



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

SJI - NYSE - as of	8/3/17	\$34.22
Price Target		\$40.00
52-Week Range	\$27.51 -	\$38.40
Shares Outstanding (mm)		79.5
Market Cap. (\$mm)		\$2,722.1
1-Mo. Average Daily Volume		256,154
Institutional Ownership		70.8%
Equity/Total Capital	Q1'17	49.8%
ROE	TTM	8.4%
Book Value / Share	Q1'17	\$16.42
Price / Book Value		2.1x
Dividend Yield		3.2%
LTM EBITDA Margin		19.0%

Economic EPS (adjusted for mark-to-market) FY 12/31

	Prior	Current	Prior	Current
2016A	2017E	2017E	2018E	2018E
1Q	\$0.80	--	\$0.72 A	--
2Q	*\$0.10	--	\$0.06 A	--
3Q	*\$0.01	(\$0.04)	(\$0.04)	--
4Q	\$0.42	\$0.49	\$0.49	--
Year	\$1.33	\$1.25	\$1.24	\$1.33
P/E	25.7x		27.6x	25.7x

*HL-Adjusted for Special Items

Utility Margin (\$MM)

	Prior	Current	Prior	Current
2016A	2017E	2017E	2018E	2018E
1Q	\$109.9	--	\$118.5 A	--
2Q	\$43.6	\$47.3	\$47.3	--
3Q	\$31.9	\$34.9	\$34.9	--
4Q	\$79.0	\$85.6	\$85.6	--
Year	\$264.3	\$286.2	\$286.2	\$303

Company Description: *South Jersey Industries is an energy services holding company that provides a variety of products and services. It provides natural gas to 350,000+ customers in southern New Jersey, and sells natural gas to wholesale customers in the interstate market. Through its non-utility operations, the company markets energy services including natural gas, electricity, energy management, and consulting services, and own/operates a portfolio of solar power production.*

Natural Gas Utilities

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South Jersey Industries, Inc.

SJI – NYSE – Long-term Buy-3

Quiet Q2'17 from SJI; Reiterating Long-term Buy.

Investment Highlights

- SJI generated Q2'17 Economic EPS (EEPS) of \$0.06 versus \$0.10 in Q2'16; results fell between consensus for \$0.05 and our target of \$0.07. In the seasonally less impactful quarter, Economic Earnings were lower by 48.6%, which was exacerbated by 5.6% greater shares outstanding.
- Echoing Q1, second quarter GAAP results include a ~\$0.08/share charge for a legal dispute related to a capacity management contract. We see negligible read thru value tied to this item.
- Investment Tax Credits (ITC) were \$0.0MM in Q2'17, down \$1.1MM y/y and a second straight 'zero' quarter with SJI ending new design-build solar projects.
- The Utility segment generated Q2 earnings of \$2.3MM, down \$2.7 MM yr/yr as South Jersey Gas progresses through a base rate case. TTM customer growth of 1.5% further strengthens our view that customer growth troughed in Q4'16 (at 1.2%).
- The Energy Group generated economic profit of \$0.6MM in Q2'17 versus (\$0.3MM) in the prior year; fuel supply contracts contributed \$1.3MM in profit, and SJI announced its 11th agreement in conjunction with Q2 results.
- SJI reiterated 2017 EEPS guidance of \$1.14 to \$1.20. We adjust our estimates simply to reflect Q2 at this time, but will adjust our model after filing/review of the 10-Q and accompanying financials.
- We are reiterating our LTB rating and 2-year \$40 price target. At our target, SJI would trade ~30x our 2018E EPS; though a premium to current industry pricing, we expect 2017 results below 'normalized' expectations, and view our 2018 targets as conservative. We believe SJI shares can maintain a premium multiple as growth accelerates into 2018 and 2019 (which is well within our investment horizon), and sentiment potentially re-strengthens surrounding the '2020 Plan'.

**Note Important Disclosures on Pages 3-4
Note Analyst Certification on Page 3**

SUITABILITY

We assign SJI a suitability rating of '3.' A complete description of our suitability scale is on page 3. Size versus the broad Utility sector and significant exposure to non-regulated and/or more cyclical market-based and renewable energy businesses keep SJI below our '2' suitability rating. Acceptable leverage ratios (following a recent secondary), a long history of capital return, and a strong core regulated utility franchise keep South Jersey Industries well above our most aggressive '4' rating.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Gas utilities face competition from alternative fuels. In the industrial market, customers have the capability of using natural gas or other fuels. Increases in gas prices can negatively impact the price benefits of natural gas to the end user.

Gas utilities are subject to regulation at the federal and state levels. 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.

SJI generates a significant portion of earnings via Investment Tax Credits (ITCs), which are subject to federal regulatory statutes. A change in laws regarding these credits may materially alter the reported financial performance of the company and/or the forward earnings outlook for the firm.

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

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

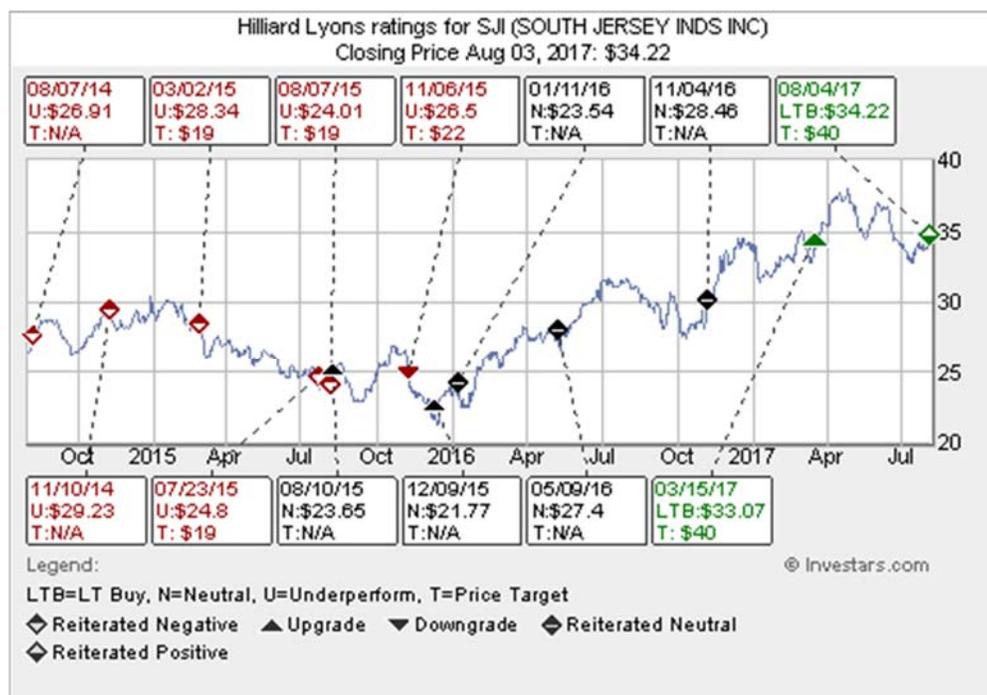
Investment Ratings

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
Buy	36	29%	14%
Hold/Neutral	79	63%	5%
Sell	10	8%	0%
			No Banking
			86%
			95%
			100%

As of 7 July 2017

Other Disclosures

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