

**COMPANY UPDATE /
ESTIMATE CHANGE**
Key Metrics

SJI - NYSE - as of	11/2/17	\$33.52
Price Target		\$38.00
52-Week Range	\$28.04 -	\$38.40
Shares Outstanding (mm)		79.5
Market Cap. (\$mm)		\$2,666.5
1-Mo. Average Daily Volume		382,623
Institutional Ownership		71.0%
Equity/Total Capital	Q2'17	48.1%
ROE	TTM	11.4%
Book Value / Share	Q2'17	\$16.08
Price / Book Value		2.1x
Dividend Yield		3.3%
LTM EBITDA Margin		18.7%

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

		Prior	Current		Prior	Current
	2016A	2017E	2017E	A	2018E	2018E
1Q	\$0.80	--	\$0.72	A	--	--
2Q	*\$0.10	--	\$0.06	A	--	--
3Q	*\$0.01	--	(\$0.05)	A	--	--
4Q	\$0.42	\$0.50	\$0.50	--	--	--
Year	\$1.33	\$1.21	\$1.22		\$1.43	\$1.43
P/E	25.2x		27.5x			23.4x

*HL-Adjusted for Special Items

Utility Margin (\$MM)

		Prior	Current		Prior	Current
	2016A	2017E	2017E	A	2018E	2018E
1Q	\$109.9	--	\$118.5	A	--	--
2Q	\$43.6	--	\$45.4	A	--	--
3Q	\$31.9	\$32.9	\$32.9	--	--	--
4Q	\$79.0	\$81.7	\$81.7	--	--	--
Year	\$264.3	\$278.6	\$278.6		\$341	\$341

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

Growth Remains Elusive at SJI in Q3'17, but Outlook Intact; Reiterating Buy.

Investment Highlights

- SJI generated Q3'17 Economic EPS (EEPS) of (\$0.05) versus an HL-adjusted \$0.01 in Q3'16; results fell \$0.03 shy of consensus, but beat our target by a penny. Although not driving much impact in Q3, shares outstanding were ~flat yr/yr.
- GAAP results include a \$44.0MM writedown of solar assets in Maryland; SJI's holdings in the state are now carried at ~\$11MM. Renewables concerns are very state-specific, and at this time, we see little read-through value toward SJI's <\$500MM of investment residing in New Jersey.
- Investment Tax Credits (ITC) were \$0.0MM in Q3'17, down \$1.4MM y/y and a third straight 'zero' quarter with SJI ending new design-build solar projects.
- The Utility segment generated Q3 losses of \$5.8MM, down \$2.5 MM yr/yr in South Jersey Gas' final quarter before implementing new base rates just this month. TTM customer growth was maintained at 1.5%.
- SJI explicitly clarified that impact from Elizabethtown & Elkton Gas would be additive to the '2020 plan' that suggests \$150MM of core economic earnings.
- The Energy Group generated economic losses of \$0.8MM in Q3'17 versus (\$1.4MM) in the prior year; Midstream contributed \$1.3MM from a zero base.
- SJI expects 2017 EEPS to be 'solidly' in the range of \$1.14 to \$1.20 (unchanged). We adjust our estimates to reflect Q3 at this time; we will adjust following review of the 10-Q and accompanying financials, which are typically filed on Friday afternoon.
- We are reiterating our Buy rating and 1-yr \$38 price target. Our target continues to imply SJI trades at ~26x our 2018E EPS, which we believe is attainable based on SJI's historical comps and the company's percolating growth outlook.

**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.

SJI is in the process of closing a \$1.8B acquisition that will substantially expand the firm's size and scope. We see a multitude of risk inherent in these deals that could sour investor sentiment, lead to impairments, or otherwise contribute to investor losses.

Prices of other stocks mentioned: Southern Co (SO - \$53.25)

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.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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