



COMPANY UPDATE

Key Metrics

DGAS - NASDAQ (Price as of 8/29/17)	\$30.63
Price Target	NA
52-Week Range	\$31.29 - \$22.06
Shares Outstanding (mm)	7,129.1
Market Cap. (\$mm)	\$218.3
3-Mo. Average Daily Volume	9,771
Institutional Ownership	25.0%
Debt/Total Capital	40.0%
ROE (ttm)	8.4%
Book Value/Share	\$10.99
Price/Book Value	2.8x
Indicated Dividend / Yield	\$0.83 2.7%
Dividend Cycle	March, June, Sept., Dec.

EPS FY 6/30

	Prior 2016	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q			--	--
2Q			--	--
3Q			--	--
4Q			--	--
Year	\$0.78	\$0.88		\$0.92
P/E	39.3x	34.8x		33.3x
Payout	106%	94%		90%

Note: Figures exclude non-recurring items

Revenue (\$mm)

	Prior 2016	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q			--	--
2Q			--	--
3Q			--	--
4Q			--	--
Year	\$64	\$69		\$72

Company Description: Delta Natural Gas Company is engaged primarily in the distribution, transmission, storage and production of natural gas. Facilities are located in 23 predominantly rural counties in central and southeastern Kentucky. Delta serves approximately 36,000 residential, commercial, industrial, and transportation customers. The majority of Delta's customers are residential and commercial. Delta's retail sales are seasonal.

Delta Natural Gas Company

DGAS -- NASDAQ -- Neutral -- 2

Company declares stub dividend and targets a September 20th closing date of its acquisition by Peoples Gas

Investment Highlights

- **On August 29th, the board of directors of Delta Natural Gas Company authorized a stub period dividend of \$0.186978 per share of common stock.** The dividend will be paid on or about September 30th, to all shareholders of record as of September 19th. The stub dividend represents the period from July 1st to the expected closing of the transaction.
- **Delta anticipates the company's acquisition by Peoples Gas to become effective on September 20th.** As a reminder, on February 21, Delta announced it had entered into an agreement to merge with Peoples Gas for \$30.50 in cash per share. Peoples Gas, a privately held company, is the largest natural gas distributor in Pennsylvania. Delta shareholders and the Kentucky Public Service Commission have both approved the transaction.
- **We maintain our Neutral rating on Delta.** We recommend shareholders maintain positions in the stock so as to collect both the \$30.50 buyout price and stub dividend. We note that the stub dividend is not anticipated to be paid until after the transaction closes, likely in the September 27th – September 30th timeframe. While we remain comfortable maintaining positions in the stock, we would not be opposed to taking profits for those investors wishing to utilize funds for other investment opportunities prior to the deal close. Finally, as of now, we expect that Delta will last trade as a public company on Wednesday, September 20th.

**Note Important Disclosures on Pages 2 - 3.
Note Analyst Certification on Page 2.**

Suitability

We assign a 2 suitability rating to Delta Natural Gas Company. While the company owns and operates a stable natural gas distribution business, the proposed acquisition by Peoples Gas has been the primary consideration in how the stock has traded this year. With both regulatory and shareholder approval now completed, we believe the transaction will likely be concluded in the near future.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, 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' customers owned at least 5% of the outstanding common stock of Delta Natural Gas Company as of August 29th, 2017.

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

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 set back in the next 12 months.

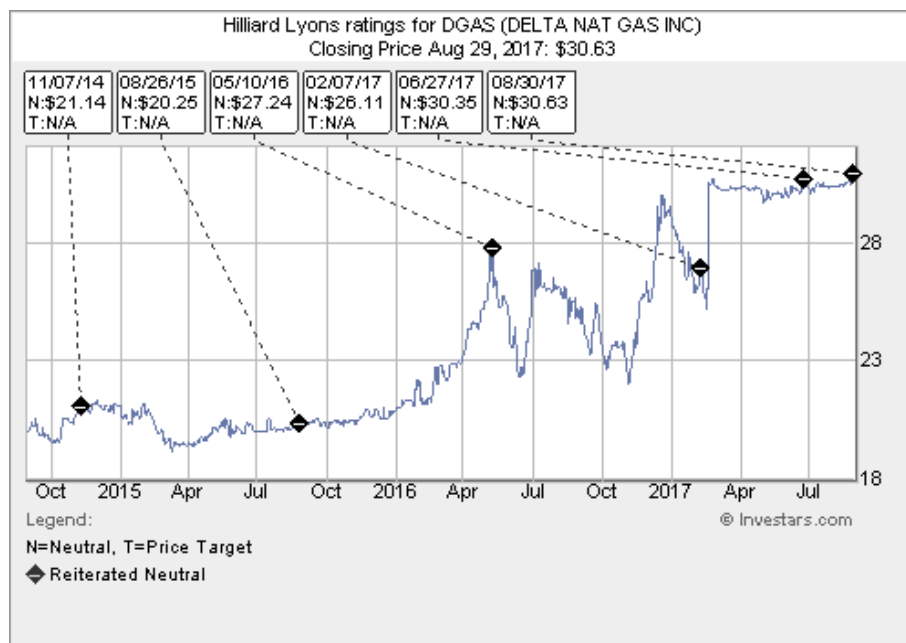
Suitability Ratings

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 revenue, volatility, low trading volume or a narrow customer or product base



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	38	30%	11%	89%
Hold/Neutral	77	61%	8%	92%
Sell	11	9%	0%	100%

As of 9 August 2017

Other Disclosures

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