Current Assets	57,249	62,057	47,214	37,494	49,411	67,713	67,713	49,301	37,870	49,910	68,390	68,390	69,070
Total Current Assets	122,373	112,538	100,375	86,896	102,156	141,151	141,151	118,813	129,030	125,420	164,970	164,970	192,660
Net PP&E	689,762	854,950	881,229	908,807	936,048	986,664	986,664	1,018,317	1,069,330	1,119,670	1,169,300	1,169,300	1,245,890
Regulatory Assets	78,136	8,268	7,634	7,042	76,343	7,694	7,694	7,527	7,110	77,110	7,770	7,770	7,850
Goodwill	4,952	14,548	15,070	15,070	15,070	15,070	15,070	15,070	15,070	15,070	15,070	15,070	15,070
Other	9,246	78,282	77,676	79,232	10,893	78,640	78,640	78,584	80,020	11,000	79,430	79,430	80,220
Total Assets	\$904,469	\$1,068,586	\$1,081,984	\$1,097,047	\$1,140,510	\$1,229,219	\$1,229,219	\$1,238,311	\$1,300,560	\$1,348,270	\$1,436,540	\$1,436,540	\$1,541,690
CP/LT Debt	9,109	9,151	9,163	12,075	12,087	12,099	12,099	12,111	4,000	4,000	4,000	4,000	4,000
ST Borrowing	88,231	173,397	172,742	180,042	154,490	209,871	209,871	199,333	274,330	239,330	289,330	289,330	222,330
A/P	44,610	39,300	36,299	35,496	41,297	56,935	56,935	49,500	35,850	41,710	57,500	57,500	58,080
Other Current Liabilities	52,285	57,745	56,245	56,279	55,179	55,146	55,146	59,789	56,840	55,730	55,700	55,700	56,260
Total Current Liabilities	194,235	279,593	274,449	283,892	263,053	334,051	334,051	320,733	371,020	340,770	406,530	406,530	340,670
LTD	158,486	149,340	148,602	143,865	143,525	136,954	136,954	136,537	143,090	213,030	209,470	209,470	304,240
Deferred Income Tax	160,232	193,431	197,416	199,623	205,562	222,894	222,894	231,004	233,000	235,000	237,000	237,000	245,000
Accrued Asset Removal Cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Other LT Liabilities	91,194	88,084	87,265	90,113	90,070	89,234	89,234	89,208	91,010	90,970	90,130	90,130	91,030
Shareholders' Equity	300,322	358,138	374,252	379,554	438,300	446,086	446,086	460,829	462,440	468,500	493,410	493,410	560,750
Total Liab & SE	\$904,469	\$1,068,586	\$1,081,984	\$1,097,047	\$1,140,510	\$1,229,219	\$1,229,219	\$1,238,311	\$1,300,560	\$1,348,270	\$1,436,540	\$1,436,540	\$1,541,690
Book Value	\$20.51	\$23.38	\$24.41	\$24.72	\$28.44	\$27.29	\$27.29	\$28.19	\$28.29	\$28.66	\$30.18	\$30.18	\$34.30
Tangible BV	\$20.17	\$22.43	\$23.43	\$23.74	\$27.46	\$26.36	\$26.36	\$27.27	\$27.36	\$27.73	\$29.26	\$29.26	\$33.38
Price / Book	2.4x	2.4x	2.6x	2.7x	2.1x	2.5x	2.5x	2.5x	2.6x	2.6x	2.4x	2.4x	2.1x
Equity / Total Cap (inc ST Debt + CP)	54.4%	52.1%	53.4%	53.3%	58.7%	55.7%	55.7%	57.4%	55.1%	52.0%	50.9%	50.9%	54.0%
Net Indebtedness / Total Capital	45.6%	47.9%	46.6%	46.7%	41.3%	44.3%	44.3%	42.6%	44.9%	48.0%	49.1%	49.1%	46.0%
LT Debt / Total Capital	34.5%	29.4%	28.4%	27.5%	24.7%	23.5%	23.5%	22.9%	23.6%	31.3%	29.8%	29.8%	35.2%
Summary Cash Flow	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	\$36,092	\$41,140	\$20,367	\$8,029	\$4,416	\$11,863	\$44,675	\$19,144	\$7,630	\$6,180	\$14,830	\$47,780	\$58,320
D&A	32,893	36,950	9,149	9,570	10,131	10,643	39,493	10,751	8,990	9,660	10,370	39,770	43,410
Deferred Income Tax	22,235	20,520	4,326	1,836	5,842	19,253	31,257	7,849	1,930	6,130	20,220	36,130	37,940
(Inc.) dec. in working cap.	(2,774)	8,266	8,122	12,661	(12,289)	(20,748)	(12,254)	21,068	11,870	(12,400)	(21,050)	(510)	(510)
Operating C.F.	88,446	106,876	41,964	32,096	8,100	21,011	103,171	58,812	30,420	9,570	24,370	123,170	139,160
Cap Ex	(97,164)	(144,618)	(36,847)	(33,198)	(36,806)	(63,010)	(169,861)	(42,172)	(60,000)	(60,000)	(60,000)	(222,172)	(120,000)
Acquisition, net	10,797	(20,766)	-	-	-	174	174	-	-	-	-	-	-
Dividends	(13,887)	(15,924)	(4,204)	(4,249)	(4,511)	(4,518)	(17,482)	(4,815)	(5,230)	(5,230)	(5,230)	(20,510)	(20,920)
Free CF	(11,808)	(74,432)	913	(5,351)	(33,217)	(46,343)	(83,998)	11,825	(34,810)	(55,660)	(40,860)	(119,512)	(1,760)
ST Borrowing (Repayments)	(16,513)	82,178	839	4,327	(26,545)	53,905	32,526	(11,125)	75,000	(35,000)	50,000	78,875	(67,000)
LTD Proceeds	49,975	-	-	-	-	-	-	-	-	70,000	-	70,000	100,000
LTD (Repaid)	(9,969)	(10,820)	(402)	(1,824)	(355)	(6,565)	(9,146)	(416)	(1,500)	(100)	(6,400)	(8,420)	(5,200)
Stock Issued	-	-	-	-	57,360	-	57,360	-	-	-	-	-	-
Issuance (Purchase) for DRIP	(165)	813	195	234	171	211	811	222	-	-	-	220	-
Net Cash Flow	11,520	(2,261)	1,545	(2,614)	(2,586)	1,208	(2,447)	506	38,690	(20,760)	2,740	21,163	26,040
EBITDA	\$95,476	\$107,730	\$43,883	\$23,522	\$18,365	\$30,486	\$116,255	\$43,488	\$24,420	\$23,150	\$37,470	\$128,540	\$155,650
EBITDA / GM	43.3%	45.0%	56.7%	40.7%	33.1%	43.5%	44.6%	51.7%	40.6%	37.3%	47.4%	45.0%	48.6%
EV / TTM EBITDA	9.3x	9.5x	10.4x	10.5x	9.9x	10.7x	10.7x	11.0x	11.1x	11.4x	10.8x	10.8x	9.3x
TTM-ROE	12.3%	12.4%	11.5%	11.6%	10.9%	11.2%	11.2%	10.4%	9.8%	9.8%	10.2%	10.2%	11.0%

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

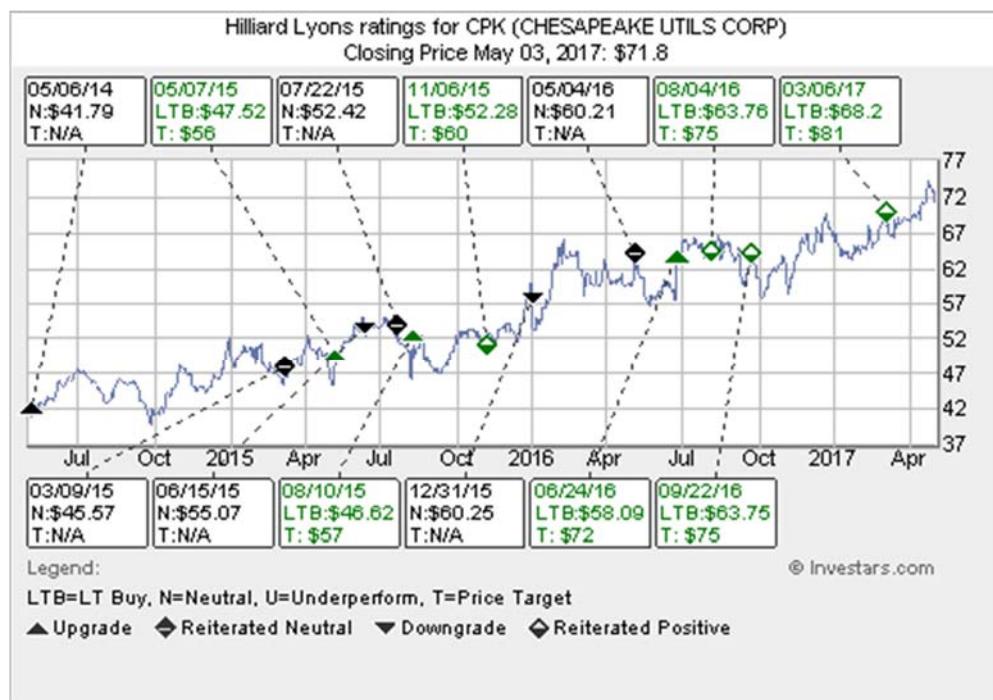
Investment Ratings

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%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 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.

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