



COMPANY UPDATE / TARGET CHANGE ESTIMATE CHANGE

Key Metrics

NWN - NYSE - as of	1/9/18	\$57.45
Price Target		\$53.00
52-Week Range	\$56.53 -	\$69.50
Shares Outstanding (mm)		28.7
Market Cap. (\$mm)		\$1,646.7
1-Mo. Average Daily Volume		168,218
Institutional Ownership		67.8%
LT Debt/Total Capital	Q3'17	47.9%
ROE	TTM	7.4%
Book Value / Share	Q3'17	\$29.52
Price / Book Value		1.9x
Dividend Yield		3.3%
LTM EBITDA Margin		32.2%

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)	--	(\$0.30)	A --	--
4Q	\$1.00	\$0.99	\$1.00	--	--
Year	\$2.19	\$2.20	\$2.20	\$2.19	\$2.25
P/E	26.2x		26.1x		25.5x

*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	A --	--
4Q	\$130	\$133	\$133	--	--
Year	\$415	\$431	\$431	\$433	\$436

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

Rolling out 2019 Estimates and Adjusting for Rate Case Filing; Raising Price Target.

Investment Highlights

- On 12/29/17, NWN announced a general rate case filing in OR, the company's first since 2011. NWN is requesting a net revenue increase of \$40.4MM, based on a 50/50 debt/equity capital structure and a 10.0% allowed ROE. We expected the filing from a timing perspective; the 'ask' is a bit above our expectation.
- Separately, but heavily influenced by the rate filing, we are initiating a 2019 EPS estimate of \$2.53, suggesting yr/yr growth in the out-year of 12.2%. At this time, our 2018E EPS rises \$0.06 to \$2.25; our 2017E EPS is unchanged at \$2.20, toward the high-end of most recent guidance for \$2.05-\$2.25.
- Our financial model continues to exclude potential impact from the planned acquisitions of Salmon Valley Water Company in Oregon and Falls Water in Idaho, with available financial details still sparse. We remind investors that NWN expects initial impact from the ~6,500 acquired customers to be immaterial.
- The N. Mist storage expansion project is still set to be in service for Q4'18. This project and a bump from anticipated new rates substantially underpin our growth assumptions stretching through 2019.
- We are raising our 1-year price target to \$53, a hike of \$3, but are reiterating our Underperform rating. Despite the rate case bringing some clarity to the near-term outlook, we continue to view valuation as unattractive, particularly with the backdrop of our reduced affinity for the Utility sector entering 2018. NWN also continues to hold a challenging long-term growth outlook versus peers, in our opinion.
- At our target, NWN shares would trade in line with 5-year average P/E and EV/EBITDA metrics based on our 2019 model year, discounted by 7% to reflect our 1-year investment timeframe.

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	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Operating Revenues:														
Operating Revenue	\$754,037	\$723,791	\$255,529	\$99,183	\$87,727	\$233,528	\$675,967	\$297,323	\$136,238	\$88,190				
Cost of Gas	365,490	327,305	108,411	20,871	28,264	103,042	260,588	143,611	53,005	27,239				
Revenue Tax	-	-	-	-	-	-	-	-	-	-				
Net Operating Revenue	388,547	396,486	147,118	78,312	59,463	130,486	415,379	153,712	83,233	60,951	132,940	430,840	436,240	453,720
Operating Expenses:														
O & M	136,982	157,521	38,939	35,962	34,870	40,203	149,974	40,420	38,546	36,867	41,010	156,840	156,330	156,400
Enviro Remediation		3,513	5,029	1,893	1,191	5,185	13,298	6,954	2,611	1,355	5,190	16,110	16,110	16,110
General Tax	29,407	30,281	8,684	7,438	7,211	7,205	30,538	9,025	7,564	7,901	7,340	31,830	32,170	33,300
D & A	79,193	80,923	20,394	20,413	20,628	20,854	82,289	21,085	21,355	21,484	22,380	86,300	90,590	93,120
Total Operating Expense	245,582	272,238	73,046	65,706	63,900	73,447	276,099	77,484	70,076	67,607	75,920	291,080	295,200	298,930
Operating Income	142,965	124,248	74,072	12,606	(4,437)	57,039	139,280	76,228	13,157	(6,656)	57,020	139,760	141,040	154,790
%	36.8%	31.3%	50.3%	16.1%	-7.5%	43.7%	33.5%	49.6%	15.8%	-10.9%	42.9%	32.4%	32.3%	34.1%
Other Inc / (Exp)	1,933	7,747	(2,309)	513	652	601	(543)	881	958	1,493	601	3,933	3,933	3,933
Interest--Net of Captzd	44,563	42,539	9,736	9,718	9,729	9,945	39,128	9,876	9,717	9,451	9,550	38,594	37,390	37,950
Pre-tax Income	100,335	89,456	62,027	3,401	(13,514)	47,695	99,609	67,233	4,398	(14,614)	48,071	105,099	107,583	120,773
Income Tax	41,643	35,753	25,386	1,382	(5,474)	19,420	40,714	26,923	1,669	(6,119)	19,509	41,982	42,930	48,155
Net Income	58,692	53,703	36,641	2,019	(8,040)	28,275	58,895	40,310	2,729	(8,495)	28,562	63,117	64,653	72,618
Average shares outstanding (FD)	27,223	27,417	27,560	27,550	27,554	28,202	27,427	28,723	28,717	28,678	28,686	28,717	28,707	28,740
EPS	\$2.16	\$1.96	\$1.33	\$0.07	(\$0.29)	\$1.00	\$2.11	\$1.40	\$0.10	(\$0.30)	\$1.00	\$2.20	\$2.25	\$2.53
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	\$1.903
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%	2.5%	1.9%	3.7%	1.3%	4.0%
O&M Expense	0.3%	15.0%	-28.0%	1.8%	8.9%	11.5%	-4.8%	3.8%	7.2%	5.7%	2.0%	4.6%	-0.3%	0.0%
Operating income	0.2%	-13.1%	39.8%	-2.4%	136.9%	-5.3%	12.1%	2.9%	4.4%	nm	0.0%	0.3%	0.9%	9.7%
EPS	-3.7%	6.1%	2.2%	-8.6%	19.4%	-7.3%	-4.5%	0.1%	29.7%	nm	-0.7%	0.5%	2.5%	12.2%
EBITDA	1.6%	-7.6%	29.2%	-0.4%	-12.3%	-3.2%	8.0%	3.0%	4.5%	-8.4%	1.9%	2.0%	2.5%	7.0%
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%	60.5%	30.8%	36.4%	35.8%	34.5%
General Tax / NOR	7.6%	7.6%	5.9%	9.5%	12.1%	5.5%	7.4%	5.9%	9.1%	13.0%	5.5%	7.4%	7.4%	7.3%
Op Income / NOR	36.8%	31.3%	50.3%	16.1%	-7.5%	43.7%	33.5%	49.6%	15.8%	-10.9%	42.9%	32.4%	32.3%	34.1%
TaxRate	41.5%	40.0%	40.9%	40.6%	40.5%	40.7%	40.9%	40.0%	37.9%	41.9%	40.6%	39.9%	39.9%	39.9%
Net Income / NOR	15.1%	13.5%	24.9%	2.6%	-13.5%	21.7%	14.2%	26.2%	3.3%	-13.9%	21.5%	14.6%	14.8%	16.0%
			*\$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 P&GE 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	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Cash	\$9,534	\$4,211	\$5,218	\$5,463	\$6,230	\$3,521	\$3,521	\$40,639	\$20,854	\$15,780	\$18,600	\$18,600	\$20,300	\$38,970
A/R	69,818	68,228	69,066	23,353	25,506	66,700	66,700	70,429	31,908	23,450	68,030	68,030	69,390	70,780
Inventory	77,832	70,868	60,581	66,171	67,470	54,129	54,129	48,484	57,666	59,549	54,130	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	100,767	166,980	166,980	170,320	173,730
Total Current Assets	362,560	332,063	272,200	202,060	210,585	288,053	288,053	265,893	192,004	199,546	307,740	307,740	314,140	337,610
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	2,397,790	2,415,410	2,415,410	2,484,820	2,551,700
Regulatory Assets	368,908	370,711	351,390	344,969	341,188	357,530	357,530	349,057	348,284	345,352	368,260	368,260	379,310	390,690
Other	211,884	191,255	181,776	181,663	174,249	173,318	173,318	168,865	164,282	162,919	176,780	176,780	180,320	183,930
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	\$3,105,607	\$3,268,190	\$3,268,190	\$3,358,590	\$3,463,930
ST Debt	234,700	270,035	164,900	152,800	194,900	53,300	53,300	-	-	-	100,000	100,000	140,000	180,000
A/P	91,366	73,219	57,407	57,756	55,933	85,664	85,664	73,245	95,761	87,475	81,380	81,380	77,310	73,440
CP of LTD	40,000	25,000	24,980	24,987	64,994	39,989	39,989	61,994	61,991	21,995	22,000	22,000	30,000.00	75,000.00
Other CL	103,344	109,460	114,936	78,090	86,877	95,564	95,564	99,780	77,330	93,481	97,480	97,480	99,430	101,420
Total Current Liabilities	469,410	477,714	362,223	313,633	402,704	274,517	274,517	235,019	235,082	202,951	300,860	300,860	346,740	429,860
LTD	621,700	576,700	569,745	570,045	530,219	679,334	679,334	657,716	658,118	757,429	698,110	698,110	690,110	645,110
Regulatory Liabilities	317,205	339,287	346,761	341,259	342,143	349,319	349,319	357,587	359,205	363,838	363,840	363,840	363,840	363,840
Def Tax Liabilities	530,965	530,021	550,731	554,400	544,575	557,085	557,085	575,451	577,176	572,293	562,660	562,660	568,290	573,970
Other	358,344	371,998	365,618	363,808	361,041	369,049	369,049	370,268	370,144	362,414	372,740	372,740	376,470	380,230
Shareholders' Equity	767,321	780,972	806,955	799,999	779,202	850,497	850,497	874,615	865,429	846,682	969,980	969,980	1,013,140	1,070,920
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	\$3,105,607	\$3,268,190	\$3,268,190	\$3,358,590	\$3,463,930
Summary Cash Flow (000s)	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
Net Income	\$58,692	\$53,703	\$36,641	\$2,019	(\$8,040)	\$28,275	\$58,895	\$40,310	\$2,729	(\$8,495)	\$28,560	\$63,120	\$64,650	\$72,620
D&A	79,193	80,923	20,394	20,413	20,628	20,854	82,289	21,085	21,355	21,484	22,380	68,304	90,590	93,120
(Inc) / Dec in Wrk Cap.	(21,930)	13,143	50,534	33,888	(794)	(41,759)	41,869	51,075	54,170	(4,751)	(107,470)	(6,980)	(6,820)	0
Other Operating	99,702	36,919	38,569	(2,898)	(4,955)	8,378	39,094	32,696	(29,189)	(9,613)	12,000	5,894	24,000	24,000
Operating CF	215,657	184,688	146,138	53,422	6,839	15,748	222,147	145,166	49,065	(1,375)	(44,530)	148,338	172,420	189,740
Cap Ex	(120,092)	(118,320)	(30,054)	(32,099)	(35,958)	(41,400)	(139,511)	(38,924)	(55,394)	(51,123)	(40,000)	(185,440)	(160,000)	(160,000)
Utility Gas Reserves	(26,798)	(1,549)	-	-	-	-	-	98	(502)	(727)	-	(1,130.00)	-	-
Other Investing	2,567	4,571	24	2,429	415	14	2,882	-	-	-	-	-	-	-
Investing CF	(144,323)	(115,298)	(30,030)	(29,670)	(35,543)	(41,386)	(136,629)	(38,826)	(55,896)	(51,850)	(40,000)	(186,570)	(160,000)	(160,000)
Change in ST Debt	46,500	35,335	(105,135)	(12,100)	42,100	(141,600)	(216,735)	(53,300)	-	-	100,000	46,700	40,000	40,000
LTD Proceeds	-	-	-	-	-	150,000	150,000	-	-	100,000	-	100,000	22,000	30,000
LTD (Retired)	(80,000)	(60,000)	-	-	-	(25,000)	(25,000)	-	-	(40,000)	-	(40,000)	(22,000)	(30,000)
Stock Issued--Net	8,986	3,875	1,999	2,333	500	55,290	60,122	(1,257)	532	2,402	500	2,177	2,000	2,000
Dividends	(50,093)	(49,243)	(12,823)	(12,854)	(12,879)	(12,952)	(51,508)	(13,456)	(13,463)	(13,471)	(13,550)	(53,940)	(54,330)	(54,680)
Other Financing	3,336	(4,680)	(39)	11	(250)	(2,809)	(3,087)	(1,209)	(23)	(780)	400	(1,612)	1,600	1,600
Financing CF	(71,271)	(71,271)	(115,998)	(22,610)	29,471	22,929	(86,208)	(69,222)	(12,954)	48,151	87,350	53,325	(10,730)	(11,080)
Net Cash Flow	63	(1,881)	110	1,142	767	(2,709)	(690)	37,118	(19,785)	(5,074)	2,820	15,093	1,690	18,660
EBITDA	\$222,158	\$205,171	\$94,466	\$33,019	\$16,191	\$77,893	\$221,569	\$97,313	\$34,512	\$14,828	\$79,400	\$226,060	\$231,630	\$247,910
EV / TTM EBITDA	9.1x	9.7x	9.2x	10.5x	10.0x	10.8x	10.8x	10.6x	10.7x	11.6x	10.7x	10.7x	10.1x	9.4x
Selected Financial Statistics	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
Book Value	\$28.11	\$28.43	\$29.28	\$29.04	\$28.28	\$30.16	\$30.16	\$30.45	\$30.14	\$29.52	\$33.81	\$33.81	\$35.27	\$37.24
Price / Book	1.8x	1.8x	1.8x	2.2x	2.1x	2.0x	2.0x	1.9x	2.0x	2.2x	1.8x	1.8x	1.6x	1.5x
LT Debt / Total Capital	46.3%	43.5%	42.4%	42.7%	43.3%	45.8%	45.8%	45.1%	45.4%	47.9%	42.6%	42.6%	41.5%	40.2%
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%	45.2%	45.2%	45.3%	44.6%
ROE (ITM)	7.7%	6.9%	7.9%	7.9%	7.7%	7.3%	7.3%	7.6%	7.6%	7.4%	7.2%	7.2%	6.7%	7.2%

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

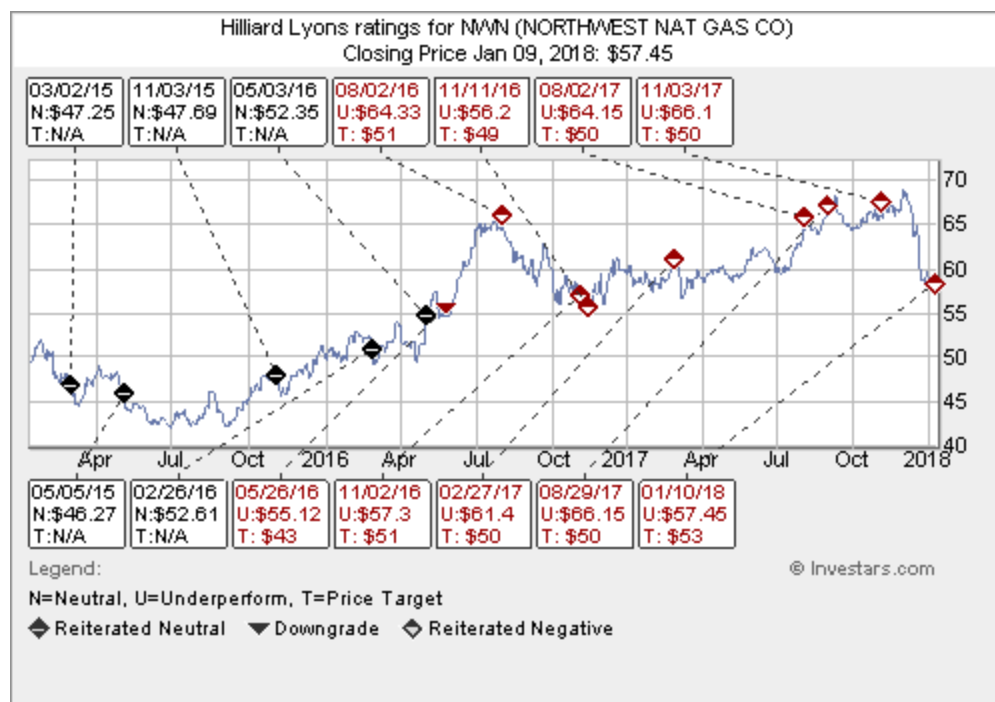
Investment Ratings

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	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

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