



COMPANY UPDATE

Key Metrics

DGAS - NASDAQ (Price as of 5/5/17)	\$29.90
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	23,814
Institutional Ownership	25.0%
Debt/Total Capital	40.0%
ROE (ttm)	8.4%
Book Value/Share	\$10.99
Price/Book Value	2.7x
Indicated Dividend / Yield	\$0.83 2.8%
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	38.3x		34.0x		32.5
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 reports solid fiscal third quarter 2017 results; acquisition process moves forward

Investment Highlights

- **Delta Natural Gas reported third quarter fiscal earnings of \$0.56 per share, flat with \$0.56 per share in 2016's third fiscal quarter.** We believe this was a solid quarter in light of both warmer than normal winter weather in Delta's service territory and \$1.3 million in merger-related expenses associated with DGAS's acquisition by Peoples Gas. Heating degree days were just 76% of normal temperatures during the quarter. These factors were largely offset by natural gas that was sold from storage. We are maintaining our \$0.88 per share estimate for fiscal 2017.
- **The process surrounding Delta's acquisition by People's Gas is moving forward.** As a reminder, on February 21, Delta announced that it had entered into an agreement to merge with Peoples Gas for \$30.50 in cash per Delta share. Peoples is a privately held company that is the largest natural gas distributor in Pennsylvania. Delta has scheduled a special shareholders meeting on June 1, to vote on the acquisition proposal. The Kentucky Public Service Commission has scheduled a hearing for June 8 to determine if Peoples has the financial, technical, and managerial abilities to provide reasonable service. We expect the proposed transaction will receive both shareholder and regulatory approval. We anticipate the deal could potentially close anytime between late June and October.
- **We maintain our Neutral rating on Delta.** The stock is now trading based on the proposed acquisition rather than fundamentals. 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 that 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 May 5, 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.

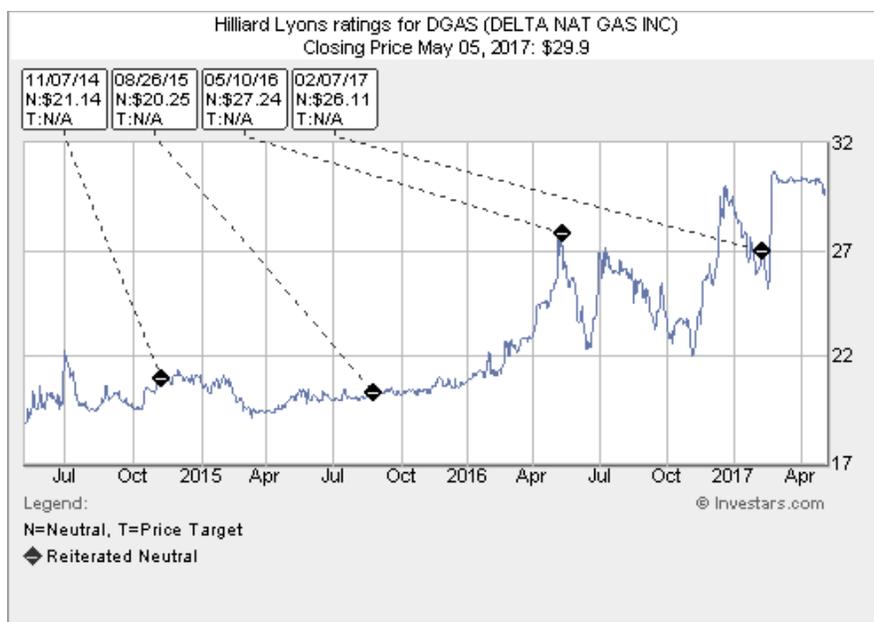
Suitability Ratings

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	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

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