



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

NWN - NYSE - as of	5/5/17	\$59.20
Price Target		\$50.00
52-Week Range	\$53.50 -	\$66.17
Shares Outstanding (mm)		28.6
Market Cap. (\$mm)		\$1,694.9
1-Mo. Average Daily Volume		117,495
Institutional Ownership		65.4%
LT Debt/Total Capital	Q1'17	45.1%
ROE	TTM	7.6%
Book Value / Share	Q1'17	\$30.45
Price / Book Value		1.9x
Dividend Yield		3.2%
LTM EBITDA Margin		32.7%

EPS FY 12/31

		Prior	Current		Prior	Current
	2016A	2017E	2017E	A	2018E	2018E
1Q	*\$1.40	--	\$1.40	A	--	--
2Q	\$0.07	\$0.03	\$0.04		--	--
3Q	(\$0.29)	(\$0.28)	(\$0.28)		--	--
4Q	\$1.00	\$1.03	\$1.03		--	--
Year	\$2.19	\$2.13	\$2.20		\$2.25	\$2.23
P/E	27.0x		26.9x			26.5x

*Adjusted for special items

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

		Prior	Current		Prior	Current
	2016A	2017E	2017E	A	2018E	2018E
1Q	\$147	--	\$154	A	--	--
2Q	\$78	\$79	\$79		--	--
3Q	\$59	\$61	\$61		--	--
4Q	\$130	\$135	\$134		--	--
Year	\$415	\$423	\$428		\$433	\$432

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

Analyst: Spencer E. Joyce, CFA
502.588.8402 // sjoyce@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 // gmoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
May 8, 2017

Northwest Natural Gas Co.

NWN – NYSE – Underperform-2

Q1'17 Results from NWN; Reiterating Underperform Rating and \$50 Price Target.

Investment Highlights

- NWN reported Q1'17 EPS of \$1.40, up 0.1% from adjusted EPS in Q1'16 and in line with consensus; results beat our estimate by a nickel, due in part to constructive weather. Changes in tax and depreciation rates had little impact in Q1, with core utility growth offset by Storage.
- Adjusted net income was higher by 4.3% in the first quarter, offset by 4.2% greater shares outstanding.
- Net operating revenue (NOR) grew 4.5% in Q1, about 400bps ahead of our target although likely impacted by environmental recoveries. A better gauge versus our target, Utility gross margin grew 4.0% to \$142.2MM, about \$2MM ahead of our model.
- Utility customers rose 1.7% yr/yr exiting Q1'17, the quickest rate since 2008; organic growth continues to de-risk the stock a bit, in our view, but still falls short of marking a standalone catalyst for shares.
- Net income for the Storage segment was essentially breakeven in Q1'17, down about \$700k (\$0.03/share) from the prior year. Our expectations for the segment over the balance of 2017 fall slightly.
- Operations and Maintenance (O&M) expense growth of 3.8% in Q1 more/less tracked topline growth, and while ahead of our model, represents fine performance, in our view, given weather.
- Mostly reflecting the upside to Q1, our 2017E EPS rises to \$2.20, but remains within guidance [\$2.05-\$2.25]. Modeling some weather giveback in 2018, our 2018E EPS slides \$0.02 to \$2.23, but is likely a conservative target at this point.
- We are reiterating our Underperform rating, and 1-yr target of \$50. Based on relative growth prospects and valuation, we still see downside for NWN.

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

ADDITIONAL DISCUSSION—NEW CFO

On April 24, NWN announced that Frank Burkhartsmeyer will become the company's next Chief Financial Officer, effective May 17. Mr. Burkhartsmeyer joins the company from Avangrid Renewables, where he was president and CEO. Avangrid Renewables is one of two companies within Avangrid (AGR—\$44.12, Not Rated), which is in turn a subsidiary of a larger Spanish conglomerate. We look forward to meeting Mr. Burkhartsmeyer at the American Gas Association Financial Forum later this month. Still interim-CFO Brody Wilson was a participant in this morning's conference call.

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	Q2'17E	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					
Cost of Gas	365,490	327,305	108,411	20,871	28,264	103,042	260,588	143,611					
Revenue Tax	-	-	-	-	-	-	-	-					
Net Operating Revenue	388,547	396,486	147,118	78,312	59,463	130,486	415,379	153,712	79,150	61,020	134,420	428,300	431,870
Operating Expenses:													
O & M	136,982	157,521	38,939	35,962	34,870	40,203	149,974	40,420	37,680	35,570	41,010	154,680	154,790
Enviro Remediation		3,513	5,029	1,893	1,191	5,185	13,298	6,954	1,890	1,190	5,190	15,220	15,220
General Tax	29,407	30,281	8,684	7,438	7,211	7,205	30,538	9,025	7,520	7,400	7,420	31,370	31,660
D & A	79,193	80,923	20,394	20,413	20,628	20,854	82,289	21,085	21,250	21,450	21,640	85,430	88,090
Total Operating Expense	245,582	272,238	73,046	65,706	63,900	73,447	276,099	77,484	68,340	65,610	75,260	286,700	289,760
Operating Income	142,965	124,248	74,072	12,606	(4,437)	57,039	139,280	76,228	10,810	(4,590)	59,160	141,600	142,110
%	36.8%	31.3%	50.3%	16.1%	-7.5%	43.7%	33.5%	49.6%	13.7%	-7.5%	44.0%	33.1%	32.9%
Other Inc / (Exp)	1,933	7,747	(2,309)	513	652	601	(543)	881	513	652	601	2,647	2,647
Interest--Net of Captzd	44,563	42,539	9,736	9,718	9,729	9,945	39,128	9,876	9,610	9,560	9,740	38,786	38,040
Pre-tax Income	100,335	89,456	62,027	3,401	(13,514)	47,695	99,609	67,233	1,713	(13,498)	50,021	105,461	106,717
Income Tax	41,643	35,753	25,386	1,382	(5,474)	19,420	40,714	26,923	677	(5,534)	20,309	42,374	42,575
Net Income	58,692	53,703	36,641	2,019	(8,040)	28,275	58,895	40,310	1,036	(7,964)	29,712	63,087	64,142
Average shares outstanding (FD)	27,223	27,417	27,560	27,550	27,554	28,202	27,427	28,723	28,731	28,740	28,748	28,729	28,768
EPS	\$2.16	\$1.96	\$1.33	\$0.07	(\$0.29)	\$1.00	\$2.11	\$1.40	\$0.04	(\$0.28)	\$1.03	\$2.20	\$2.23
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%	1.1%	2.6%	3.0%	3.1%	0.8%
O&M Expense	0.3%	15.0%	-28.0%	1.8%	8.9%	11.5%	-4.8%	3.8%	4.8%	2.0%	2.0%	3.1%	0.1%
Operating income	0.2%	-13.1%	39.8%	-2.4%	136.9%	-5.3%	12.1%	2.9%	-14.2%	3.4%	3.7%	1.7%	0.4%
EPS	-3.7%	6.1%	2.2%	-8.6%	19.4%	-7.3%	-4.5%	0.1%	-50.8%	-5.0%	3.1%	0.5%	1.5%
EBITDA	1.6%	-7.6%	29.2%	-0.4%	-12.3%	-3.2%	8.0%	3.0%	-2.9%	4.1%	3.7%	2.5%	1.4%
Margin Analysis:													
O&M/Net Op Rev (NOR)	35.3%	39.7%	26.5%	45.9%	58.6%	30.8%	36.1%	26.3%	47.6%	58.3%	30.5%	36.1%	35.8%
General Tax / NOR	7.6%	7.6%	5.9%	9.5%	12.1%	5.5%	7.4%	5.9%	9.5%	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%	13.7%	-7.5%	44.0%	33.1%	32.9%
Tax Rate	41.5%	40.0%	40.9%	40.6%	40.5%	40.7%	40.9%	40.0%	39.5%	41.0%	40.6%	40.2%	39.9%
Net Income / NOR	15.1%	13.5%	24.9%	2.6%	-13.5%	21.7%	14.2%	26.2%	1.3%	-13.1%	22.1%	14.7%	14.9%
			*\$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; \$18MM 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	Q2'17E	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	\$7,880	\$4,090	\$16,840	\$16,840	\$15,850
A/R	69,818	68,228	69,066	23,353	25,506	66,700	66,700	70,429	23,820	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	66,170	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	109,210	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	207,080	211,190	305,980	305,980	309,690
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	2,302,590	2,318,140	2,336,500	2,336,500	2,408,410
Regulatory Assets	368,908	370,711	351,390	344,969	341,188	357,530	357,530	349,057	355,320	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	185,300	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	\$3,050,290	\$3,058,480	\$3,187,520	\$3,187,520	\$3,277,730
ST Debt	234,700	270,035	164,900	152,800	194,900	53,300	53,300	-	5,000	40,000	135,000	135,000	175,000
A/P	91,366	73,219	57,407	57,756	55,933	85,664	85,664	73,245	54,870	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	40,000	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	79,650	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	179,520	203,750	335,860	335,860	381,740
LTD	621,700	576,700	569,745	570,045	530,219	679,334	679,334	657,716	679,320	697,320	697,320	697,320	689,320
Regulatory Liabilities	317,205	339,287	346,761	341,259	342,143	349,319	349,319	357,587	357,590	357,590	357,590	357,590	357,590
Def Tax Liabilities	530,965	530,021	550,731	554,400	544,575	557,085	557,085	575,451	559,940	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	367,450	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	906,470	885,150	861,350	861,350	904,320
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	\$3,050,290	\$3,058,480	\$3,187,520	\$3,187,520	\$3,277,730
Summary Cash Flow (000s)	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
Net Income	\$58,692	\$53,703	\$36,641	\$2,019	(\$8,040)	\$28,275	\$58,895	\$40,310	\$1,040	(\$7,960)	\$29,710	\$63,090	\$64,140
D&A	79,193	80,923	20,394	20,413	20,628	20,854	82,289	21,085	21,250	21,450	21,640	85,425	88,090
(Inc) / Dec in Wrk Cap.	(21,930)	13,143	50,534	33,888	(794)	(41,759)	41,869	51,075	(12,451)	(670)	(92,920)	(54,970)	(6,370)
Other Operating	99,702	36,919	38,569	(2,898)	(4,955)	8,378	39,094	32,696	2,000	(2,000)	12,000	44,696	24,000
Operating CF	215,657	184,688	146,138	53,422	6,839	15,748	222,147	145,166	11,839	10,820	(29,570)	138,241	169,860
Cap Ex	(120,092)	(118,320)	(30,054)	(32,099)	(35,958)	(41,400)	(139,511)	(38,924)	(37,000)	(37,000)	(40,000)	(152,920)	(160,000)
Utility Gas Reserves	(26,798)	(1,549)	-	-	-	-	-	-	-	-	-	-	-
Other Investing	2,567	4,571	24	2,429	415	14	2,882	98	-	-	-	100.00	-
Investing CF	(144,323)	(115,298)	(30,030)	(29,670)	(35,543)	(41,386)	(136,629)	(38,826)	(37,000)	(37,000)	(40,000)	(152,820)	(160,000)
Change in ST Debt	46,500	35,335	(105,135)	(12,100)	42,100	(141,600)	(216,735)	(53,300)	5,000	35,000	95,000	81,700	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)	500	500	500	243	2,000
Dividends	(50,093)	(49,243)	(12,823)	(12,854)	(12,879)	(12,952)	(51,508)	(13,456)	(13,500)	(13,510)	(13,580)	(54,050)	(54,450)
Other Financing	3,336	(4,680)	(39)	11	(250)	(2,809)	(3,087)	(1,209)	400	400	400	(9)	1,600
Financing CF	(71,271)	(71,271)	(115,998)	(22,610)	29,471	22,929	(86,208)	(69,222)	(7,600)	22,390	82,320	27,884	(10,850)
Net Cash Flow	63	(1,881)	110	1,142	767	(2,709)	(690)	37,118	(32,761)	(3,790)	12,750	13,305	(990)
EBITDA	\$222,158	\$205,171	\$94,466	\$33,019	\$16,191	\$77,893	\$221,569	\$97,313	\$32,060	\$16,860	\$80,800	\$227,030	\$230,200
EV / TTM EBITDA	9.1x	9.7x	9.2x	10.5x	10.0x	10.8x	10.8x	10.6x	10.8x	10.8x	10.6x	10.6x	10.5x
Selected Financial Statistics	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
Book Value	\$28.11	\$28.43	\$29.28	\$29.04	\$28.28	\$30.16	\$30.16	\$30.45	\$31.55	\$30.80	\$29.96	\$29.96	\$31.42
Price / Book	1.8x	1.8x	1.8x	2.2x	2.1x	2.0x	2.0x	1.9x	1.9x	1.9x	2.0x	2.0x	1.9x
LT Debt / Total Capital	46.3%	43.5%	42.4%	42.7%	43.3%	45.8%	45.8%	45.1%	44.2%	44.8%	45.5%	45.5%	44.3%
Total Net Debt / Total Capital	53.6%	52.6%	48.3%	48.1%	50.1%	47.5%	47.5%	43.7%	44.1%	46.0%	49.3%	49.3%	49.3%
ROE (TTM)	7.7%	6.9%	7.9%	7.9%	7.7%	7.3%	7.3%	7.6%	7.3%	7.2%	7.2%	7.2%	7.1%

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

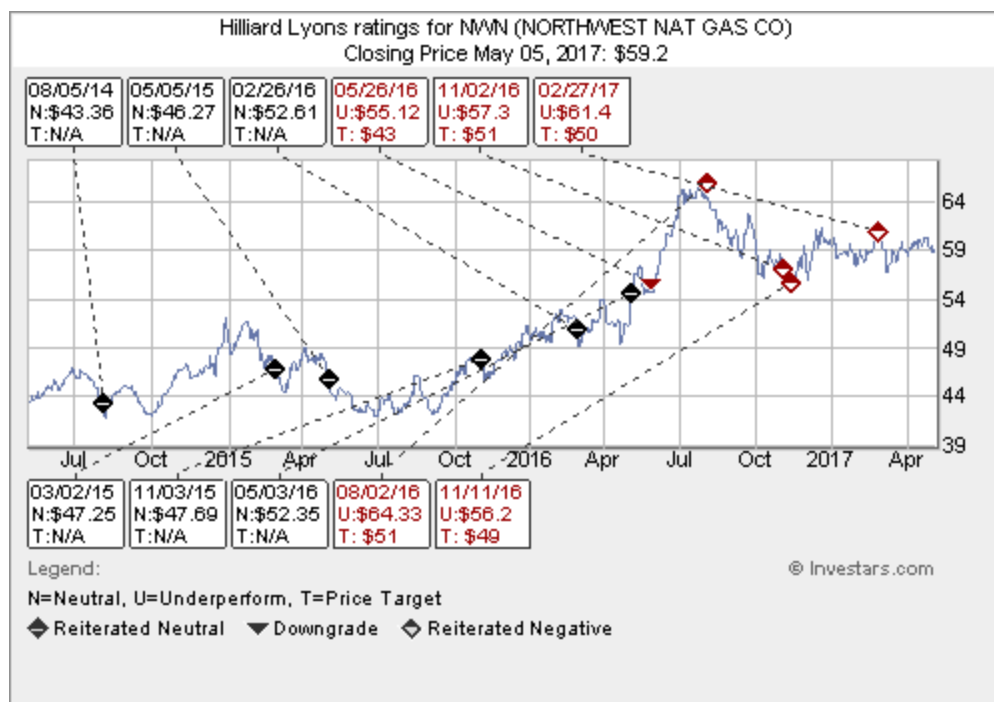
Investment Ratings

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	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.