



COMPANY UPDATE

Key Metrics

DGAS - NASDAQ (Price as of 6/26/17)	\$30.35
Price Target	NA
52-Week Range	\$31.29 - \$22.06
Shares Outstanding (mm)	7,129.1
Market Cap. (\$mm)	\$213.6
3-Mo. Average Daily Volume	10,432
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	38.9x		34.5x		33.0x
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

Company's acquisition by Peoples Gas moving forward; Delta to pay one more regular quarterly dividend and likely one stub dividend

Investment Highlights

- **Delta's acquisition by Peoples Gas continues to move forward.** 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. Also, hearings before the Kentucky Public Service Commission began on June 8. Thus far we know of no obstacles that have emerged. As a result, we expect the deal to gain regulatory approval and close. We feel the transaction could close anytime between late July and early September, with the greater possibility being earlier in the period rather than later.
- **Company declares quarterly dividend.** On June 26 Delta announced it would pay a regular quarterly dividend of \$0.2075 on July 14 to shareholders of record June 30. We were surprised to learn of this dividend declaration as DGAS just paid a quarterly dividend on June 15. However, Delta pays its dividends in arrears, so this dividend is for the quarter ending on June 30 and would have normally been paid in September. The company is moving up the payment as it anticipates the deal closing before then. In addition, DGAS expects to pay a stub dividend representing the period from July 1 to when the transaction is completed.
- **We maintain our Neutral rating on Delta.** As we believe the transaction is likely to be approved, we remain comfortable with shareholders maintaining positions in the stock and collecting dividends until 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 will now be the primary consideration in how the stock trades this year. While we believe the transaction will be approved, there is always the risk the deal might not be finalized for some reason. Were that to occur, Peoples Gas would pay Delta Natural Gas a \$4.3 million termination fee.

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 June 26, 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.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	34	27%	12%	88%
Hold/Neutral	80	65%	8%	93%
Sell	10	8%	0%	100%

As of 7 June 2017

Other Disclosures

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