

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

SJI - NYSE - as of	1/19/18	\$29.29
Price Target		--
52-Week Range	\$29.04 -	\$38.40
Shares Outstanding (mm)		79.5
Market Cap. (\$mm)		\$2,330.0
1-Mo. Average Daily Volume		393,546
Institutional Ownership		71.5%
Equity/Total Capital	Q3'17	45.4%
ROE	TTM	7.2%
Book Value / Share	Q3'17	\$15.36
Price / Book Value		1.9x
Dividend Yield		3.8%
LTM EBITDA Margin		11.3%

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	--	(\$0.05)	A --	--
4Q	\$0.42	\$0.48	\$0.48	--	--
Year	\$1.33	\$1.21	\$1.21	\$1.47	\$1.47
P/E	22.0x		24.2x		19.9x

*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	--	\$45.4	A --	--
3Q	\$31.9	--	\$33.2	A --	--
4Q	\$79.0	\$87.0	\$87.0	--	--
Year	\$264.3	\$284.0	\$284.0	\$367	\$367

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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January 22, 2018

South Jersey Industries, Inc.

SJI – NYSE – Neutral-3

**Cancelled Event Drives Downgrade to Neutral Rating.
Investment Highlights**

- We are downgrading shares of SJI to Neutral from Buy. We remove our 1-year \$38 target; our suitability rating of '3' remains in place. Of note, cancelling tomorrow's investor day damages our tactical thesis.
- <24 hours after announcing simulcast details for its 1/23 investor day, SJI cancelled the event late-Friday.
- Management expects it can provide a more cohesive and expansive commentary on tax items and funding its Elkton/Etown acquisition at a later date, although No acquisition parameters and No tax parameters have changed since SJI set its event date. In our view, the SJI team continues to struggle with its narrative.
- We believe the most likely root culprit for delaying the investor event is that SJI is grappling with the notion that its equity needs over the next year+ will be higher than suggested when transformative M&A was unveiled last fall, as US tax cuts should reduce cash flow over the next few years. Even the most equity-heavy gas companies we work with have acknowledged the possibility for debt downgrades, an item we see SJI as less-equipped to handle vs peers.
- With no 2018 guidance and no interim update on tax items, we are leaving our model unchanged at this time. Based on publicly available information we believe our numbers are reasonable, but we hold low conviction, and acknowledge that large, offsetting revisions are likely once we fully adjust for tax items.
- Our Neutral rating reflects what we view as a weaker near-term tactical set-up; we view the investor day delay as evidence that timing is not right, and we simply will not keep recommending SJI through what seems a confusing period (partially M&A driven).
- We expect SJI to report Q4'17 results in late-February; most recent FY 2017 EPS guidance was for \$1.14-\$1.20, which we believe is still attainable.

**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 6. 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).

Prices of other stocks mentioned: Southern Company (SO—\$44.44, Neutral)

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	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Operating Revenue:														
Utility	\$500,752	\$528,763	\$183,669	\$68,273	\$60,983	140,894	\$453,819	\$195,769	\$81,938	\$65,473		343,180	-	-
Nonutility	386,244	430,805	149,366	86,129	158,099	189,087	582,681	230,060	162,436	161,654	199,253	753,400	829,350	901,460
Total Operating Revenue	886,996	959,568	333,035	154,402	219,082	329,981	1,036,500	425,829	244,374	227,127		1,096,580	1,658,700	1,802,920
Utility Margin											86,953	86,950	367,300	522,960
Operating Expenses:														
Cost of Gas -- Utility	230,093	239,763	65,206	19,508	25,353	57,087	167,154	71,379	32,331	28,217	-	131,930	-	-
Cost of Sales -- Non-Utility	306,859	319,579	87,769	78,832	117,635	129,597	413,833	215,763	147,354	140,598	149,440	653,160	679,000	735,170
Operations	140,260	148,672	38,797	36,250	34,796	42,114	151,957	39,626	38,474	82,521	29,480	190,100	122,750	172,690
Maintenance	13,457	16,183	4,384	4,259	4,150	4,756	17,549	4,981	4,672	4,615	4,760	19,030	22,820	30,150
Depreciation	63,004	72,451	20,701	22,296	23,109	24,283	90,389	24,323	24,556	24,914	25,720	99,510	108,040	149,720
Energy & Other Taxes	5,720	6,026	1,925	1,243	1,449	1,725	6,342	2,071	1,551	1,517	1,730	6,870	6,870	6,870
Total Operating Expense	759,393	802,674	218,782	162,388	206,492	259,562	847,224	358,143	248,938	282,382	211,130	1,100,600	939,480	1,094,600
Operating Income	127,603	156,894	114,253	(7,986)	12,590	70,419	189,276	67,686	(4,564)	(55,255)	75,076	82,930	257,170	329,820
Other Income / (Expense)	11,819	9,510	2,203	4,361	2,223	1,202	9,989	5,665	2,317	2,253	700	10,940	11,440	11,440
Interest Expense / (Income)	29,560	31,622	9,160	8,229	7,355	6,705	31,449	16,745	10,979	10,567	11,509	49,800	52,750	81,340
EBT	109,862	134,782	107,296	(11,854)	7,458	64,916	167,816	56,606	(13,226)	(63,569)	64,267	44,070	215,860	259,920
Income Tax / (Benefit)	4,449	1,360	39,267	(7,189)	2,807	19,266	54,151	21,870	(5,544)	(24,765)	26,030	17,590	86,350	103,960
Equity in Affiliated Co	(7,785)	(27,812)	158	(133)	5,013	358	5,396	3,011	70	1,256	188	4,520	1,790	16,790
Income from Cont'd Ops	\$97,628	\$105,610	\$68,187	(\$4,798)	\$9,664	\$46,008	\$119,061	\$37,747	(\$7,612)	(\$37,548)	\$38,425	\$31,000	\$131,300	\$172,750
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	4,649		(923)	-	-
Loss on PP&E (solar impairment)	-	-	-	-	-	-	-	256	-	43,966		44,222	-	-
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	6,245		61,765	-	-
Tax	-	-	7,460	(9,002)	3,816	8,538	10,812	(13,205)	(7,821)	(21,284)		(42,310)	-	-
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	(\$3,972)	\$38,425	\$96,478	\$131,300	\$172,750
EPS from Cont'd Ops	\$1.47	\$1.43	\$0.95	(\$0.06)	\$0.12	\$0.58	\$1.38	\$0.72	(\$0.10)	(\$0.47)	\$0.48	\$1.21	\$1.47	\$1.61
Economic EPS	\$1.57	\$1.43	\$0.80	\$0.12	\$0.05	\$0.42	\$1.38	\$0.72	\$0.06	(\$0.05)	\$0.48	\$1.21	\$1.47	\$1.61
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	(\$0.05)	\$0.48	\$1.21	\$1.47	\$1.61
Diluted Avg Shares	66,428	68,931	71,416	75,298	79,635	79,643	76,475	79,641	79,549	79,539	79,539	79,567	86,560	107,620
Dividends	\$0.960	\$1.018	\$0.264	\$0.264	\$0.264	\$0.273	\$1.064	\$0.273	\$0.273	\$0.273	\$0.283	\$1.101	\$1.145	\$1.191
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%	4.1%	10.1%	7.5%	29.3%	42.4%
Operating Income	83.2%	23.0%	49.6%	-126.3%	nm	7.9%	20.6%	-40.8%	-42.8%	-538.9%	6.6%	-56.2%	210.1%	28.2%
Economic EPS--Adj if Necessary	3.7%	8.0%	-7.0%	-47.1%	nm	-41.3%	-21.8%	-9.4%	-42.8%	nm	15.9%	-8.6%	21.1%	9.4%
EBITDA	59.8%	20.3%	44.8%	-70.0%	959.6%	11.4%	21.9%	-31.8%	39.7%	-185.0%	6.4%	-34.8%	100.2%	31.3%
Margin Analysis:														
O + M / Utility GM	66.2%	65.0%	39.3%	93.0%	122.2%	59.3%	64.1%	37.6%	95.1%	262.7%				
Op Income / Utility GM--Approx	54.9%	61.8%	104.0%	nm	39.5%	89.1%	71.6%	57.1%	nm	nm	86.3%	29.2%	70.0%	63.1%
Tax Rate	4.0%	1.0%	36.6%	60.6%	37.6%	29.7%	32.3%	38.6%	41.9%	39.0%	40.5%	39.9%	40.0%	40.0%
* 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 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	Zero ITC; initial *\$44MM PennEast; writedown of delayed solar assts in MD		*EEPS Guide for \$1.14-\$1.20 **modeling \$0MM of ITC	*Model Q4 Close Ele & Elk--\$1.7B *modeling \$0 xITC	*modeling \$0 xITC

Source: Company reports and Hilliard Lyons estimates

South Jersey Industries, Inc.

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	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Cash	\$4,171	\$3,877	\$4,250	\$4,160	\$6,941	\$18,282	\$18,282	\$15,048	\$10,122	\$13,681	\$15,230	\$15,230	\$14,310	\$580
A/R	251,892	178,359	179,662	175,341	159,994	222,339	222,339	234,312	180,551	150,607	226,790	226,790	231,330	235,960
Natural Gas in Storage	63,246	54,211	38,571	44,499	50,787	53,857	53,857	35,216	47,521	55,502	54,930	54,930	56,030	57,150
Other CA	247,388	194,827	173,627	151,757	140,042	178,835	178,835	152,052	118,268	103,673	140,000	140,000	147,000	154,350
Total Current Assets	566,697	431,274	396,110	375,757	357,764	473,313	473,313	436,628	356,462	323,463	436,950	436,950	448,670	448,040
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	2,101,491	2,160,770	2,160,770	3,277,730	3,653,010
Non-Utility Net PP&E						670,858	670,858	659,920	651,766	596,656	596,660	596,660	596,660	596,660
Total Reg & Other Non-Current	505,901	520,970	546,601	556,429	568,428	590,918	590,918	607,811	625,776	658,642	646,140	646,140	1,496,140	1,396,140
Other	142,724	80,551	73,107	75,505	83,817	42,566	42,566	40,228	51,853	59,814	61,010	61,010	66,030	71,470
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	3,740,066	3,901,530	3,901,530	5,885,230	6,165,320
A/P	272,998	186,400	151,006	166,418	141,096	243,669	243,669	272,673	246,688	208,021	248,540	248,540	253,510	258,580
CP of LTD	149,909	29,454	28,604	244,605	231,909	231,909	231,909	31,909	15,909	10,909	30,000	30,000	250,000	50,000
N/P	245,700	431,700	339,500	145,400	230,200	296,100	296,100	205,100	296,300	280,100	380,100	380,100	525,100	683,100
Other CL	181,578	184,922	178,893	202,010	209,192	180,946	180,946	171,341	175,222	185,140	189,990	189,990	199,490	209,460
Total Current Liabilities	850,185	832,476	698,003	758,433	812,397	952,624	952,624	681,023	734,119	684,170	848,630	848,630	1,228,100	1,201,140
LTD	859,491	1,006,394	1,046,968	831,089	808,704	808,005	808,005	1,079,298	1,066,680	1,180,319	1,161,230	1,161,230	1,841,230	2,141,230
Def Inc Taxes	344,520	295,945	333,572	330,046	331,762	343,549	343,549	365,764	360,179	335,420	336,420	336,420	340,420	344,420
Other Liabilities	362,797	308,546	321,999	375,466	336,874	337,149	337,149	313,369	301,633	318,807	325,180	325,180	351,980	380,990
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	1,221,350	1,230,070	1,230,070	2,123,500	2,097,540
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	3,740,066	3,901,530	3,901,530	5,885,230	6,165,320
Cash Flow Analysis	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 (Economic)	\$103,979	\$98,974	\$56,997	\$8,705	\$3,941	\$33,200	\$102,843	\$57,560	\$4,477	(\$3,972)	\$38,430	\$96,478	\$131,300	\$172,750
Depreciation	63,004	72,451	20,701	22,296	23,109	24,283	90,389	24,323	24,556	24,914	25,720	99,510	108,040	149,720
(Inc.) dec. in working cap.	(18,943)	51,875	(5,886)	58,792	2,634	(29,881)	25,659	52,850	53,136	7,809	(66,569)	47,230	1,830	1,940
Other Op	13,292	(36,506)	26,268	(29,774)	8,650	38,205	43,349	(55,205)	(38,039)	(25,328)	12,500	(106,070)	100,000	100,000
Operating CF	161,332	186,794	98,080	60,019	38,334	65,807	262,240	79,528	44,130	3,423	10,081	137,160	341,170	424,420
Cap Ex	(342,578)	(345,621)	(67,416)	(51,427)	(69,562)	(89,597)	(278,002)	(67,278)	(74,751)	(63,575)	(85,000)	(290,600)	(475,000)	(525,000)
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)	(2,925)	(1,000)	(24,810)	(1,703,000)	(4,000)
Investing CF	(375,019)	(370,652)	(59,247)	(55,864)	(63,968)	(66,089)	(245,168)	(72,753)	(90,164)	(66,500)	(86,000)	(315,410)	(2,178,000)	(529,000)
LTD Proceeds	329,000	130,000	61,000	-	-	-	61,000	273,000	48,000	125,000	-	446,000	930,000	350,000
LTD (Repay)	(21,000)	(125,009)	(12,905)	(173)	(35,379)	(909)	(49,366)	(200,000)	(77,400)	(15,000)	-	(292,400)	(30,000)	(250,000)
Net Borrow / (Repay) ST Facility	(108,200)	186,000	(92,200)	(194,100)	84,800	65,900	(135,600)	(91,000)	91,200	(16,200)	100,000	84,000	145,000	158,000
Stock Issued	80,680	63,192	5,645	208,818	(37)	-	214,426	-	-	-	10	10	900,000	0
Mandatory Conv Pref Div													(9,750)	(39,000)
Dividends	(63,869)	(70,158)	-	(18,790)	(20,962)	(42,628)	(82,380)	-	(21,676)	(21,677)	(22,540)	(65,890)	(99,340)	(128,150)
Other Fin	(2,571)	(461)	-	-	(7)	(10,740)	(10,747)	(2,772)	(39)	(1,684)	-	(4,500)	0	0
Financing CF	214,040	183,564	(38,460)	(4,245)	28,415	11,623	(2,667)	(20,772)	40,085	70,439	77,470	167,220	1,835,910	90,850
Net Cash Flow	353	(294)	373	(90)	2,781	11,341	14,405	(13,997)	(5,949)	7,362	1,551	(11,030)	(920)	(13,730)
FCF (including div)	(245,115)	(228,985)	30,664	(10,198)	(52,190)	(66,418)	(98,142)	12,250	(52,297)	(81,829)	(97,459)	(219,330)	(233,170)	(228,730)
EBITDA	190,607	229,345	134,954	14,310	35,699	94,702	279,665	92,009	19,992	(30,341)	100,796	182,440	365,210	479,540
EV / TTM EBITDA	14.9x	11.5x	11.3x	8.4x	11.7x	12.4x	12.4x	16.5x	8.8x	22.2x	20.3x	20.3x	14.4x	11.7x
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	\$13.83	\$14.90	\$15.31	\$16.30	\$15.91	\$16.19	\$16.19	\$16.42	\$16.08	\$15.36	\$15.46	\$15.46	\$19.73	\$19.49
Price / Book	2.1x	1.6x	1.9x	1.9x	1.9x	2.1x	2.1x	2.2x	2.1x	2.2x	2.1x	2.1x	1.6x	1.6x
TTM earned-ROE (adj if Nec)	11.9%	12.1%	11.5%	10.4%	10.3%	8.3%	8.3%	8.0%	7.6%	7.2%	7.6%	7.6%	9.3%	8.1%
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%	45.4%	43.9%	43.9%	44.8%	42.2%
LT Debt / Total Cap	48.0%	49.2%	48.9%	40.4%	39.0%	38.5%	38.5%	45.2%	45.5%	49.1%	48.6%	48.6%	46.4%	50.5%

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

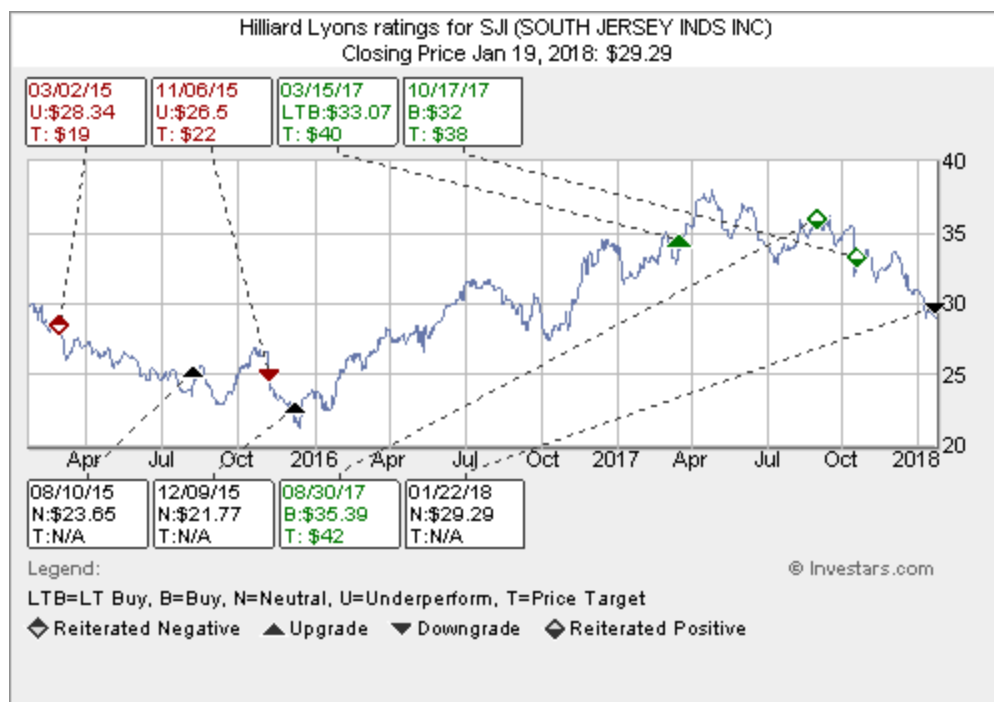
Investment Ratings

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	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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