



COMPANY UPDATE

**Key Metrics**

DGAS - NASDAQ (Price as of 7/17/17)	\$30.55
Price Target	NA
52-Week Range	\$31.29 - \$22.06
Shares Outstanding (mm)	7,129.1
Market Cap. (\$mm)	\$217.7
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**

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q				--	--
2Q				--	--
3Q				--	--
4Q				--	--
Year	\$0.78		\$0.88		\$0.92
P/E	39.2x		34.7x		33.2x
Payout	106%		94%		90%

Note: Figures exclude non-recurring items

**Revenue (\$mm)**

	2016	Prior 2017E	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

**Kentucky Public Service Commission approves Delta's acquisition by Peoples Gas; deal likely to close within several weeks**

**Investment Highlights**

- **On July 13, the Kentucky Public Service Commission approved the proposed acquisition of Delta Natural Gas Company by Peoples Gas.** 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 approved the transaction at a special meeting on June 1.
- **Delta anticipates the transaction will close within the next several weeks.** There are no other approvals required.
- **DGAS plans to pay a stub dividend at the time of the closing.** The stub will represent the period from July 1 to the time when the transaction concludes. We project the stub dividend could range between \$0.07 per share to \$0.10 per share, depending on when the deal formally closes.
- **We maintain our Neutral rating on Delta.** We remain comfortable with shareholders maintaining positions in the stock and collecting the stub dividend when the deal closes. However, we would not be opposed to taking profits for those wishing to utilize funds for other investment opportunities prior to the deal close.

**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 July 17, 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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# 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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