

**COMPANY UPDATE /  
ESTIMATE CHANGE**
**Key Metrics**

NJR - NYSE - as of	8/1/17	\$42.35
Price Target		--
52-Week Range	\$30.46 -	\$43.50
Shares Outstanding (mm)		86.4
Market Cap. (\$mm)		\$3,660.7
1-Mo. Average Daily Volume		349,326
Institutional Ownership		66.8%
Debt/Total Capital	Q2'17	47.6%
ROE	TTM	12.7%
Book Value / Share	Q2'17	\$14.77
Price / Book Value		2.9x
Dividend Yield		2.4%
EBITDA Margin		11.0%

**EPS (adjusted for unrealized margins) FY 9/30**

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.57	--	\$0.46	A --	--
2Q	\$0.90	--	\$1.20	A --	--
3Q	\$0.13	--	\$0.20	A --	--
4Q	(\$0.02)	\$0.00	(\$0.08)	--	--
Year	\$1.57	\$1.76	\$1.78	\$1.83	\$1.86
P/E	27.0x		23.8x		22.8x

**Utility Gross Margin (\$MM)**

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$89.8	--	\$97.9	A --	--
2Q	\$121.8	--	\$143.2	A --	--
3Q	\$55.4	--	\$60.5	A --	--
4Q	\$42.3	\$46.7	\$45.5	--	--
Year	\$309.4	\$348.3	\$347.1	\$359.4	\$358.1

**Company Description:** *NJR is a holding company that provides retail and wholesale energy services to customers across the Eastern US and Canada. Its regulated subsidiary, New Jersey Natural Gas, is a local gas distribution company that provides energy service to more than 500,000 customers in central and northern New Jersey. Its unregulated operations provide fuel management and wholesale marketing services, and build/own/operate wind and solar clean energy generation assets.*

**Natural Gas Utilities**

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**New Jersey Resources Corp.**

NJR – NYSE – Neutral – 3

**Q3'17 Results for NJR; Initiating 2019 Estimates.**
**Investment Highlights**

- NJR reported fiscal Q3'17 (April-June) net financial earnings (NFE) per share of \$0.20 versus \$0.13 in Q3'16. Results beat both our Street-high estimate for \$0.10 and consensus at \$0.04. Utility margin growth and increased Investment Tax Credits (ITCs) substantially drove Q1 EPS growth.
- Utility gross margin grew 9.2% to \$60.5MM in Q3, which was about \$0.5MM ahead of our model. New base rates in New Jersey were the primary driver, but anniversary on 10/1. Customers grew ~1.7% yr/yr.
- Energy Services (NJRES) recorded NFE of \$0.9MM in Q3'17 versus \$0.3MM in Q3'16, which in our view, keeps NJRES in line for a 'normal' year in fiscal 2017.
- Clean Energy Ventures (NJRCEV) generated NFE of \$6.3MM in the quarter, higher by \$3.9MM, which approximated the yr/yr rise in ITCs.
- Upside to our EPS estimate was mostly driven by ITCs (+\$0.06 to +\$0.07); the utility was slightly ahead of our model, which factors more heavily into our 2018E EPS rising by \$0.03. Our current year target rises to \$1.78 on the strength of the second quarter, and now sits just above reiterated guidance for basic NFE per share, a range of \$1.65-\$1.75.
- We are initiating 2019E EPS at \$1.99; we model utility gross margin of \$369.3MM, +3.1% versus fiscal 2018. The final in-service date for PennEast could shift some line items in our new model year, but AFUDC impact (interest offset) limits delta in NFE; ITCs represent a source of uncertainty, while we are confident in steady customer growth.
- We are reiterating our Neutral rating. Q3 was a fine quarter from NJR, although with delays for PennEast and the Southern Reliability Link emerging in tandem with a fading base rate case tailwind, we see just average near-term risk/reward.

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

**ADDITIONAL DISCUSSION—FINAL THOUGHTS**

NJR's fiscal Q3 reminds us a lot of the second quarter: ITCs drove growth, along with a strong quarter from the utility, and the company looks poised to post a relatively clean and fair base/comp year for fiscal 2018 and 2019. What changes a little bit for us is the strength of the qualitative narrative. Over the past several months, the lack of a quorum at FERC has brought a material delay for the PennEast pipeline project, while the Southern Reliability Link project continues to progress quite slowly. Merging this with a really strong year of ITCs and a slowing outlook for the utility (granted this is a natural progression), we take an increasingly discerning view toward finding a potential entry point.

**SUITABILITY**

We assign NJR a suitability rating of '3.' A complete description of our suitability scale is on page 5. Size versus the broad Utility sector and significant exposure to non-regulated and/or more cyclical market-based and renewable energy businesses keep NJR below our '2' suitability rating. Below-sector leverage, a long history of capital return, and a strong core regulated utility franchise keep NJR well above our most aggressive '4' rating.

**CONSIDERATIONS AND RISKS**

Utility operations are weather sensitive, and 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. The cost of natural gas from non-domestic sources may play a greater role in establishing the market price of natural gas in the future.

Gas utilities are subject to regulation at the federal and state levels. The makeup of regulatory commissions can vary and have a significant bearing on the profitability of gas utilities. There are a number of items that can create volatility in the earnings results for the marketing segment, including weather, customer demand, supply/storage levels, gas price volatility, customer growth/retention, and accounting treatment.

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

*Additional information is available upon request.*

New Jersey Resources Corp.		dec	mar	jun	sep	dec	mar	jun	sep	sep					
Income Statements (000's), FYE Sept.		FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Operating Rev															
Utility	\$819,415	\$781,970	\$151,606	\$242,536	\$119,206	\$80,998	\$594,346	\$185,556	\$295,546	\$121,362			602,464	-	-
Non Utility	2,918,730	1,952,017	292,652	331,657	274,007	388,243	1,286,559	355,472	438,000	336,161	386,613		1,516,246	1,520,008	1,515,790
Total Revenues	3,738,145	2,733,987	444,258	574,193	393,213	469,241	1,880,905	541,028	733,546	457,523					
Utility Gross Margin												45,481	45,481	358,134	369,267
Operating Exp															
Utility--Gas Purch	319,897	304,953	46,665	82,374	45,700	30,295	205,034	61,320	112,445	47,124			220,889		
Non Utility--Gas Purch	2,807,008	1,767,841	254,088	287,883	288,510	308,820	1,139,301	337,932	367,328	299,971	356,471		1,361,702	1,350,887	1,350,887
Related Parties--Gas Purch	12,620	12,851	2,074	2,077	2,108	2,092	8,351	2,111	2,072	2,076			6,259		
O & M	215,180	209,453	46,233	53,125	51,467	57,596	208,421	52,228	52,342	55,613	56,920		217,103	215,940	217,140
Regulatory Rider Expense	72,164	75,779	9,628	21,215	6,360	2,097	39,300	12,601	19,893	5,216			37,710	-	-
D & A	52,742	61,399	16,482	17,744	18,671	19,851	72,748	19,260	20,328	20,760	22,110		82,458	90,250	96,170
Energy and Otr Tax	57,344	53,260	9,637	15,842	8,726	6,010	40,215	14,101	19,485	8,796	1,180		43,562	5,170	5,170
Total Op Exp	3,536,955	2,485,536	384,807	480,260	421,542	426,761	1,713,370	499,553	593,893	439,556					
Operating Income	201,190	248,451	59,451	93,933	(28,329)	42,480	167,535	41,475	139,653	17,967	(4,587)		194,508	215,894	215,690
Other Income (Loss)	7,551	6,545	1,924	2,202	2,306	2,764	9,196	3,776	5,338	3,273	2,760		15,147	12,150	12,150
Interest Charges, Net	25,463	27,721	6,777	7,369	7,787	9,111	31,044	10,615	11,436	11,164	11,410		44,625	47,810	49,170
Income Before Tax [EBT]	183,278	227,275	54,598	88,766	(33,810)	36,133	145,687	34,636	133,555	10,076	(13,237)		165,030	180,234	178,670
Income Tax Provision	51,840	59,724	8,357	17,840	(14,190)	13,183	23,530	2,018	23,932	(5,816)	(3,960)		16,174	30,770	24,140
Equity in Earnings, Net of Tax	10,532	13,409	2,406	2,402	2,257	2,450	9,515	2,311	5,079	3,065	2,570		13,025	13,680	24,930
Net Income	\$141,970	\$180,960	\$48,647	\$73,328	(\$17,363)	\$25,400	\$131,672	\$34,929	\$114,702	\$18,957	(\$6,707)		\$161,881	\$163,144	\$179,460
Average Shares Outstanding (FD)	84,922	86,265	86,676	86,858	85,960	86,940	86,731	86,855	87,101	87,267	87,314		87,134	88,518	90,413
GAAP EPS	\$ 1.67	\$ 2.10	\$ 0.56	\$ 0.84	\$ (0.20)	\$ 0.29	\$ 1.52	\$ 0.40	\$ 1.32	\$ 0.22					
EPS-dil., excl. nonrecurring items															
Add: (non-GAAP)															
Unrlzd (Gain) / Loss on Derivs	28,534	(38,682)	(1,135)	3,170	55,875	(11,027)	46,883	28,302	(54,855)	(15,981)					
Rlzd (loss) gain from derivatives															
Tax Adjustment, net all	(20,286)	17,449	(1,693)	2,436	(16,160)	11,763	(15,654)	(4,909)	9,931	1,216					
Econ Eff of Nat Gas Hedging	26,639	(8,225)	3,813	(1,054)	(11,380)	(28,195)	(36,816)	(17,939)	34,328	13,203					
Net Financial Earnings (NFE)	\$176,856	\$151,503	\$49,632	\$77,880	\$10,972	(\$2,059)	\$136,425	\$40,383	\$104,106	\$17,395	(\$6,707)		\$155,177	\$163,144	\$179,460
EPS--NFE	\$ 2.08	\$ 1.76	\$ 0.57	\$ 0.90	\$ 0.13	\$(0.02)	\$ 1.57	\$ 0.46	\$ 1.20	\$ 0.20	\$(0.08)		\$ 1.78	\$ 1.86	\$ 1.99
EX CEV Financial Earnings-approx	\$ 1.94	\$ 1.53	\$ 0.49	\$ 0.76	\$ 0.10	\$(0.10)	\$ 1.25	\$ 0.43	\$ 0.93	\$ 0.13					
Dividend / Sh	\$ 0.855	\$ 0.915	\$ 0.240	\$ 0.240	\$ 0.240	\$ 0.240	\$ 0.960	\$ 0.255	\$ 0.255	\$ 0.255	\$ 0.255		\$ 1.020	\$ 1.080	\$ 1.080
<b>Rate of Change Analysis:</b>															
Utility Gross Margin	7.3%	3.4%	3.1%	1.1%	-2.6%	-1.4%	0.6%	9.0%	17.6%	9.2%	7.4%		12.2%	3.2%	3.1%
EPS--Net Financial Earnings	53.6%	-15.6%	-11.1%	-21.9%	340.3%	nm	-10.6%	-18.8%	33.3%	56.2%	nm		13.3%	4.4%	6.8%
O&M Expense	24.0%	-2.7%	3.3%	0.7%	5.9%	-9.0%	-0.5%	13.0%	-1.5%	8.1%	-1.2%		4.2%	-0.5%	0.6%
<b>Margin Analysis:</b>															
Utility O&M / Utility GM	42.0%	42.2%	33.0%	27.8%	58.9%	81.4%	42.2%	33.9%	23.6%	57.5%	77.3%		39.5%	38.2%	37.1%
Tax Rate [Tax/EBT]	28.3%	26.3%	15.3%	20.1%	42.0%	36.5%	16.2%	5.8%	17.9%	-57.7%	29.9%		9.8%	17.1%	13.5%
*Utility Gas Purchases, Regulatory Rider Expenses and a portion of Energy and other taxes incorporated into Utility gross margin projection			*GRC filed 11/2015 **KS wind on line 12/2015 ***\$9.6MM ITC	*ITC \$12.3 *6/21--\$125MM LTD at 3.6%	*ITC \$2.6		*Basic NFE EPS Guidance \$1.55-\$1.65	*New Base Rates NJNG Online **Ringer Hill ***\$7.1MM NFE ITC	*\$32.7MM NFE ITC	*\$5.6MM NFE ITC			*New NJNG base rates 10/1/2016 **EPS Guide \$1.65-\$1.75		

Source: Company reports and Hilliard Lyons estimates

## New Jersey Resources Corp.

New Jersey Resources Corp.														
Balance Sheet Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E	FY'19E
Cash	\$2,151	\$4,928	\$1,683	\$1,880	\$94,808	\$37,546	\$37,546	\$46,875	\$92,735	\$72,114	\$75,083	\$75,080	\$91,120	\$41,030
A/R	189,970	155,273	168,729	148,822	144,077	142,658	142,658	252,755	242,698	151,280	149,790	149,790	157,280	165,140
Gas in storage	277,516	163,905	189,907	117,490	159,073	206,251	206,251	220,097	143,514	167,030	216,560	216,560	227,390	238,760
Other CAs	213,094	164,109	228,620	191,669	206,760	220,809	220,809	295,336	199,010	210,900	225,230	225,230	229,730	234,320
Total Current Assets	682,731	488,215	588,939	459,861	604,718	607,264	607,264	815,063	677,957	601,324	666,663	666,660	705,520	679,250
Net PP&E	1,884,110	2,128,261	2,196,099	2,242,658	2,304,024	2,407,652	2,407,652	2,451,749	2,496,304	2,565,990	2,605,190	2,605,190	2,837,850	2,987,890
Other LT Assets	591,963	722,562	692,200	717,075	724,048	712,166	712,166	682,694	683,098	760,250	747,770	747,770	785,160	824,420
Total Assets	\$3,158,804	\$3,339,038	\$3,477,238	\$3,419,594	\$3,632,790	\$3,727,082	\$3,727,082	\$3,949,506	\$3,857,359	\$3,927,564	\$4,019,623	\$4,019,620	\$4,328,530	\$4,491,560
Gas Purchases Payable	205,901	151,375	144,349	120,091	123,752	139,452	139,450	187,219	160,605	126,230	142,240	142,240	145,080	147,980
A/P	104,005	99,651	69,563	67,649	70,408	107,184	107,180	72,776	70,981	73,930	112,540	112,540	118,170	124,080
Short-Term Debt	301,000	66,350	211,000	152,500	244,625	121,700	121,700	284,600	237,900	365,900	450,900	450,900	611,900	686,900
Other CLs	180,180	118,724	150,070	137,627	162,687	203,272	203,270	278,337	156,774	170,820	213,440	213,440	224,110	235,320
Total Current Liabilities	791,086	436,100	574,982	477,867	601,472	571,608	571,608	822,932	626,260	736,880	919,120	919,120	1,099,260	1,194,280
LTD	598,209	843,595	848,206	844,391	967,802	1,063,550	1,063,550	1,026,682	1,023,968	905,268	969,568	969,570	1,110,770	1,107,970
Def Inc Taxes	423,213	444,935	491,522	464,343	469,119	473,847	473,847	490,017	507,111	512,110	517,110	517,110	567,110	617,110
Other LT Liabilities	380,130	507,452	418,584	425,511	423,515	451,486	451,486	424,514	413,740	413,740	413,740	413,740	413,740	413,740
Shareholders' Equity	966,166	1,106,956	1,143,944	1,207,482	1,170,882	1,166,591	1,166,591	1,185,361	1,286,280	1,359,566	1,200,085	1,200,090	1,137,650	1,158,470
Total Liab & SE	\$3,158,804	\$3,339,038	\$3,477,238	\$3,419,594	\$3,632,790	\$3,727,082	\$3,727,082	\$3,949,506	\$3,857,359	\$3,927,564	\$4,019,623	\$4,019,620	\$4,328,530	\$4,491,560
Book Value / Share	\$11.45	\$12.96	\$13.20	\$13.90	\$13.62	\$13.42	\$13.42	\$13.65	\$14.77	\$15.58	\$13.74	\$13.74	\$12.69	\$12.75
Price / Book	1.9x	1.9x	2.5x	2.6x	2.8x	2.4x	2.4x	2.6x	2.7x	2.7x	3.1x	3.1x	3.3x	3.3x
LT Debt / Total Capital	38.2%	43.2%	42.6%	41.2%	45.3%	47.7%	47.7%	46.4%	44.3%	40.0%	44.7%	44.7%	49.4%	48.9%
Net Total Debt / Total Cap	48.1%	45.0%	48.0%	45.2%	48.8%	49.6%	49.6%	51.6%	47.6%	46.9%	52.9%	52.9%	58.9%	60.2%
Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E	FY'19E
Net Financial Earnings	\$176,856	\$151,503	\$49,632	\$77,880	\$10,972	(\$2,059)	\$136,425	\$40,383	\$104,106	\$17,395	(\$6,707)	\$155,180	\$163,140	\$179,460
D&A	52,742	61,399	16,482	17,744	18,671	19,851	72,748	19,260	20,328	20,760	22,110	82,460	90,250	96,170
Deferred Income Tax	18,421	45,934	46,166	(28,186)	3,675	6,066	27,721	16,262	15,940	5,000	5,000	42,202	50,000	50,000
Contribution to Employee Plans	(4,953)	(5,778)	(30,144)	(2,023)	(158)	(1,034)	(33,359)	(1,712)	(172)	(158)	(1,034)	(3,076)	(3,076)	(3,076)
(Inc)/Dec Wrk Cap	66,202	76,957	(109,737)	90,660	(20,449)	33,253	(6,273)	(110,046)	32,994	38,632	34,870	(3,550)	(3,680)	0
Operating C.F.	309,268	330,015	(27,601)	156,075	12,711	56,077	197,262	(35,853)	173,196	81,629	54,239	273,216	296,634	322,554
Utility Cap Ex	(128,254)	(140,797)	(42,465)	(33,861)	(35,425)	(64,316)	(176,067)	(31,396)	(27,365)	(90,000)	(90,000)	(238,761)	(370,000)	(200,000)
Solar/Wind Cap Ex	(135,543)	(151,002)	(45,006)	(25,876)	(44,854)	(33,327)	(149,063)	(46,785)	(43,120)	(45,000)	(41,000)	(175,905)	(220,000)	(200,000)
Dividends	(70,664)	(76,532)	(20,524)	(20,591)	(20,660)	(20,670)	(82,445)	(21,931)	(21,967)	(22,250)	(22,270)	(88,420)	(95,600)	(97,640)
Free C.F.	(25,193)	(38,316)	(135,596)	75,747	(88,228)	(62,236)	(210,313)	(135,965)	80,744	(75,621)	(99,031)	(229,870)	(388,966)	(175,086)
Payments of LT Debt	(82,586)	(37,039)	(2,676)	(3,131)	(1,993)	(5,489)	(13,289)	(2,716)	(38,944)	-	(50,000)	(91,660)	(150,000)	(150,000)
Proceeds from LT Debt	125,000	250,000	-	-	125,000	150,000	275,000	-	-	-	50,000	50,000	150,000	150,000
Proceeds (Payments) ST Debt	(64,600)	(234,650)	144,650	(58,500)	92,125	(122,925)	55,350	162,900	(46,700)	10,000	100,000	226,200	305,000	75,000
Stock Issued	15,373	37,299	3,807	4,413	3,953	3,837	16,010	4,616	5,115	45,000	2,000	56,731	100,000	50,000
Stock Repurchased	(5,522)	(10,589)	(1,008)	-	-	-	(1,008)	(6,355)	-	-	-	(6,355)	-	-
Net Cash Flow	(37,528)	(33,295)	9,177	18,529	130,857	(36,813)	121,750	22,480	215	(20,621)	2,969	5,046	16,034	(50,086)
EBITDA	\$253,932	\$309,850	\$75,933	\$111,677	(\$9,658)	\$62,331	\$240,283	\$60,735	\$159,981	\$38,727	\$17,523	\$276,966	\$306,144	\$311,860
EV / TTM EBITDA	9.7x	9.7x	18.3x	18.5x	20.9x	16.2x	16.2x	18.1x	16.0x	14.1x	16.6x	16.6x	15.7x	15.8x
ROE (TTM)	18.5%	13.9%	13.0%	10.9%	11.6%	11.8%	11.8%	10.8%	12.7%	13.0%	12.5%	12.5%	13.6%	15.1%

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.

### **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.



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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