



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

NJR - NYSE - as of	2/7/17	\$36.70
Price Target		--
52-Week Range	\$35.55 -	\$45.45
Shares Outstanding (mm)		86.9
Market Cap. (\$mm)		\$3,189.6
1-Mo. Average Daily Volume		769,203
Institutional Ownership		65.4%
Debt/Total Capital	Q4'17	50.5%
ROE	TTM	12.1%
Book Value / Share	Q4'17	\$14.29
Price / Book Value		2.6x
Dividend Yield		3.0%
EBITDA Margin		9.9%

EPS (adjusted for unrealized margins) FY 9/30

	Prior	Current	Prior	Current
	2017A	2018E	2018E	2019E
1Q	\$0.46	--	\$1.55	A --
2Q	\$1.20	\$1.08	\$0.99	--
3Q	\$0.20	\$0.14	\$0.09	--
4Q	(\$0.14)	\$0.00	(\$0.05)	--
Year	\$1.72	\$1.79	\$2.58	\$1.89
P/E	21.3x		14.2x	18.4x

Utility Gross Margin (\$MM)

	Prior	Current	Prior	Current
	2017A	2018E	2018E	2019E
1Q	\$97.9	--	\$100.9	A --
2Q	\$143.2	\$146.8	\$146.8	--
3Q	\$60.5	\$62.9	\$62.9	--
4Q	\$46.4	\$48.6	\$48.6	--
Year	\$348.0	\$358.1	\$359.2	\$370.5

Company Description: *NJR is a holding company that provides retail and wholesale energy services to customers across the Eastern US and Canada. Its regulated subsidiary, New Jersey Natural Gas, is a local gas distribution company that provides energy service to more than 500,000 customers in central and northern New Jersey. Its unregulated operations provide fuel management and wholesale marketing services, and build/own/operate wind and solar clean energy generation assets.*

Natural Gas Utilities

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New Jersey Resources Corp.

NJR – NYSE – Neutral – 3

Strong Q1'18 Results for NJR, but Tax Items a Qualifier.

Investment Highlights

- NJR reported fiscal Q1'18 (October-December) net financial earnings (NFE) per share of \$1.55 versus \$0.46 in Q1'17. Results include a ~\$0.66 one-time gain from the remeasurement of deferred tax items across segments, as compelled by the US Tax Cuts and Jobs Act (TCJA).
- We estimate that 'normalized' NFE per share grew by ~\$0.43, primarily by the Energy Services segment that benefitted (simplistically) from advantageous market conditions (in part, cold weather).
- Utility gross margin grew about 3%, approximating our expectations, as a mix of steady core items continues to drive modest growth for the segment.
- Energy Services (NJRES) recorded NFE of \$20.3MM in Q1'18 versus \$3.5MM in Q1'17, although this includes a negative one-time tax impact of about \$9MM. On a normalized basis, we see NJRES driving about two-thirds of total EPS gains in the quarter.
- Management raised the mid-point of 2018 EPS guidance by \$0.80 to the range of \$2.55-\$2.65, reflecting the TCJA and a strong Q1, partially offset by the pull forward of some expenses. Our 2018 EPS estimate rises to \$2.58, although our 2019E EPS rises a more muted \$0.10, reflecting mostly lasting positive implications from the TCJA on non-reg businesses.
- We will re-publish our full financial models after more fully digesting the way TCJA implications will flow through the financial statements.
- We are reiterating our Neutral rating. Q1 was strong, even after normalizing adjustments, but we remain highly selective in the Utility sector from a top down viewpoint.

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

SUITABILITY

We assign NJR 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 NJR below our '2' suitability rating. Below-sector leverage, a long history of capital return, and a strong core regulated utility franchise keep NJR well above our most aggressive '4' rating.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive, and gas utilities face competition from alternative fuels. In the industrial market, many customers have the capability of using both natural gas as well as another source of energy. Increases in the price of natural gas can negatively impact a competitive position by decreasing the price benefits of natural gas to the end user. The cost of natural gas from non-domestic sources may play a greater role in establishing the market price of natural gas in the future.

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

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.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	31	28%	10%	90%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 7 February 2018

Other Disclosures

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