



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

NWN - NYSE - as of	8/28/17	\$66.15
Price Target		\$50.00
52-Week Range	\$53.50 -	\$66.25
Shares Outstanding (mm)		28.7
Market Cap. (\$mm)		\$1,896.0
1-Mo. Average Daily Volume		108,168
Institutional Ownership		66.6%
LT Debt/Total Capital	Q2'17	45.4%
ROE	TTM	7.6%
Book Value / Share	Q2'17	\$30.14
Price / Book Value		2.2x
Dividend Yield		2.8%
LTM EBITDA Margin		32.6%

EPS FY 12/31

	Prior	Current	Prior	Current
2016A	2017E	2017E	2018E	2018E
1Q	*\$1.40	--	\$1.40	A --
2Q	\$0.07	--	\$0.10	A --
3Q	(\$0.29)	(\$0.28)	(\$0.29)	--
4Q	\$1.00	\$1.04	\$0.99	--
Year	\$2.19	\$2.25	\$2.20	\$2.25
P/E	30.2x	30.1x		30.3x

*Adjusted for special items

Net Operating Revenue (\$MM, excludes cost of sales)

	Prior	Current	Prior	Current
2016A	2017E	2017E	2018E	2018E
1Q	\$147	--	\$154	A --
2Q	\$78	--	\$83	A --
3Q	\$59	\$61	\$61	--
4Q	\$130	\$135	\$133	--
Year	\$415	\$434	\$431	\$437

Company Description: NW Natural is a natural gas distribution company headquartered in Portland, Oregon, and has been in business nearly 160 years. It serves 725,000+ residential and business customers in Oregon and southwest Washington. The company also provides natural gas storage and related transportation services. It is the largest independent natural gas utility in the Pacific Northwest.

Natural Gas Utilities

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Northwest Natural Gas Co.

NWN – NYSE – Underperform-2

Trimming Estimates and Reiterating Underperform.

Investment Highlights

- Subsequent to our usual post-earnings follow ups, including review of the quarterly 10-Q, we make modest cuts to our 2017/2018 estimates.
- Largely in deference to reiterated guidance, we adjust our view toward the weather comp in Q4'17, which pulls a couple million dollars from our net operating revenue target for the year. We also tweak lower our profit outlook for the storage segment across the next several quarters on continued unfavorable pricing and market dynamics for the Gill Ranch facility.
- Our FY 2017E EPS falls by a nickel to \$2.20, which positions our expectations closer to the mid-point of management's guidance for \$2.05-\$2.25 that was reiterated earlier this month.
- Our 2018E EPS falls by \$0.07 to \$2.18, primarily on ripple effect of a lower base year. Qualitatively, we believe the growth outlook for 2018 remains difficult ahead of a (potential) base rate filing in Oregon.
- The N. Mist storage expansion project remains on track to be in service for the 2018-2019 heating season. This project along with customer growth (1.8% yr/yr exiting Q2'17), adds some resiliency to the narrative, in our opinion.
- We are reiterating our Underperform rating and \$50 price target. Merging a stock price at all-time highs with our estimate cuts, valuation remains an issue for us with NWN still priced at ~30x EPS expectations for this year. Aside from stagnant earnings growth, we see no obvious negative catalyst, but do hold high conviction that Northwest offers one of the least compelling risk/reward setups in the gas industry.
- At our target, NWN would trade ~23x our 2017E EPS versus a trailing average P/E of ~22x over the past several years, a valuation we believe would be more in line with the stock's prospects.

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

SUITABILITY

We assign NWN a suitability rating of ‘2.’ A complete description of our suitability scale is on page 5. Size versus peers across the Utility sector and a relatively narrow geographic focus keep Northwest Natural well below our ‘1’ suitability rating. Sector-appropriate leverage, a consistent history of capital return and a highly regulated business mix keep NWN a bit above our more aggressive ‘3’ rating.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation by customers in order to reduce consumption.

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. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Northwest Natural Gas (NWN)

Income Statement	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
Operating Revenues:													
Operating Revenue	\$754,037	\$723,791	\$255,529	\$99,183	\$87,727	\$233,528	\$675,967	\$297,323	\$136,238				
Cost of Gas	365,490	327,305	108,411	20,871	28,264	103,042	260,588	143,611	53,005				
Revenue Tax	-	-	-	-	-	-	-	-	-				
Net Operating Revenue	388,547	396,486	147,118	78,312	59,463	130,486	415,379	153,712	83,233	61,340	132,810	431,100	432,900
Operating Expenses:													
O & M	136,982	157,521	38,939	35,962	34,870	40,203	149,974	40,420	38,546	35,570	41,010	155,550	155,040
Enviro Remediation		3,513	5,029	1,893	1,191	5,185	13,298	6,954	2,611	1,190	5,190	15,950	15,940
General Tax	29,407	30,281	8,684	7,438	7,211	7,205	30,538	9,025	7,564	7,440	7,330	31,360	31,480
D & A	79,193	80,923	20,394	20,413	20,628	20,854	82,289	21,085	21,355	21,990	22,180	86,610	90,290
Total Operating Expense	245,582	272,238	73,046	65,706	63,900	73,447	276,099	77,484	70,076	66,190	75,710	289,470	292,750
Operating Income	142,965	124,248	74,072	12,606	(4,437)	57,039	139,280	76,228	13,157	(4,850)	57,100	141,630	140,150
%	36.8%	31.3%	50.3%	16.1%	-7.5%	43.7%	33.5%	49.6%	15.8%	-7.9%	43.0%	32.9%	32.4%
Other Inc / (Exp)	1,933	7,747	(2,309)	513	652	601	(543)	881	958	652	601	3,092	3,092
Interest--Net of Captzd	44,563	42,539	9,736	9,718	9,729	9,945	39,128	9,876	9,717	9,820	9,970	39,383	39,070
Pre-tax Income	100,335	89,456	62,027	3,401	(13,514)	47,695	99,609	67,233	4,398	(14,018)	47,731	105,339	104,172
Income Tax	41,643	35,753	25,386	1,382	(5,474)	19,420	40,714	26,923	1,669	(5,747)	19,370	42,214	41,545
Net Income	58,692	53,703	36,641	2,019	(8,040)	28,275	58,895	40,310	2,729	(8,271)	28,361	63,125	62,627
Average shares outstanding (FD)	27,223	27,417	27,560	27,550	27,554	28,202	27,427	28,723	28,717	28,725	28,732	28,724	28,749
EPS	\$2.16	\$1.96	\$1.33	\$0.07	(\$0.29)	\$1.00	\$2.11	\$1.40	\$0.10	(\$0.29)	\$0.99	\$2.20	\$2.18
Adjusted EPS		\$2.29	\$1.40				\$2.19						
Dividends	\$1.845	\$1.863	\$0.4675	\$0.4675	\$0.4675	\$0.4700	\$1.873	\$0.4700	\$0.4700	\$0.4700	\$0.4725	\$1.883	\$1.893
Rate of Change Analysis:													
Net Operating Revenue	0.9%	2.0%	8.2%	2.9%	3.8%	2.6%	4.8%	4.5%	6.3%	3.2%	1.8%	3.8%	0.4%
O&M Expense	0.3%	15.0%	-28.0%	1.8%	8.9%	11.5%	-4.8%	3.8%	7.2%	2.0%	2.0%	3.7%	-0.3%
Operating income	0.2%	-13.1%	39.8%	-2.4%	136.9%	-5.3%	12.1%	2.9%	4.4%	9.3%	0.1%	1.7%	-1.0%
EPS	-3.7%	6.1%	2.2%	-8.6%	19.4%	-7.3%	-4.5%	0.1%	29.7%	-1.3%	-1.5%	0.5%	-0.9%
EBITDA	1.6%	-7.6%	29.2%	-0.4%	-12.3%	-3.2%	8.0%	3.0%	4.5%	5.9%	1.8%	3.0%	1.0%
Margin Analysis:													
O&M/Net Op Rev (NOR)	35.3%	39.7%	26.5%	45.9%	58.6%	30.8%	36.1%	26.3%	46.3%	58.0%	30.9%	36.1%	35.8%
General Tax / NOR	7.6%	7.6%	5.9%	9.5%	12.1%	5.5%	7.4%	5.9%	9.1%	12.1%	5.5%	7.3%	7.3%
Op Income / NOR	36.8%	31.3%	50.3%	16.1%	-7.5%	43.7%	33.5%	49.6%	15.8%	-7.9%	43.0%	32.9%	32.4%
Tax Rate	41.5%	40.0%	40.9%	40.6%	40.5%	40.7%	40.9%	40.0%	37.9%	41.0%	40.6%	40.1%	39.9%
Net Income / NOR	15.1%	13.5%	24.9%	2.6%	-13.5%	21.7%	14.2%	26.2%	3.3%	-13.5%	21.4%	14.6%	14.5%
			*\$3.3MM pre-tax charge; \$0.07/sh AT for reg disallowance				Adj EPS guidance \$2.05-\$2.25					EPS guidance \$2.05-\$2.25	Expect Mist storage for PG&E to be on-line 2018 2019 heating season; \$128MM investment

Source: Company reports and Hilliard Lyons estimates

Northwest Natural Gas (NWN)

Summary Balance Sheet (000s)	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
Cash	\$9,534	\$4,211	\$5,218	\$5,463	\$6,230	\$3,521	\$3,521	\$40,639	\$20,854	\$15,680	\$610	\$610	(\$100)
A/R	69,818	68,228	69,066	23,353	25,506	66,700	66,700	70,429	31,908	26,020	68,030	68,030	69,390
Inventory	77,832	70,868	60,581	66,171	67,470	54,129	54,129	48,484	57,666	67,470	54,130	54,130	54,130
Other CA	205,376	188,756	137,335	107,073	111,379	163,703	163,703	106,341	81,576	113,610	166,980	166,980	170,320
Total Current Assets	362,560	332,063	272,200	202,060	210,585	288,053	288,053	265,893	192,004	222,780	289,750	289,750	293,740
Net PP&E	2,121,593	2,182,663	2,196,667	2,214,452	2,233,862	2,260,900	2,260,900	2,286,841	2,360,584	2,375,590	2,393,410	2,393,410	2,463,120
Regulatory Assets	368,908	370,711	351,390	344,969	341,188	357,530	357,530	349,057	348,284	351,420	368,260	368,260	379,310
Other	211,884	191,255	181,776	181,663	174,249	173,318	173,318	168,865	164,282	177,730	176,780	176,780	180,320
Total Assets	\$3,064,945	\$3,076,692	\$3,002,033	\$2,943,144	\$2,959,884	\$3,079,801	\$3,079,801	\$3,070,656	\$3,065,154	\$3,127,520	\$3,228,200	\$3,228,200	\$3,316,490
ST Debt	234,700	270,035	164,900	152,800	194,900	53,300	53,300	-	-	100,000	120,000	120,000	160,000
A/P	91,366	73,219	57,407	57,756	55,933	85,664	85,664	73,245	95,761	53,140	81,380	81,380	77,310
CP of LTD	40,000	25,000	24,980	24,987	64,994	39,989	39,989	61,994	61,991	22,000	22,000	22,000	30,000.00
Other CL	103,344	109,460	114,936	78,090	86,877	95,564	95,564	99,780	77,330	88,610	97,480	97,480	99,430
Total Current Liabilities	469,410	477,714	362,223	313,633	402,704	274,517	274,517	235,019	235,082	263,750	320,860	320,860	366,740
LTD	621,700	576,700	569,745	570,045	530,219	679,334	679,334	657,716	658,118	697,710	697,710	697,710	689,710
Regulatory Liabilities	317,205	339,287	346,761	341,259	342,143	349,319	349,319	357,587	359,205	359,210	359,210	359,210	359,210
Def Tax Liabilities	530,965	530,021	550,731	554,400	544,575	557,085	557,085	575,451	577,176	550,020	562,660	562,660	568,290
Other	358,344	371,998	365,618	363,808	361,041	369,049	369,049	370,268	370,144	364,650	372,740	372,740	376,470
Shareholders' Equity	767,321	780,972	806,955	799,999	779,202	850,497	850,497	874,615	865,429	892,180	915,020	915,020	956,070
Total Liab & SE	\$3,064,945	\$3,076,692	\$3,002,033	\$2,943,144	\$2,959,884	\$3,079,801	\$3,079,801	\$3,070,656	\$3,065,154	\$3,127,520	\$3,228,200	\$3,228,200	\$3,316,490
Summary Cash Flow (000s)	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
Net Income	\$58,692	\$53,703	\$36,641	\$2,019	(\$8,040)	\$28,275	\$58,895	\$40,310	\$2,729	(\$8,270)	\$28,360	\$63,120	\$62,630
D&A	79,193	80,923	20,394	20,413	20,628	20,854	82,289	21,085	21,355	21,990	22,180	86,610	90,290
(Inc) / Dec in Wrk Cap.	(21,930)	13,143	50,534	33,888	(794)	(41,759)	41,869	51,075	54,170	(67,291)	(44,930)	(6,980)	(6,820)
Other Operating	99,702	36,919	38,569	(2,898)	(4,955)	8,378	39,094	32,696	(29,189)	(2,000)	12,000	13,507	24,000
Operating CF	215,657	184,688	146,138	53,422	6,839	15,748	222,147	145,166	49,065	(55,571)	17,610	156,257	170,100
Cap Ex	(120,092)	(118,320)	(30,054)	(32,099)	(35,958)	(41,400)	(139,511)	(38,924)	(55,394)	(37,000)	(40,000)	(171,320)	(160,000)
Utility Gas Reserves	(26,798)	(1,549)	-	-	-	-	-	-	-	-	-	-	-
Other Investing	2,567	4,571	24	2,429	415	14	2,882	98	(502)	-	-	(400.00)	-
Investing CF	(144,323)	(115,298)	(30,030)	(29,670)	(35,543)	(41,386)	(136,629)	(38,826)	(55,896)	(37,000)	(40,000)	(171,720)	(160,000)
Change in ST Debt	46,500	35,335	(105,135)	(12,100)	42,100	(141,600)	(216,735)	(53,300)	-	100,000	20,000	66,700	40,000
LTD Proceeds	-	-	-	-	-	150,000	150,000	-	-	40,000	-	40,000	20,000
LTD (Retired)	(80,000)	(60,000)	-	-	-	(25,000)	(25,000)	-	-	(40,000)	-	(40,000)	(20,000)
Stock Issued--Net	8,986	3,875	1,999	2,333	500	55,290	60,122	(1,257)	532	500	500	275	2,000
Dividends	(50,093)	(49,243)	(12,823)	(12,854)	(12,879)	(12,952)	(51,508)	(13,456)	(13,463)	(13,500)	(13,580)	(54,000)	(54,410)
Other Financing	3,336	(4,680)	(39)	11	(250)	(2,809)	(3,087)	(1,209)	(23)	400	400	(432)	1,600
Financing CF	(71,271)	(71,271)	(115,998)	(22,610)	29,471	22,929	(86,208)	(69,222)	(12,954)	87,400	7,320	12,543	(10,810)
Net Cash Flow	63	(1,881)	110	1,142	767	(2,709)	(690)	37,118	(19,785)	(5,171)	(15,070)	(2,920)	(710)
EBITDA	\$222,158	\$205,171	\$94,466	\$33,019	\$16,191	\$77,893	\$221,569	\$97,313	\$34,512	\$17,140	\$79,280	\$228,240	\$230,440
EV / TTM EBITDA	9.1x	9.7x	9.2x	10.5x	10.0x	10.8x	10.8x	10.6x	11.5x	11.5x	11.5x	11.5x	11.4x
Selected Financial Statistics	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
Book Value	\$28.11	\$28.43	\$29.28	\$29.04	\$28.28	\$30.16	\$30.16	\$30.45	\$30.14	\$31.06	\$31.85	\$31.85	\$33.24
Price / Book	1.8x	1.8x	1.8x	2.2x	2.1x	2.0x	2.0x	1.9x	2.2x	2.1x	2.1x	2.1x	2.0x
LT Debt / Total Capital	46.3%	43.5%	42.4%	42.7%	43.3%	45.8%	45.8%	45.1%	45.4%	44.7%	44.0%	44.0%	42.9%
Total Net Debt / Total Capital	53.6%	52.6%	48.3%	48.1%	50.1%	47.5%	47.5%	43.7%	44.7%	47.4%	47.8%	47.8%	47.9%
ROE (TTM)	7.7%	6.9%	7.9%	7.9%	7.7%	7.3%	7.3%	7.6%	7.6%	7.4%	7.2%	7.2%	6.8%

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

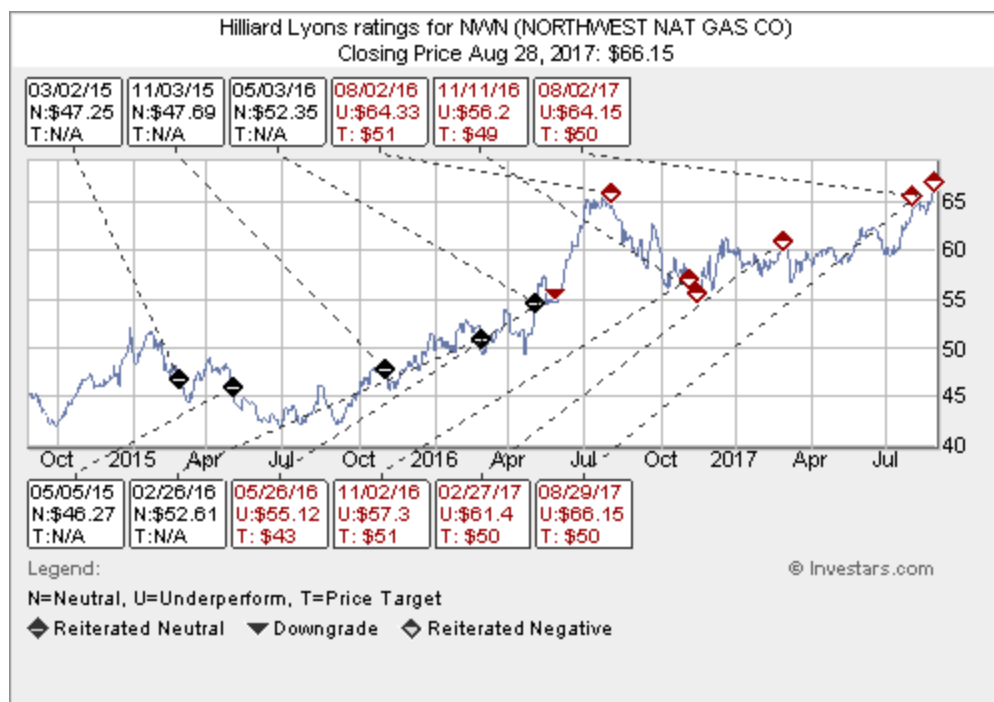
Investment Ratings

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	38	30%	11%	89%
Hold/Neutral	77	61%	8%	92%
Sell	11	9%	0%	100%

As of 9 August 2017

Other Disclosures

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