

**COMPANY UPDATE /
ESTIMATE CHANGE**
Key Metrics

NJR - NYSE - as of	11/20/17	\$44.30
Price Target		--
52-Week Range	\$32.75 -	\$45.45
Shares Outstanding (mm)		86.5
Market Cap. (\$mm)		\$3,833.7
1-Mo. Average Daily Volume		415,295
Institutional Ownership		66.0%
Debt/Total Capital	Q3'17	46.1%
ROE	TTM	13.1%
Book Value / Share	Q3'17	\$14.72
Price / Book Value		3.0x
Dividend Yield		2.5%
EBITDA Margin		13.8%

EPS (adjusted for unrealized margins) FY 9/30

	Prior 2017A	Current 2018E	Prior 2018E	Current 2019E
1Q	\$0.46	--	\$0.57	--
2Q	\$1.20	--	\$1.08	--
3Q	\$0.20	--	\$0.14	--
4Q	(\$0.14)	--	\$0.00	--
Year	\$1.72	\$1.86	\$1.79	\$1.99
P/E	25.8x		24.7x	23.4x

Utility Gross Margin (\$MM)

	Prior 2017A	Current 2018E	Prior 2018E	Current 2019E
1Q	\$97.9	--	\$100.8	--
2Q	\$143.2	--	\$146.8	--
3Q	\$60.5	--	\$62.9	--
4Q	\$46.4	--	\$48.6	--
Year	\$348.0	\$358.1	\$359.2	\$370.5

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

Q4'17 Results for NJR; Guidance for 2018.
Investment Highlights

- NJR reported fiscal Q4'17 (July-September) net financial earnings (NFE) per share of (\$0.14) versus (\$0.02) in Q4'16. FY 2017 NFE per share grew 9.0% to \$1.72.
- The quarter missed both our estimate for (\$0.08) and consensus at (\$0.13). A sale-leaseback transaction for a solar plant compelled a negative contribution from Investment Tax Credits (ITCs), which effectively drove -\$0.15 in EPS versus our model that was partially offset by utility margin growth.
- Utility gross margin grew 9.4% to \$46.4MM in Q4, which was about \$1.0MM ahead of our model; margin growth for full fiscal 2017 was 12.5%. New base rates in New Jersey were the primary driver, but have now been lapped. Customers grew ~1.7% in fiscal 2017.
- Energy Services (NJRES) recorded NFE of \$18.6MM in FY17 versus \$21.9MM in FY16, the third sequential year of decline, which in our view, finally nets NJRES a constructive comp for the year ahead.
- Clean Energy Ventures (NJRCEV) generated NFE of \$24.9MM for the year, lower by \$3.5MM y/y; absent tax credits, we estimate the segment produced net financial losses of about \$5MM on operating income of \$7.9MM (down about \$2MM yr/yr).
- In late October (Q1'18), NJR announced an agreement to buy a Philly-area pipeline from Talen Energy for \$166MM. NJR plans to convert part of the existing oil pipeline to natural gas in 2019; the deal is suggested to be accretive to 2020 earnings.
- Management initiated 2018 EPS guidance in the range of \$1.75-\$1.85. Our 2018/2019 EPS estimates fall \$0.07/\$0.10 to \$1.79/\$1.89.
- We are reiterating our Neutral rating. 2017 was a nice year, in our view, but we currently view shares as fairly valued.

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

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				
Income Statements (000's), FYE Sept.	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18E	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E
Operating Rev													
Utility	\$781,970	\$594,346	\$185,556	\$295,546	\$121,362	\$93,173	\$695,637					-	-
Non Utility	1,952,017	1,286,559	355,472	438,000	336,161	443,347	1,572,980	374,545	424,502	338,750	441,886	1,579,682	1,574,744
Total Revenues	2,733,987	1,880,905	541,028	733,546	457,523	536,520	2,268,617						
Utility Gross Margin								100,847	146,787	62,938	48,628	359,200	370,491
Operating Exp													
Utility--Gas Purch	304,953	205,034	61,320	112,445	47,124	37,798	258,687						
Non Utility--Gas Purch	1,767,841	1,139,301	337,932	367,328	299,971	431,509	1,436,740	339,087	368,482	301,106	398,024	1,406,699	1,403,308
Related Parties--Gas Purch	12,851	8,351	2,111	2,072	2,076	2,081	8,340						
O & M	209,453	208,421	52,228	52,342	55,613	66,173	226,356	51,070	54,250	53,390	62,060	220,770	222,050
Regulatory Rider Expense	75,779	39,300	12,601	19,893	5,216	2,533	40,243					-	-
D & A	61,399	72,748	19,260	20,328	20,760	21,493	81,841	20,180	22,600	22,730	24,750	90,260	96,180
Energy and Otr Tax	53,260	40,215	14,101	19,485	8,796	6,984	49,366	1,410	1,260	1,320	1,600	5,590	5,590
Total Op Exp	2,485,536	1,713,370	499,553	593,893	439,556	568,571	2,101,573	63,644	124,697	23,142	4,079	215,563	218,106
Operating Income	248,451	167,535	41,475	139,653	17,967	(32,051)	167,044						
Other Income (Loss)	6,545	9,196	3,776	5,338	3,273	2,050	14,437	3,780	2,340	3,270	2,050	11,440	11,440
Interest Charges, Net	27,721	31,044	10,615	11,436	11,164	11,671	44,886	12,170	12,070	12,200	12,380	48,820	50,780
Income Before Tax [EBT]	227,275	145,687	34,636	133,555	10,076	(41,672)	136,595	55,254	114,967	14,212	(6,251)	178,183	178,766
Income Tax Provision	59,724	23,530	2,018	23,932	(5,816)	(1,791)	18,343	8,730	27,190	4,980	(3,120)	37,780	35,800
Equity in Earnings, Net of Tax	13,409	9,515	2,311	5,079	3,065	3,358	13,813	2,430	5,330	3,220	3,530	14,510	25,760
Net Income	\$180,960	\$131,672	\$34,929	\$114,702	\$18,957	(\$36,523)	\$132,065	\$48,954	\$93,107	\$12,452	\$399	\$154,913	\$168,726
Average Shares Outstanding (FD)	86,265	86,731	86,855	87,101	87,267	86,513	87,144	86,558	86,603	88,725	88,770	87,664	89,476
GAAP EPS	\$ 2.10	\$ 1.52	\$ 0.40	\$ 1.32	\$ 0.22	\$ (0.42)	\$ 1.52						
EPS-dil., excl. nonrecurring items													
Add: (non-GAAP)													
Unrlzd (Gain) / Loss on Derivs	(38,682)	46,883	28,302	(54,855)	(15,981)	31,293	(11,241)						
Rlzd (loss) gain from derivatives													
Tax Adjustment, net all	17,449	(15,654)	(4,909)	9,931	1,216	(16,140)	(9,902)						
Econ Eff of Nat Gas Hedging	(8,225)	(36,816)	(17,939)	34,328	13,203	8,878	38,470						
Net Financial Earnings (NFE)	\$151,503	\$136,425	\$40,383	\$104,106	\$17,395	(\$12,492)	\$149,392	\$48,954	\$93,107	\$12,452	\$399	\$154,913	\$168,726
EPS--NFE	\$ 1.76	\$ 1.57	\$ 0.46	\$ 1.20	\$ 0.20	\$ (0.14)	\$ 1.72	\$ 0.57	\$ 1.08	\$ 0.14	\$ 0.00	\$ 1.79	\$ 1.89
EX CEV Financial Earnings- <i>approx</i>	\$ 1.53	\$ 1.25	\$ 0.43	\$ 0.93	\$ 0.13	\$ (0.06)	\$ 1.43						
Dividend / Sh	\$ 0.915	\$ 0.960	\$ 0.255	\$ 0.255	\$ 0.255	\$ 0.273	\$ 1.038	\$ 0.273	\$ 0.273	\$ 0.273	\$ 0.286	\$ 1.104	\$ 1.159
Rate of Change Analysis:													
Utility Gross Margin	3.4%	0.6%	9.0%	17.6%	9.2%	9.6%	12.5%	3.0%	2.5%	4.0%	4.8%	3.2%	3.1%
EPS--Net Financial Earnings	-15.6%	-10.6%	-18.8%	33.3%	56.2%	nm	9.0%	-18.8%	-10.1%	-29.6%	-103.1%	4.1%	5.8%
O&M Expense	-2.7%	-0.5%	13.0%	-1.5%	8.1%	14.9%	8.6%	-2.2%	3.6%	-4.0%	-6.2%	-2.5%	0.6%
Margin Analysis:													
Utility O&M / Utility GM	42.2%	42.2%	33.9%	23.6%	57.5%	87.8%	41.0%	32.9%	23.0%	55.3%	78.7%	39.0%	37.8%
Tax Rate [Tax/EBT]	26.3%	16.2%	5.8%	17.9%	-57.7%	4.3%	13.4%	15.8%	23.7%	35.0%	49.9%	21.2%	20.0%
*Utility Gas Purchases, Regulatory Rider Expenses and a portion of Energy and other taxes incorporated into Utility gross margin projection		*Basic NFE EPS Guidance \$1.55-\$1.65	*New Base Rates NJNG **Ringer Hill Online ***\$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	*PennEst delayed from in svc Nov'17				**NFE EPS Guide \$1.75-\$1.85	

Source: Company reports and Hilliard Lyons estimates

New Jersey Resources Corp.													
Balance Sheet Analysis	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	Q1'18E	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E
Cash	\$4,928	\$37,546	\$46,875	\$92,735	\$62,159	\$33,871	\$33,870	\$22,812	\$2,218	(\$1,236)	\$9,699	\$9,700	\$3,050
A/R	155,273	142,658	252,755	242,698	167,128	149,790	149,790	265,390	254,830	175,480	157,280	157,280	165,140
Gas in storage	163,905	206,251	220,097	143,514	201,682	216,560	216,560	231,100	150,690	211,770	227,390	227,390	238,760
Other CAs	164,109	220,809	295,336	199,010	206,581	225,230	225,230	301,240	202,990	210,710	229,730	229,730	234,320
Total Current Assets	488,215	607,264	815,063	677,957	637,550	625,451	625,450	820,542	610,728	596,724	624,099	624,100	641,270
Net PP&E	2,128,261	2,407,652	2,451,749	2,496,304	2,556,981	2,605,810	2,605,810	2,725,630	2,733,210	2,872,900	2,838,460	2,838,460	2,988,500
Other LT Assets	722,562	712,166	682,694	683,098	683,395	747,770	747,770	716,830	717,250	717,560	785,160	785,160	824,420
Total Assets	\$3,339,038	\$3,727,082	\$3,949,506	\$3,857,359	\$3,877,926	\$3,979,031	\$3,979,030	\$4,263,002	\$4,061,188	\$4,187,184	\$4,247,719	\$4,247,720	\$4,454,190
Gas Purchases Payable	151,375	139,452	187,219	160,605	151,380	142,240	142,240	190,960	163,820	154,410	145,080	145,080	147,980
Current Maturities of LTD	11,138	61,452	96,832	60,723	186,292	150,000	150,000	150,000	150,000	31,000	6,000	6,000	6,000
A/P	99,651	107,184	72,776	70,981	88,604	112,540	112,540	76,410	74,530	93,030	118,170	118,170	124,080
Short-Term Debt	66,350	121,700	284,600	237,900	263,400	313,400	313,400	513,400	473,400	523,400	593,400	593,400	738,400
Other CLs	107,586	141,820	181,505	96,051	86,202	148,910	148,910	190,580	100,850	90,510	156,360	156,360	164,180
Total Current Liabilities	436,100	571,608	822,932	626,260	775,878	867,090	867,090	1,121,350	962,600	892,350	1,019,010	1,019,010	1,180,640
LTD	843,595	1,063,550	1,026,682	1,023,968	897,703	983,295	983,300	982,595	981,895	1,100,195	1,124,495	1,124,500	1,121,700
Def Inc Taxes	444,935	473,847	490,017	507,111	523,384	528,380	528,380	563,380	568,380	573,380	578,380	578,380	628,380
Other LT Liabilities	507,452	451,486	424,514	413,740	396,360	396,360	396,360	396,360	396,360	396,360	396,360	396,360	396,360
Shareholders' Equity	1,106,956	1,166,591	1,185,361	1,286,280	1,284,601	1,203,906	1,203,910	1,199,317	1,151,953	1,224,899	1,129,474	1,129,470	1,127,120
Total Liab & SE	\$3,339,038	\$3,727,082	\$3,949,506	\$3,857,359	\$3,877,926	\$3,979,031	\$3,979,030	\$4,263,002	\$4,061,188	\$4,187,184	\$4,247,719	\$4,247,720	\$4,454,190
Book Value / Share	\$12.96	\$13.42	\$13.65	\$14.77	\$14.72	\$13.92	\$13.92	\$13.86	\$13.30	\$13.81	\$12.72	\$12.72	\$12.54
Price / Book	1.9x	2.4x	2.6x	2.7x	2.9x	3.2x	3.2x	3.2x	3.3x	3.2x	3.5x	3.5x	3.5x
LT Debt / Total Capital	43.2%	47.7%	46.4%	44.3%	41.1%	45.0%	45.0%	45.0%	46.0%	47.3%	49.9%	49.9%	49.9%
Net Total Debt / Total Cap	45.0%	49.6%	51.6%	47.6%	46.1%	51.2%	51.2%	55.1%	55.8%	57.0%	60.2%	60.2%	62.2%
Cash Flow Analysis	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	Q1'18E	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E
Net Financial Earnings	\$151,503	\$136,425	\$40,383	\$104,106	\$17,395	(\$12,492)	\$149,390	\$48,954	\$93,107	\$12,452	\$399	\$154,910	\$168,730
D&A	61,399	72,748	19,260	20,328	20,760	21,493	81,840	20,180	22,600	22,730	24,750	90,260	96,180
Deferred Income Tax	45,934	27,721	16,262	15,940	15,822	5,000	53,024	35,000	5,000	5,000	5,000	50,000	50,000
Contribution to Employee Plans	(5,778)	(33,359)	(1,712)	(172)	(2,756)	(1,034)	(5,674)	(1,712)	(172)	(2,756)	(1,034)	(5,674)	(5,674)
(Inc)/Dec Wrk Cap	100,324	(56,587)	(145,426)	69,103	8,380	61,315	(6,628)	(151,890)	70,470	9,300	65,220	(6,900)	(7,190)
Operating C.F.	353,382	146,948	(71,233)	209,305	59,601	74,282	271,952	(49,468)	191,005	46,726	94,335	282,596	302,046
Utility Cap Ex	(140,797)	(176,067)	(31,396)	(27,365)	(34,072)	(90,000)	(182,833)	(90,000)	(90,000)	(110,000)	(80,000)	(370,000)	(200,000)
Solar/Wind Cap Ex	(151,002)	(149,063)	(46,785)	(43,120)	(32,053)	(41,000)	(162,958)	(50,000)	(60,000)	(60,000)	(50,000)	(220,000)	(200,000)
Dividends	(76,532)	(82,445)	(21,931)	(21,967)	(22,011)	(23,570)	(89,480)	(23,590)	(23,600)	(24,180)	(25,400)	(96,770)	(103,690)
Free C.F.	(14,949)	(260,627)	(171,345)	116,853	(28,535)	(80,288)	(163,319)	(213,058)	17,405	(147,454)	(61,065)	(404,174)	(201,644)
Payments of LT Debt	(37,039)	(13,289)	(2,716)	(38,944)	(1,794)	(50,000)	(93,454)	-	-	(125,000)	(25,000)	(150,000)	(150,000)
Proceeds from LT Debt	250,000	275,000	-	-	-	50,000	50,000	-	-	125,000	25,000	150,000	150,000
Proceeds (Payments) ST Debt	(234,650)	55,350	162,900	(46,700)	25,500	50,000	191,700	200,000	(40,000)	50,000	70,000	280,000	145,000
Stock Issued	37,299	16,010	4,616	5,115	4,071	2,000	15,802	2,000	2,000	94,000	2,000	100,000	50,000
Stock Repurchased	(10,589)	(1,008)	(6,355)	-	-	-	(6,355)	-	-	-	-	-	-
Net Cash Flow	(9,928)	71,436	(12,900)	36,324	(758)	(28,288)	(5,626)	(11,058)	(20,595)	(3,454)	10,935	(24,174)	(6,644)
EBITDA	\$309,850	\$240,283	\$60,735	\$159,981	\$38,727	(\$10,558)	\$248,885	\$83,824	\$147,297	\$45,872	\$28,829	\$305,823	\$314,286
EV / TTM EBITDA	9.7x	16.2x	18.1x	16.0x	14.0x	19.2x	19.2x	17.6x	18.6x	18.9x	16.5x	16.5x	16.2x
ROE (TTM)	13.9%	11.8%	10.8%	12.7%	13.1%	12.2%	12.2%	12.8%	12.0%	11.7%	13.1%	13.1%	14.7%

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	
Buy	32	29%	13%
Hold/Neutral	73	65%	7%
Sell	7	6%	0%
			100%

As of 8 November 2017

Other Disclosures

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