

**COMPANY UPDATE /
ESTIMATE CHANGE**
Key Metrics

NJR - NYSE - as of	2/7/17	\$37.60
Price Target		--
52-Week Range	\$30.46 -	\$38.92
Shares Outstanding (mm)		86.1
Market Cap. (\$mm)		\$3,237.5
1-Mo. Average Daily Volume		645,131
Institutional Ownership		62.2%
Debt/Total Capital	Q4'16	49.6%
ROE	TTM	11.8%
Book Value / Share	Q4'16	\$13.42
Price / Book Value		2.8x
Dividend Yield		2.7%
EBITDA Margin		-

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	\$0.92	\$1.06	--	--
3Q	\$0.13	\$0.10	\$0.12	--	--
4Q	(\$0.02)	(\$0.01)	\$0.03	--	--
Year	\$1.57	\$1.69	\$1.68	\$1.76	\$1.77
P/E	23.9x		22.4x		21.2x

Utility Gross Margin (\$MM)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$89.8	--	\$97.9	A --	--
2Q	\$121.8	\$135.5	\$137.6	--	--
3Q	\$55.4	\$62.1	\$62.1	--	--
4Q	\$42.3	\$48.8	\$48.8	--	--
Year	\$309.4	\$349.3	\$346.4	\$360.4	\$357.4

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

Timing Drives Lower Q1'17 Results for NJR; Full Year Expectations Intact. Maintaining Neutral Rating.

Investment Highlights

- NJR reported fiscal Q1'17 (October-December) net financial earnings (NFE) per share of \$0.46 versus \$0.57 in Q1'16. The quarter fell below our estimate and consensus, both of which expected growth. Reduced Investment Tax Credits (ITCs) and lower contribution from NJR Energy Services impacted Q1.
- Utility gross margin grew 9.0% in Q1, short of our +14.6% target, but strong on the back of new base rates in New Jersey; we expect growth to remain robust across the year. Utility customers grew ~1.5% yr/yr.
- Energy Services (NJRES) recorded NFE of \$3.5MM in Q1'17 versus \$10.3MM in Q1'16, although we expect timing drove some of the decline. NJRES 'normalization' will still likely weigh on FY 2017, although the headwind should abate across Qs2-4.
- Clean Energy Ventures (NJRCEV) generated NFE of \$2.8MM in Q1'17, down from \$7.7MM in the year ago period. About half the decline was due to fewer ITCs, although based on expected investment, the full year 2017 impact from ITC should exceed 2016.
- The PennEast pipeline is still expected to be in service in late-2018, unchanged over the last few months.
- NJR reiterated 2017 basic NFE per share guidance in a range of \$1.65-\$1.75; our 2017E EPS slips a penny, with a strong acknowledgement of timing items that shaped Q1. Our 2018E EPS rises \$0.01 to \$1.77.
- We are reiterating our Neutral rating. After being a bit disappointed with full year guidance, this is the type of quarter we would look to capitalize on with a headline 'miss' overshadowing strong growth in utility margin. Having said that, the stock seems to be weathering the soft report, and we continue to look for a more compelling entry point.

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

ADDITIONAL DISCUSSION—Q1 RESULTS & FORWARD OUTLOOK

Versus our model, there were several surprises in the first quarter, although our expectations for 2017 are strikingly unchanged. Lower net financial earnings from NJR Energy Services should unwind over the balance of fiscal 2017, with the wholesale business often volatile across quarters even before accounting for replacement of the second strongest Q1 in the past 20 years [Q1'16].

New Jersey Natural Gas was softer than we had anticipated from a profits standpoint, although we attribute an element of this to a benign start to the heating season. Keying off both the aforementioned items, lower tax credits at NJR Clean Energy Ventures were realized as the allotment across quarters occurs in proportion to firm wide profits. Qualitatively, we are pleased with execution over the last few months, with a specific mention of the Ringer Hill wind facility, which marks another 'on time' completion for the NJR team.

Projecting past 2017, not much changes at this point, with NJR addressing some longer term items via both a strategy call and analyst day event during the final few months of last year. To recap several of our holistic takeaways, several of our impressions remain intact: #1 Solar was reestablished as a core business; #2 The NJ general rate case reached a constructive settlement; #3 The Cap Ex budget reflects steady expectations for Utility Ops.

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			
Income Statements (000's), FYE.Sept.		FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E			
Operating Rev																	
Utility	\$819,415	\$781,970	\$151,606	\$242,536	\$119,206	\$80,998	\$594,346	\$185,556					185,556	-			
Non Utility	2,918,730	1,952,017	292,652	331,657	274,007	388,243	1,286,559	355,472	355,503	321,362	385,698	1,418,036	1,442,443				
Total Revenues	3,738,145	2,733,987	444,258	574,193	393,213	469,241	1,880,905	541,028					248,464	357,399			
Utility Gross Margin																	
Operating Exp																	
Utility--Gas Purch	319,897	304,953	46,665	82,374	45,700	30,295	205,034	61,320					61,320				
Non Utility--Gas Purch	2,807,008	1,767,841	254,088	287,883	288,510	308,820	1,139,301	337,932	299,874	289,703	347,172	1,274,681	1,275,836				
Related Parties--Gas Purch	12,620	12,851	2,074	2,077	2,108	2,092	8,351	2,111				2,111					
O & M	215,180	209,453	46,233	53,125	51,467	57,596	208,421	52,228	53,570	50,960	56,920	213,678	209,810				
Regulatory Rider Expense	72,164	75,779	9,628	21,215	6,360	2,097	39,300	12,601				12,601	-				
D & A	52,742	61,399	16,482	17,744	18,671	19,851	72,748	19,260	19,990	20,590	22,390	82,230	88,950				
Energy and Otr Tax	57,344	53,260	9,637	15,842	8,726	6,010	40,215	14,101	1,170	1,200	1,180	17,651	4,960				
Total Op Exp	3,536,955	2,485,536	384,807	480,260	421,542	426,761	1,713,370	499,553	118,529	20,962	6,818	187,784	220,286				
Operating Income	201,190	248,451	59,451	93,933	(28,329)	42,480	167,535	41,475									
Other Income (Loss)																	
Other Income (Loss)	7,551	6,545	1,924	2,202	2,306	2,764	9,196	3,776	2,200	2,310	2,760	11,046	11,050				
Interest Charges, Net	25,463	27,721	6,777	7,369	7,787	9,111	31,044	10,615	10,490	10,680	10,930	42,715	46,010				
Income Before Tax [EBT]																	
Income Tax Provision	51,840	59,724	8,357	17,840	(14,190)	13,183	23,530	2,018	20,210	4,370	(1,140)	25,458	38,620				
Equity in Earnings, Net of Tax	10,532	13,409	2,406	2,402	2,257	2,450	9,515	2,311	2,520	2,370	2,570	9,771	10,270				
Net Income	\$141,970	\$180,960	\$48,647	\$73,328	(\$17,363)	\$25,400	\$131,672	\$34,929	\$92,549	\$10,592	\$2,358	\$140,428	\$156,976				
Average Shares Outstanding (FD)	84,922	86,265	86,676	86,858	85,960	86,940	86,731	86,855	86,908	88,105	88,158	87,507	89,515				
GAAP EPS	\$ 1.67	\$ 2.10	\$ 0.56	\$ 0.84	\$ (0.20)	\$ 0.29	\$ 1.52	\$ 0.40									
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									
Rlzd (loss) gain from derivatives																	
Tax Adjustment	(20,286)	17,449	(1,693)	2,436	(16,160)	11,763	(15,654)	(4,909)									
Econ Eff of Nat Gas Hedging	26,639	(8,225)	3,813	(1,054)	(11,380)	(28,195)	(36,816)	(17,939)									
Net Financial Earnings (NFE)	\$176,856	\$151,503	\$49,632	\$77,880	\$10,972	(\$2,059)	\$136,425	\$40,383	\$92,549	\$10,592	\$2,358	\$145,882	\$156,976				
EPS--NFE	\$ 2.08	\$ 1.76	\$ 0.57	\$ 0.90	\$ 0.13	\$ (0.02)	\$ 1.57	\$ 0.46	\$ 1.06	\$ 0.12	\$ 0.03	\$ 1.68	\$ 1.77				
EX CEV Financial Earnings- <i>approx</i>	\$ 1.94	\$ 1.53	\$ 0.49	\$ 0.76	\$ 0.10	\$ (0.10)	\$ 1.25										
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				
Rate of Change Analysis:																	
Utility Gross Margin	7.3%	3.4%	3.1%	1.1%	-2.6%	-1.4%	0.6%	9.0%	13.0%	12.0%	15.2%	12.0%	3.2%				
EPS--Net Financial Earnings	53.6%	-15.6%	-11.1%	-21.9%	340.3%	nm	-10.6%	-18.8%	18.8%	-5.8%	nm	6.6%	5.8%				
O&M Expense	24.0%	-2.7%	3.3%	0.7%	5.9%	-9.0%	-0.5%	13.0%	0.8%	-1.0%	-1.2%	2.5%	-1.8%				
Margin Analysis:																	
Utility O&M / Utility GM	42.0%	42.2%	33.0%	27.8%	58.9%	81.4%	42.2%	30.9%	25.1%	53.6%	72.0%	38.5%	37.3%				
Tax Rate [Tax/EBT]	28.3%	26.3%	15.3%	20.1%	42.0%	36.5%	16.2%	5.8%	18.3%	34.7%	84.3%	16.3%	20.8%				
*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	*YTD ITC \$2.6 *6/21--\$125MM LTD at 3.6%		*Basic NFE EPS Guidance \$1.55-\$1.65	*New Base Rates NJNG **Ringer Hill Online ***\$7.1MM 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.

Balance Sheet Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	\$2,151	\$4,928	\$1,683	\$1,880	\$94,808	\$37,546	\$37,546	\$42,655	\$57,971	\$25,385	\$36,449	\$36,450	\$41,510
A/R	189,970	155,273	168,729	148,822	144,077	142,658	142,658	177,170	156,260	151,280	149,790	149,790	157,280
Gas in storage	277,516	163,905	189,907	117,490	159,073	206,251	206,251	199,400	123,360	167,030	216,560	216,560	227,390
Other CAs	213,094	164,109	228,620	191,669	206,760	220,809	220,809	194,330	195,500	210,900	225,230	225,230	229,730
Total Current Assets	682,731	488,215	588,939	459,861	604,718	607,264	607,264	613,555	533,091	554,595	628,029	628,030	655,910
Net PP&E	1,884,110	2,128,261	2,196,099	2,242,658	2,304,024	2,407,652	2,407,652	2,474,390	2,473,660	2,598,800	2,582,270	2,582,270	2,845,970
Other LT Assets	591,963	722,562	692,200	717,075	724,048	712,166	712,166	726,810	752,930	760,250	747,770	747,770	785,160
Total Assets	\$3,158,804	\$3,339,038	\$3,477,238	\$3,419,594	\$3,632,790	\$3,727,082	\$3,727,082	\$3,814,755	\$3,759,681	\$3,913,645	\$3,958,069	\$3,958,070	\$4,287,040
Gas Purchases Payable	205,901	151,375	144,349	120,091	123,752	139,452	139,450	147,240	122,490	126,230	142,240	142,240	145,080
A/P	104,005	99,651	69,563	67,649	70,408	107,184	107,180	73,040	71,030	73,930	112,540	112,540	118,170
Short-Term Debt	301,000	66,350	211,000	152,500	244,625	121,700	121,700	237,250	187,250	380,250	455,250	455,250	666,250
Other CLs	180,180	118,724	150,070	137,627	162,687	203,272	203,270	157,570	144,510	170,820	213,440	213,440	224,110
Total Current Liabilities	791,086	436,100	574,982	477,867	601,472	571,608	571,608	615,100	525,280	751,230	923,470	923,470	1,153,610
LTD	598,209	843,595	848,206	844,391	967,802	1,063,550	1,063,550	1,067,302	1,066,602	947,902	972,202	972,202	1,113,400
Def Inc Taxes	423,213	444,935	491,522	464,343	469,119	473,847	473,847	508,850	513,850	518,850	523,850	523,850	573,850
Other LT Liabilities	380,130	507,452	418,584	425,511	423,515	451,486	451,486	451,490	451,490	451,490	451,490	451,490	451,490
Shareholders' Equity	966,166	1,106,956	1,143,944	1,207,482	1,170,882	1,166,591	1,166,591	1,172,013	1,202,459	1,244,173	1,087,057	1,087,060	994,680
Total Liab & SE	\$3,158,804	\$3,339,038	\$3,477,238	\$3,419,594	\$3,632,790	\$3,727,082	\$3,727,082	\$3,814,755	\$3,759,681	\$3,913,645	\$3,958,069	\$3,958,070	\$4,287,040
Book Value / Share	\$11.45	\$12.96	\$13.20	\$13.90	\$13.62	\$13.42	\$13.42	\$13.49	\$13.84	\$14.12	\$12.33	\$12.33	\$10.95
Price / Book	1.9x	1.9x	2.5x	2.6x	2.8x	2.4x	2.4x	2.6x	2.7x	3.0x	3.0x	3.0x	3.4x
LT Debt / Total Capital	38.2%	43.2%	42.6%	41.2%	45.3%	47.7%	47.7%	47.7%	47.0%	43.2%	47.2%	47.2%	52.8%
Net Total Debt / Total Cap	48.1%	45.0%	48.0%	45.2%	48.8%	49.6%	49.6%	51.8%	49.9%	51.2%	56.1%	56.1%	63.6%
Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Financial Earnings	\$176,856	\$151,503	\$49,632	\$77,880	\$10,972	(\$2,059)	\$136,425	\$40,383	\$92,549	\$10,592	\$2,358	\$145,880	\$156,980
D&A	52,742	61,399	16,482	17,744	18,671	19,851	72,748	19,260	19,990	20,590	22,390	82,230	88,950
Deferred Income Tax	18,421	45,934	46,166	(28,186)	3,675	6,066	27,721	35,000	5,000	5,000	5,000	50,000	50,000
Contribution to Employee Plans	(4,953)	(5,778)	(30,144)	(2,023)	(158)	(1,034)	(33,359)	(30,144)	(2,023)	(158)	(1,034)	(33,359)	(33,359)
(Inc)/Dec Wrk Cap	66,202	76,957	(109,737)	90,660	(20,449)	33,253	(6,273)	(73,240)	55,960	(21,140)	33,830	(4,590)	(5,830)
Operating C.F.	309,268	330,015	(27,601)	156,075	12,711	56,077	197,262	(8,741)	171,476	14,884	62,544	240,161	256,741
Utility Cap Ex	(128,254)	(140,797)	(42,465)	(33,861)	(35,425)	(64,316)	(176,067)	(45,000)	(45,000)	(90,000)	(90,000)	(270,000)	(390,000)
Solar/Wind Cap Ex	(135,543)	(151,002)	(45,006)	(25,876)	(44,854)	(33,327)	(149,063)	(41,000)	(41,000)	(55,000)	(41,000)	(178,000)	(220,000)
Dividends	(70,664)	(76,532)	(20,524)	(20,591)	(20,660)	(20,670)	(82,445)	(22,150)	(22,160)	(22,470)	(22,480)	(89,260)	(96,680)
Free C.F.	(25,193)	(38,316)	(135,596)	75,747	(88,228)	(62,236)	(210,313)	(116,891)	63,316	(152,586)	(90,936)	(297,099)	(449,939)
Payments of LT Debt	(82,586)	(37,039)	(2,676)	(3,131)	(1,993)	(5,489)	(13,289)	-	-	-	(50,000)	(50,000)	(150,000)
Proceeds from LT Debt	125,000	250,000	-	-	125,000	150,000	275,000	-	-	-	50,000	50,000	150,000
Proceeds (Payments) ST Debt	(64,600)	(234,650)	144,650	(58,500)	92,125	(122,925)	55,350	120,000	(50,000)	75,000	100,000	245,000	355,000
Stock Issued	15,373	37,299	3,807	4,413	3,953	3,837	16,010	2,000	2,000	45,000	2,000	51,000	100,000
Stock Repurchased	(5,522)	(10,589)	(1,008)	-	-	-	(1,008)	-	-	-	-	-	-
Net Cash Flow	(37,528)	(33,295)	9,177	18,529	130,857	(36,813)	121,750	5,109	15,316	(32,586)	11,064	(1,099)	5,061
EBITDA	\$253,932	\$309,850	\$75,933	\$111,677	(\$9,658)	\$62,331	\$240,283	\$60,735	\$138,519	\$41,552	\$29,208	\$270,014	\$309,236
EV / TTM EBITDA	9.7x	9.7x	18.3x	18.5x	20.9x	16.2x	16.2x	18.3x	17.0x	14.0x	15.7x	15.7x	14.5x
ROE (TTM)	18.5%	13.9%	13.0%	10.9%	11.6%	11.8%	11.8%	10.8%	12.0%	11.9%	12.4%	12.4%	14.5%

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.



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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