

**COMPANY UPDATE /
ESTIMATE CHANGE**
Key Metrics

SJI - NYSE - as of	2/23/17	\$33.95
Price Target		--
52-Week Range	\$25.27 -	\$34.85
Shares Outstanding (mm)		79.3
Market Cap. (\$mm)		\$2,691.2
1-Mo. Average Daily Volume		303,769
Institutional Ownership		70.6%
Equity/Total Capital	Q3'16	49.9%
ROE	TTM	11.0%
Book Value / Share	Q3'16	\$15.91
Price / Book Value		2.1x
Dividend Yield		3.2%
LTM EBITDA Margin		-

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

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.80	--	\$0.73	--	--
2Q	*\$0.10	--	\$0.15	--	--
3Q	*\$0.01	--	\$0.03	--	--
4Q	\$0.42	--	\$0.58	--	--
Year	\$1.33	\$1.39	\$1.49	\$1.50	\$1.62
P/E	25.5x		22.8x		21.0x

*HL-Adjusted for Special Items

Utility Margin (\$MM)

		Prior	Current	Prior	Current
	2015A	2016E	2016E	2017E	2017E
1Q	\$105.4	--	\$109.9	A	--
2Q	\$42.0	--	\$43.6	A	--
3Q	\$30.8	--	\$31.9	A	--
4Q	\$75.5	\$78.3	\$79.4	--	--
Year	\$253.3	\$264.1	\$264.7	\$278	\$285

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 – Neutral-3

In Line Q4'16 Results to Punctuate a Year of Transition; Reiterating Neutral Rating.
Investment Highlights

- SJI generated Q4'16 Economic EPS (EEPS) of \$0.42 versus an adjusted \$0.71 in Q4'15; results met our estimate with the yr/yr decline mostly attributable to reduced Investment Tax Credits (ITCs).
- HL-adjusted FY 2016 adjusted EEPS were \$1.33, down 21.8% from \$1.70 in 2015. However, stripping out ITCs for a better gauge of ongoing operations, we calculate adjusted EEPS grew to \$1.21 from \$1.14.
- ITCs were \$9.1MM in 2016, down yr/yr from \$38.3M. SJI is guiding to zero ITC contribution in 2017.
- The Utility segment generated FY 2016 earnings of \$69.0MM, up \$2.4MM yr/yr on growth from customer adds and contribution from capital programs. We view TTM customer growth at 1.2% as nearing a trough.
- We like the outlook for SJ Gas (utility), having filed for new base rates on 1/27/17, and having received a 5-yr \$300MM extension to its AIRP (Accelerated Infrastructure Replacement Program) on 10/31/16.
- The Energy Group generated economic profit of \$17.7MM in 2016, up \$0.9MM y/y, with growth in fuel management the most interesting driver for us. Energy Services comps are skewed by charges, ITCs and divestitures; however, we believe profitability improved for in-place solar assets.
- We expect SJI to initiate 2017 EEPS guidance in May. Our 2017 and 2018 EPS estimates both rise by \$0.10+ to \$1.49 and \$1.62, respectively, with changes mostly driven by intra-quarter refinements to our model.
- We will have ROE and cap structure metrics once SJI files its 10-K. Due to an equity secondary in Q2'16, SJI's equity percentage will be above Q4'15's 41.4%.
- We are reiterating our Neutral rating.

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

ADDITIONAL DISCUSSION—UPDATE TO 2020 PLAN

Management reiterated a commitment to \$150MM in economic earnings by the end of the decade, otherwise referred to as the ‘2020 plan.’ Since being unveiled for investors in mid-2015, we believe the company has, on average, met the necessary milestones such that the goal is still feasible. On the positive side, contract additions to the fuel management portfolio have tracked above plan, with 10 contracts signed or in the final stages of negotiation. Similarly, we believe the sustained rebound in SREC prices (solar certificates) has likely been a bit above what was expected.

Offsetting this somewhat, we expected the utility to grow a bit more across 2015/2016, with South Jersey Gas’ 2014 base rate case having phased in over that timeframe; we expect a softening of economic conditions across southern New Jersey has crimped the utility a bit as well, although this is not directly related to our rate case sentiment. Nonetheless, we believe the utility can reaccelerate over the next several years, particularly with SJG having already filed another base rate case, which could be settled in time to impact the entirety of 2018 (or model assumes a slightly more conservative Q2’18 impact). The pipeline projects of BL England and PennEast have more/less gone according to plan, in our view. The former is still suffering from delays versus initial expectations, but the New Jersey Pinelands Commissions has finally approved the project, marking a significant milestone.

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	Q1'17E	Q2'17E	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					-	-
Nonutility	386,244	430,805	149,366	86,129	158,099	189,087	582,681	139,537	120,147	110,071	149,569	519,320	576,470
Total Operating Revenue	886,996	959,568	333,035	154,402	219,082	329,981	1,036,500						
Utility Margin								118,420	47,250	34,901	84,701	285,270	302,290
Operating Expenses:													
Cost of Gas -- Utility	230,093	239,763	65,206	19,508	25,353	57,087	167,154	-	-	-	-	-	-
Cost of Sales -- Non-Utility	306,859	319,579	87,769	78,832	117,635	129,597	413,833	114,420	98,520	90,260	97,220	400,420	435,580
Operations	140,260	148,672	38,797	36,250	34,796	42,114	151,957	17,960	17,900	20,310	27,330	83,500	91,090
Maintenance	13,457	16,183	4,384	4,259	4,150	4,756	17,549	2,610	3,780	3,140	4,240	13,770	14,710
Depreciation	63,004	72,451	20,701	22,296	23,109	24,283	90,389	22,430	24,250	25,140	24,220	96,040	104,880
Energy & Other Taxes	5,720	6,026	1,925	1,243	1,449	1,725	6,342	1,930	1,240	1,450	1,730	6,350	6,350
Total Operating Expense	759,393	802,674	218,782	162,388	206,492	259,562	847,224	159,350	145,690	140,300	154,740	600,080	652,610
Operating Income	127,603	156,894	114,253	(7,986)	12,590	70,419	189,276	98,607	21,707	4,672	79,530	204,510	226,150
Other Income / (Expense)	11,819	9,510	2,203	4,361	2,223	1,202	9,989	2,200	4,360	2,220	1,200	9,980	9,980
Interest Expense / (Income)	29,560	31,622	9,160	8,229	7,355	6,705	31,449	6,502	6,938	6,628	6,849	26,920	26,020
EBT	109,862	134,782	107,296	(11,854)	7,458	64,916	167,816	94,306	19,130	264	73,881	187,570	210,110
Income Tax / (Benefit)	4,449	1,360	39,267	(7,189)	2,807	19,266	54,151	36,280	7,460	100	27,310	71,150	81,940
Equity in Affiliated Co	(7,785)	(27,812)	158	(133)	5,013	358	5,396	83	(70)	2,632	188	2,830	1,490
Income from Cont'd Ops	\$97,628	\$105,610	\$68,187	(\$4,798)	\$9,664	\$46,008	\$119,061	\$58,109	\$11,600	\$2,796	\$46,759	\$119,250	\$129,660
Minus/plus:													
Unrlzd MTM Deriv (Gain) / Loss	4,500	(5,066)	(11,167)	22,523	(9,459)	(22,001)	(27,550)					-	-
Unrlzd Loss on PP&E	-	-	-	-	-	-	-					-	-
Other	(100)	(100)	(25)	(41)	(41)	(41)	(165)					-	-
Tax				(9,002)	3,816	8,538	10,813					-	-
Net Loss from Affil, not ongoing	-	-	-	-	-	-	-					-	-
Net Loss from Affil, ongoing	1,524	(1,524)	-	-	-	-	-					-	-
Rlzd (Gain) / Loss on inv hedges	427	54	2	23	(39)	696	683					-	-
Economic Earnings	\$103,979	\$98,974	\$56,997	\$8,705	\$3,941	\$33,200	\$102,842	\$58,109	\$11,600	\$2,796	\$46,759	\$119,250	\$129,660
EPS from Cont'd Ops	\$1.47		\$0.95	(\$0.06)	\$0.12	\$0.58							
Minus/plus:													
Unrealized MTM (gain)/loss	0.07	(0.07)	(0.16)	0.30	(0.12)	(0.28)	(0.25)					0.00	0.00
Tax				(0.12)	0.05	0.11	0.04						
Rlzd (gain)/loss on inv inject hedges	0.01	0.00	0.00	0.00	(0.00)	0.01	0.01					0.00	0.00
Economic EPS	\$1.57	\$1.43	\$0.80	\$0.12	\$0.05	\$0.42	\$1.38	\$0.73	\$0.15	\$0.03	\$0.58	\$1.49	\$1.62
Adjusted--Economic EPS		\$1.70		\$0.10	\$0.01		\$1.33						
Economic EPS -- ex-ITC (Adj if Nec)	\$1.11	\$1.14					\$1.21					\$1.49	\$1.62
Dillued Avg Shares	66,428	68,931	71,416	75,298	79,635	79,643	76,475	79,790	79,938	80,085	80,232	80,011	80,232
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%	5.1%	4.3%	7.7%	8.5%	9.5%	6.7%	7.8%	6.0%
Operating Income	83.2%	23.0%	49.6%	-126.3%	nm	7.9%	20.6%	-13.7%	-371.8%	-62.9%	12.9%	8.0%	10.6%
Economic EPS--Adj if Necessary	3.7%	8.0%	-7.0%	-47.1%	nm	-41.3%	-21.8%	-8.7%	47.6%	-29.4%	39.8%	12.4%	8.4%
EBITDA	59.8%	20.3%	44.8%	-70.0%	959.6%	11.4%	21.9%	-10.3%	221.2%	-16.5%	9.6%	7.5%	10.1%
Margin Analysis:													
O + M / Utility GM	66.2%	65.0%	39.3%	93.0%	122.2%								
Op Income / Utility GM--Approx	54.9%	61.8%	104.0%	-18.3%	39.5%	88.7%	71.5%	83.3%	45.9%	13.4%	93.9%	71.7%	74.8%
Tax Rate	4.0%	1.0%	36.6%	60.6%	37.6%	29.7%	32.3%	38.5%	39.0%	37.8%	37.0%	37.9%	39.0%
* 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 adj for 1.3MM at gain	\$1.8MM in ITCs	\$4.5M in ITCs	**EEPS guide \$1.29-\$1.35 ** \$9.1MM of ITC			initial PennEast; delayed	*modeling \$0MM of ITC	*modeling \$0 x ITC

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	Q4'16E	FY'16E	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	\$4,171	\$3,877	\$4,250	\$4,160	\$6,941	\$22,260	\$22,260	\$32,020	\$32,400	\$37,720	\$19,020	\$19,020	\$36,170
A/R	251,892	178,359	179,662	175,341	159,994	181,930	181,930	183,260	178,850	163,190	185,570	185,570	189,280
Natural Gas in Storage	63,246	54,211	38,571	44,499	50,787	55,300	55,300	39,340	45,390	51,800	56,410	56,410	57,540
Other CA	247,388	194,827	173,627	151,757	140,042	204,570	204,570	182,310	154,790	142,840	214,800	214,800	225,540
Total Current Assets	566,697	431,274	396,110	375,757	357,764	464,060	464,060	436,930	411,430	395,550	475,800	475,800	508,530
Net PP&E	2,134,103	2,448,105	2,478,166	2,514,890	2,547,107	2,652,820	2,652,820	2,695,390	2,736,140	2,831,000	2,906,780	2,906,780	3,151,900
Total Reg & Other Non-Current	505,901	520,970	546,601	556,429	568,428	555,930	555,930	543,430	530,930	518,430	505,930	505,930	405,930
Other	142,724	80,551	73,107	75,505	83,817	85,490	85,490	87,200	88,940	90,720	92,530	92,530	100,160
Total Assets	3,349,425	3,480,900	3,493,984	3,522,581	3,557,116	3,758,300	3,758,300	3,762,950	3,767,440	3,835,700	3,981,040	3,981,040	4,166,520
A/P	272,998	186,400	151,006	166,418	141,096	190,130	190,130	154,030	169,750	143,920	193,930	193,930	197,810
CP of LTD	149,909	29,454	28,604	244,605	231,909	170,000	170,000	170,000	170,000	169,000	30,000	30,000	239,000
N/P	245,700	431,700	339,500	145,400	230,200	380,200	380,200	385,200	210,200	310,200	385,200	385,200	415,200
Other CL	181,578	184,922	178,893	202,010	209,192	194,170	194,170	187,840	206,050	213,380	203,880	203,880	214,070
Total Current Liabilities	850,185	832,476	698,003	758,433	812,397	934,500	934,500	897,070	756,000	836,500	813,010	813,010	1,066,080
LTD	859,491	1,006,394	1,046,968	831,089	808,704	870,610	870,610	870,610	1,020,610	1,021,610	1,160,610	1,160,610	1,051,610
Def Inc Taxes	344,520	295,945	333,572	330,046	331,762	332,760	332,760	333,760	334,760	335,760	336,760	336,760	340,760
Other Liabilities	362,797	308,546	321,999	375,466	336,874	343,610	343,610	350,480	357,490	364,640	371,930	371,930	402,590
Shareholders' Equity	932,432	1,037,539	1,093,442	1,227,547	1,267,379	1,276,820	1,276,820	1,311,030	1,298,580	1,277,190	1,298,730	1,298,730	1,305,480
Total Liab & SE	3,349,425	3,480,900	3,493,984	3,522,581	3,557,116	3,758,300	3,758,300	3,762,950	3,767,440	3,835,700	3,981,040	3,981,040	4,166,520
Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16E	FY'16E	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income (Economic)	\$103,979	\$98,974	\$56,997	\$8,705	\$3,941	\$33,200	\$102,842	\$58,110	\$11,600	\$2,800	\$46,760	\$119,250	\$129,660
Depreciation	63,004	72,451	20,701	22,296	23,109	24,283	90,389	22,430	24,250	25,140	24,220	96,040	104,880
(Inc.) dec. in working cap.	(18,943)	51,875	(5,886)	58,792	2,634	(56,965)	(1,430)	(5,540)	59,810	2,700	(58,440)	(1,470)	(1,510)
Other Op	13,292	(36,506)	26,268	(29,774)	8,650	12,500	17,640	12,500	12,500	12,500	12,500	50,000	100,000
Operating CF	161,332	186,794	98,080	60,019	38,334	13,018	209,450	87,500	108,160	43,140	25,040	263,840	333,020
Cap Ex	(342,578)	(345,621)	(67,416)	(51,427)	(69,562)	(130,000)	(318,410)	(65,000)	(65,000)	(120,000)	(100,000)	(350,000)	(350,000)
Net Sale / (Purch) Rstd Inv	(22,337)	20,069	8,906	(1,125)	2,679	-	10,460	-	-	-	-	-	-
Other Inv	(10,104)	(45,100)	(737)	(3,312)	2,915	(1,000)	(2,130)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)	(4,000)
Investing CF	(375,019)	(370,652)	(59,247)	(55,864)	(63,968)	(131,000)	(310,080)	(66,000)	(66,000)	(121,000)	(101,000)	(354,000)	(354,000)
LTD Proceeds	329,000	130,000	61,000	-	-	-	61,000	-	150,000	31,000	-	181,000	130,000
LTD (Repay)	(21,000)	(125,009)	(12,905)	(173)	(35,379)	-	(48,457)	-	-	(31,000)	-	(31,000)	(30,000)
Net Borrow / (Repay) ST Facility	(108,200)	186,000	(92,200)	(194,100)	84,800	150,000	(51,500)	5,000	(175,000)	100,000	75,000	5,000	30,000
Stock Issued	80,680	63,192	5,645	208,818	(37)	5,000	219,430	5,000	5,000	5,000	5,000	20,000	0
Dividends	(63,869)	(70,158)	-	(18,790)	(20,962)	(21,700)	(61,450)	(21,740)	(21,780)	(21,820)	(22,740)	(88,080)	(91,870)
Other Fin	(2,571)	(461)	-	-	(7)	-	(10)	-	-	-	-	0	0
Financing CF	214,040	183,564	(38,460)	(4,245)	28,415	133,300	119,013	(11,740)	(41,780)	83,180	57,260	86,920	38,130
Net Cash Flow	353	(294)	373	(90)	2,781	15,318	18,383	9,760	380	5,320	(18,700)	(3,240)	17,150
FCF (including div)	(245,115)	(228,985)	30,664	(10,198)	(52,190)	(138,682)	(170,410)	760	21,380	(98,680)	(97,700)	(174,240)	(108,850)
EBITDA	190,607	229,345	134,954	14,310	35,699	94,702	279,665	121,037	45,957	29,812	103,750	300,550	331,030
EV / TTM EBITDA	14.9x	11.5x	11.3x	8.4x	11.7x	12.7x	12.7x	13.3x	12.4x	12.7x	12.9x	12.9x	11.3x
Selected Financial Statistics	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16E	FY'16E	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Book Value	\$13.83	\$14.90	\$15.31	\$16.30	\$15.91	\$16.03	\$16.03	\$16.43	\$16.24	\$15.95	\$16.19	\$16.19	\$16.27
Price / Book	2.1x	1.6x	1.9x	1.9x	1.9x	2.1x	2.1x	2.1x	2.1x	2.1x	2.1x	2.1x	2.1x
TTM earned-ROE	11.9%	10.2%	9.7%	10.8%	11.0%	8.7%	8.7%	8.4%	8.4%	8.2%	9.2%	9.2%	9.9%
Equity / Total Cap (inc ST & CPLTD)	42.6%	41.4%	43.6%	50.1%	49.9%	47.3%	47.3%	47.9%	48.1%	46.0%	45.2%	45.2%	43.4%
LT Debt / Total Cap	48.0%	49.2%	48.9%	40.4%	39.0%	40.5%	40.5%	39.9%	44.0%	44.4%	47.2%	47.2%	44.6%

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%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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