

**COMPANY UPDATE / RATING CHANGE
ESTIMATE CHANGE / TARGET CHANGE**
Key Metrics

SJI - NYSE - as of	8/29/17	\$35.39
Price Target		\$42.00
52-Week Range	\$27.51 -	\$38.40
Shares Outstanding (mm)		79.5
Market Cap. (\$mm)		\$2,815.2
1-Mo. Average Daily Volume		248,895
Institutional Ownership		70.7%
Equity/Total Capital	Q2'17	48.1%
ROE	TTM	11.4%
Book Value / Share	Q2'17	\$16.08
Price / Book Value		2.2x
Dividend Yield		3.1%
LTM EBITDA Margin		18.7%

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

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$0.80	--	\$0.72	A --	--
2Q	*\$0.10	--	\$0.06	A --	--
3Q	*\$0.01	(\$0.04)	(\$0.02)	--	--
4Q	\$0.42	\$0.49	\$0.47	--	--
Year	\$1.33	\$1.25	\$1.23	\$1.33	\$1.44
P/E	26.6x		28.8x		24.6x

*HL-Adjusted for Special Items

Utility Margin (\$MM)

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$109.9	--	\$118.5	A --	--
2Q	\$43.6	--	\$45.4	A --	--
3Q	\$31.9	\$34.9	\$32.9	--	--
4Q	\$79.0	\$85.6	\$81.7	--	--
Year	\$264.3	\$286.2	\$278.6	\$305	\$295

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 – Buy-3

Revising Model; Strengthening Rating to Buy Amidst Transition Year and Ahead of New Base Rates.
Investment Highlights

- Subsequent to our usual post-earnings follow ups, including review of the quarterly 10-Q, we make a few adjustments and republish our financial model for SJI.
- Our FY 2017E EPS slips two cents to \$1.23 on few independently notable adjustments, although this still sits above guidance for \$1.14 to \$1.20 that was reiterated earlier this month.
- Our FY 2018E EPS rises \$0.11 to \$1.44 as we more acutely model some of our operating expectations for next year. Of note, we recalibrate our interest expense projections to better reflect a normalized run rate.
- We expect new base rates for South Jersey Gas to drive regulated margin growth next year, and see Q4'17 conclusion of the rate case as a qualitative catalyst.
- We also anticipate escalating Cap Ex attributable to BL England and/or PennEast will drive modest acceleration of profit growth from AFUDC flow through next year (Allowance for Funds Used During Construction), even if margin growth is a 2019 item.
- 2017 should hold a zero-Investment Tax Credits (ITC) base/comp year; even sooner, we remind investors that SJI's most recent secondary anniversaried in Q2'17.
- Our upgrade to 'Buy' is a signal that we are getting more aggressive ahead of what we believe will be a re-acceleration of growth in 2018, and what could be a reinvigoration of investor interest over our investment horizon in the "\$150MM by 2020" guidepost.
- We shorten our timeframe to 1-yr (from 2-yr) but still raise our price target by \$2 to \$42. Currently trading at ~29x our 2017E EPS, our year-ahead price target implies that SJI attains this multiple based on our 2018E EPS. While a premium to current industry pricing, we believe this is reasonable given the qualitative strengthening of the SJI narrative we expect over our investment time horizon.

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

SUITABILITY

We assign SJI 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 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.

South Jersey Industries, Inc.

Income Statement (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
Operating Revenue:													
Utility	\$500,752	\$528,763	\$183,669	\$68,273	\$60,983	140,894	\$453,819	\$195,769	\$81,938			277,710	-
Nonutility	386,244	430,805	149,366	86,129	158,099	189,087	582,681	230,060	162,436	110,071	201,508	704,070	773,540
Total Operating Revenue	886,996	959,568	333,035	154,402	219,082	329,981	1,036,500	425,829	244,374				
Utility Margin										32,928	81,743	114,670	294,790
Operating Expenses:													
Cost of Gas -- Utility	230,093	239,763	65,206	19,508	25,353	57,087	167,154	71,379	32,331	-	-	103,710	-
Cost of Sales -- Non-Utility	306,859	319,579	87,769	78,832	117,635	129,597	413,833	215,763	147,354	99,060	151,130	613,310	632,430
Operations	140,260	148,672	38,797	36,250	34,796	42,114	151,957	39,626	38,474	19,160	26,380	123,640	87,480
Maintenance	13,457	16,183	4,384	4,259	4,150	4,756	17,549	4,981	4,672	2,960	4,090	16,700	14,120
Depreciation	63,004	72,451	20,701	22,296	23,109	24,283	90,389	24,323	24,556	18,890	26,590	94,360	111,200
Energy & Other Taxes	5,720	6,026	1,925	1,243	1,449	1,725	6,342	2,071	1,551	1,450	1,730	6,800	6,800
Total Operating Expense	759,393	802,674	218,782	162,388	206,492	259,562	847,224	358,143	248,938	141,520	209,920	958,520	852,030
Operating Income	127,603	156,894	114,253	(7,986)	12,590	70,419	189,276	67,686	(4,564)	1,479	73,331	137,930	216,300
Other Income / (Expense)	11,819	9,510	2,203	4,361	2,223	1,202	9,989	5,665	2,317	2,220	1,200	11,400	11,410
Interest Expense / (Income)	29,560	31,622	9,160	8,229	7,355	6,705	31,449	16,745	10,979	11,288	11,809	50,820	45,110
EBT	109,862	134,782	107,296	(11,854)	7,458	64,916	167,816	56,606	(13,226)	(7,589)	62,722	98,510	182,600
Income Tax / (Benefit)	4,449	1,360	39,267	(7,189)	2,807	19,266	54,151	21,870	(5,544)	(3,070)	25,400	38,660	73,950
Equity in Affiliated Co	(7,785)	(27,812)	158	(133)	5,013	358	5,396	3,011	70	2,632	188	5,900	5,900
Income from Cont'd Ops	\$97,628	\$105,610	\$68,187	(\$4,798)	\$9,664	\$46,008	\$119,061	\$37,747	(\$7,612)	(\$1,887)	\$37,510	\$65,750	\$114,550
Minus/plus:													
Unrlzd MTM Deriv (Gain) / Loss	4,500	(5,066)	(18,612)	22,523	(9,459)	(22,001)	(27,549)	(13,908)	8,336			(5,572)	-
Unrlzd Loss on PP&E	-	-	-	-	-	-	-	256	-			256	-
Unrlzd Loss De-Design't Int Rt Ctr	-	-	-	-	-	-	-	2,392	-			2,392	-
Other // Legal Chg	(100)	(100)	(41)	(41)	(41)	(41)	(164)	43,946	11,574			55,520	-
Tax	-	-	7,460	(9,002)	3,816	8,538	10,812	(13,205)	(7,821)			(21,026)	-
Net Loss from Affil, not ongoing	-	-	-	-	-	-	-	-	-			-	-
Net Loss from Affil, ongoing	1,524	(1,524)	-	-	-	-	-	-	-			-	-
Rlzd (Gain) / Loss on inv hedges	427	54	3	23	(39)	696	683	332	-			332	-
Economic Earnings	\$103,979	\$98,974	\$56,997	\$8,705	\$3,941	\$33,200	\$102,843	\$57,560	\$4,477	(\$1,887)	\$37,510	\$97,652	\$114,550
EPS from Cont'd Ops	\$1.47		\$0.95	(\$0.06)	\$0.12	\$0.58		\$0.47	(\$0.10)				
Economic EPS	\$1.57	\$1.43	\$0.80	\$0.12	\$0.05	\$0.42	\$1.38	\$0.72	\$0.06	(\$0.02)	\$0.47	\$1.23	\$1.44
Adjusted--Economic EPS		\$1.70		\$0.10	\$0.01		\$1.33						
Economic EPS -- ex-ITC (Adj if Nec)	\$1.11	\$1.14	\$0.77	\$0.08	(\$0.01)	\$0.36	\$1.21	\$0.72	\$0.06	(\$0.02)	\$0.47	\$1.23	\$1.44
Dillued Avg Shares	66,428	68,931	71,416	75,298	79,635	79,643	76,475	79,641	79,549	79,549	79,550	79,572	79,550
Dividends	\$0.960	\$1.018	\$0.264	\$0.264	\$0.264	\$0.273	\$1.064	\$0.273	\$0.273	\$0.273	\$0.28	\$1.101	\$1.145
Rate of Change Analysis:													
Utility Margin--Approx	9.2%	9.3%	4.3%	3.6%	3.3%	4.6%	4.1%	7.8%	4.2%	3.3%	3.5%	5.4%	5.8%
Operating Income	83.2%	23.0%	49.6%	-126.3%	nm	7.9%	20.6%	-40.8%	-42.8%	-88.3%	4.1%	-27.1%	56.8%
Economic EPS--Adj if Necessary	3.7%	8.0%	-7.0%	-47.1%	nm	-41.3%	-21.8%	-9.4%	-51.3%	-147.9%	13.1%	-7.5%	17.4%
EBITDA	59.8%	20.3%	44.8%	-70.0%	959.6%	11.4%	21.9%	-31.8%	39.7%	-42.9%	5.5%	-16.9%	41.0%
Margin Analysis:													
O + M / Utility GM	66.2%	65.0%	39.3%	93.0%	122.2%	59.3%	64.1%	37.6%	95.1%				
Op Income / Utility GM--Approx	54.9%	61.8%	104.0%	-18.3%	39.5%	89.1%	71.6%	57.1%	-10.1%	4.5%	89.7%	49.5%	73.4%
Tax Rate	4.0%	1.0%	36.6%	60.6%	37.6%	29.7%	32.3%	38.6%	41.9%	40.5%	40.5%	39.2%	40.5%
* A portion of forward 'Operations Expense' is reflected in the Utility Margin projection	*\$30.3MM of ITC	*\$38.3MM of ITC	\$1.7MM in ITCs	\$1.1MM in ITCs **EEPS ajd for 1.3MM at gain	\$1.8MM in ITCs **EEPS ajd for \$2.9MM gain	\$4.5M in ITCs	*\$9.1MM of ITC	Zero ITC	Zero ITC		initial PennEast; delayed	*EEPS Guide for \$1.14-\$1.20 **modeling \$0MM of ITC	*modeling \$0 xITC

Source: Company reports and Hilliard Lyons estimates

South Jersey Industries, Inc.

Balance Sheet Analysis (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	\$4,171	\$3,877	\$4,250	\$4,160	\$6,941	\$18,282	\$18,282	\$15,048	\$10,122	\$40,850	\$31,910	\$31,910	\$5,350
A/R	251,892	178,359	179,662	175,341	159,994	222,339	222,339	234,312	180,551	163,190	226,790	226,790	231,330
Natural Gas in Storage	63,246	54,211	38,571	44,499	50,787	53,857	53,857	35,216	47,521	51,800	54,930	54,930	56,030
Other CA	247,388	194,827	173,627	151,757	140,042	178,835	178,835	152,052	118,268	142,840	187,780	187,780	197,170
Total Current Assets	566,697	431,274	396,110	375,757	357,764	473,313	473,313	436,628	356,462	398,680	501,410	501,410	489,880
Utility Net PP&E	2,134,103	2,448,105	2,478,166	2,514,890	2,547,107	1,952,912	1,952,912	2,002,765	2,056,003	2,788,880	2,852,290	2,852,290	3,196,090
Non-Utility Net PP&E							670,858	659,920	651,766				
Total Reg & Other Non-Current	505,901	520,970	546,601	556,429	568,428	590,918	590,918	607,811	625,776	613,280	600,780	600,780	500,780
Other	142,724	80,551	73,107	75,505	83,817	42,566	42,566	40,228	51,853	52,890	53,950	53,950	58,400
Total Assets	3,349,425	3,480,900	3,493,984	3,522,581	3,557,116	3,730,567	3,730,567	3,747,352	3,741,860	3,853,730	4,008,430	4,008,430	4,245,150
A/P	272,998	186,400	151,006	166,418	141,096	243,669	243,669	272,673	246,688	143,920	248,540	248,540	253,510
CP of LTD	149,909	29,454	28,604	244,605	231,909	231,909	231,909	31,909	15,909	30,000	30,000	30,000	100,000
N/P	245,700	431,700	339,500	145,400	230,200	296,100	296,100	205,100	296,300	496,300	556,300	556,300	656,300
Other CL	181,578	184,922	178,893	202,010	209,192	180,946	180,946	171,341	175,222	213,380	189,990	189,990	199,490
Total Current Liabilities	850,185	832,476	698,003	758,433	812,397	952,624	952,624	681,023	734,119	883,600	1,024,830	1,024,830	1,209,300
LTD	859,491	1,006,394	1,046,968	831,089	808,704	808,005	808,005	1,079,298	1,066,680	1,052,590	1,052,590	1,052,590	1,082,590
Def Inc Taxes	344,520	295,945	333,572	330,046	331,762	343,549	343,549	365,764	360,179	361,180	362,180	362,180	366,180
Other Liabilities	362,797	308,546	321,999	375,466	336,874	337,149	337,149	313,369	301,633	307,670	313,820	313,820	339,690
Shareholders' Equity	932,432	1,037,539	1,093,442	1,227,547	1,267,379	1,289,240	1,289,240	1,307,898	1,279,249	1,248,690	1,255,010	1,255,010	1,247,390
Total Liab & SE	3,349,425	3,480,900	3,493,984	3,522,581	3,557,116	3,730,567	3,730,567	3,747,352	3,741,860	3,853,730	4,008,430	4,008,430	4,245,150
Cash Flow Analysis	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 (Economic)	\$103,979	\$98,974	\$56,997	\$8,705	\$3,941	\$33,200	\$102,843	\$57,560	\$4,477	(\$1,890)	\$37,510	\$97,652	\$114,550
Depreciation	63,004	72,451	20,701	22,296	23,109	24,283	90,389	24,323	24,556	18,890	26,590	94,360	111,200
(Inc.) dec. in working cap.	(18,943)	51,875	(5,886)	58,792	2,634	(29,881)	25,659	52,850	53,136	(76,100)	(32,010)	(2,120)	(2,240)
Other Op	13,292	(36,506)	26,268	(29,774)	8,650	38,205	43,349	(55,205)	(38,039)	12,500	12,500	(68,240)	100,000
Operating CF	161,332	186,794	98,080	60,019	38,334	65,807	262,240	79,528	44,130	(46,600)	44,590	121,650	323,510
Cap Ex	(342,578)	(345,621)	(67,416)	(51,427)	(69,562)	(89,597)	(278,002)	(67,278)	(74,751)	(100,000)	(90,000)	(332,030)	(455,000)
Net Sale / (Purch) Rstd Inv	(22,337)	20,069	8,906	(1,125)	2,679	21,511	31,971	-	-	-	-	-	-
Other Inv	(10,104)	(45,100)	(737)	(3,312)	2,915	1,997	863	(5,475)	(15,413)	(1,000)	(1,000)	(22,890)	(4,000)
Investing CF	(375,019)	(370,652)	(59,247)	(55,864)	(63,968)	(66,089)	(245,168)	(72,753)	(90,164)	(101,000)	(91,000)	(354,920)	(459,000)
LTD Proceeds	329,000	130,000	61,000	-	-	-	61,000	273,000	48,000	15,000	-	336,000	130,000
LTD (Repay)	(21,000)	(125,009)	(12,905)	(173)	(35,379)	(909)	(49,366)	(200,000)	(77,400)	(15,000)	-	(292,400)	(30,000)
Net Borrow / (Repay) ST Facility	(108,200)	186,000	(92,200)	(194,100)	84,800	65,900	(135,600)	(91,000)	91,200	200,000	60,000	260,200	100,000
Stock Issued	80,680	63,192	5,645	208,818	(37)	-	214,426	-	-	10	10	20	0
Dividends	(63,869)	(70,158)	-	(18,790)	(20,962)	(42,628)	(82,380)	-	(21,676)	(21,680)	(22,540)	(65,900)	(91,070)
Other Fin	(2,571)	(461)	-	-	(7)	(10,740)	(10,747)	(2,772)	(39)	-	-	(2,810)	0
Financing CF	214,040	183,564	(38,460)	(4,245)	28,415	11,623	(2,667)	(20,772)	40,085	178,330	37,470	235,110	108,930
Net Cash Flow	353	(294)	373	(90)	2,781	11,341	14,405	(13,997)	(5,949)	30,730	(8,940)	1,840	(26,560)
FCF (including div)	(245,115)	(228,985)	30,664	(10,198)	(52,190)	(66,418)	(98,142)	12,250	(52,297)	(168,280)	(67,950)	(276,280)	(222,560)
EBITDA	190,607	229,345	134,954	14,310	35,699	94,702	279,665	92,009	19,992	20,369	99,921	232,290	327,500
EV / TTM EBITDA	14.9x	11.5x	11.3x	8.4x	11.7x	12.4x	12.4x	16.5x	8.8x	16.9x	16.5x	16.5x	11.9x
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	\$13.83	\$14.90	\$15.31	\$16.30	\$15.91	\$16.19	\$16.19	\$16.42	\$16.08	\$15.70	\$15.78	\$15.78	\$15.68
Price / Book	2.1x	1.6x	1.9x	1.9x	1.9x	2.1x	2.1x	2.2x	2.1x	2.3x	2.2x	2.2x	2.3x
TTM earned-ROE	11.9%	10.2%	9.7%	10.8%	11.0%	8.7%	8.7%	8.4%	11.4%	7.3%	7.7%	7.7%	9.3%
Equity / Total Cap (inc ST & CP LTD)	42.6%	41.4%	43.6%	50.1%	49.9%	49.1%	49.1%	49.8%	48.1%	44.2%	43.4%	43.4%	40.4%
LT Debt / Total Cap	48.0%	49.2%	48.9%	40.4%	39.0%	38.5%	38.5%	45.2%	45.5%	45.7%	45.6%	45.6%	46.5%

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

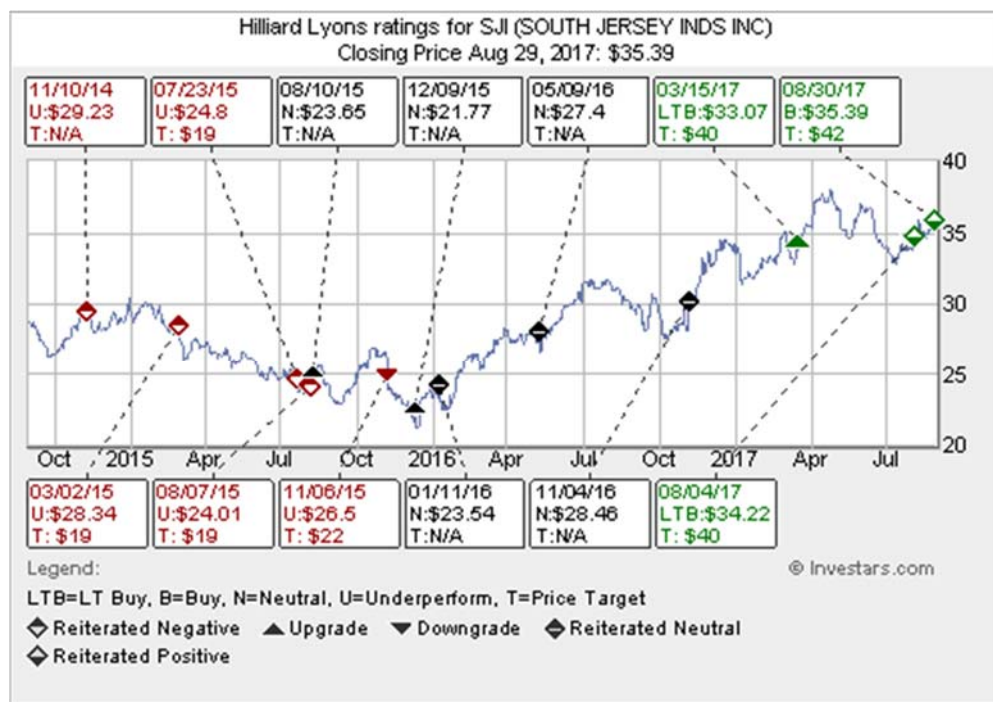
Investment Ratings

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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