A number of equities in Value Line’s Natural Gas Utility Industry have climbed in value since our last report three months ago. We attribute those price moves mainly to energy stocks being in favor and company-specific events. But, at the moment, there are no standouts for capital appreciation potential over the 2025-2027 horizon. Nevertheless, the primary attraction here is these equities’ reliable, generous amounts of dividend income (which are adequately covered by corporate earnings).

Natural Gas Prices

Natural gas quotations have risen substantially of late, stemming partially from warmer-than-usual temperatures in some parts of the country and lower-than-normal gas in storage (given demand and supply concerns). Although that scenario augurs well for the financial performance of companies that produce this commodity, regulated utility units are at a disadvantage. That’s partly because increased gas pricing tends to lead to higher bills for customers, made worse by the fact that prices for food, gasoline, and other important products have climbed to troublesome levels. Consequently, there might be an increase in bad-debt expense for companies in our category in the coming months. It’s worth noting that, from a historical perspective, current natural gas prices are still nowhere close to the heights that were reached in the early 2000s.

Interest Rates

In March, the U.S. Federal Reserve approved its first interest rate boost since 2018, followed by another increase in May, and it has signaled there will be additional hikes in the months ahead. These measures are aimed at taming inflation, which recently soared to a 40-year high. So, how does a rising interest rate environment affect the participants in our industry? One way is by increasing borrowing costs, an especially important factor because these companies tend to maintain significant levels of debt. What’s more, rising interest rates may make bonds more enticing to conservative, yield-hungry investors, the very ones who are typically drawn to utility stocks.

Attractive Payouts

The main appeal of utility equities is their dividends, which tend to be adequately covered by corporate profits. (It’s important to state that the Financial Strength ratings for half of the 10 companies in our category are at least an A, and the lowest is a respectable B+. At the time of this industry report, the average yield for the group was 3.1%, relative to the Value Line median of 2.1%. Outstanding selections include New Jersey Resources, Northwest Natural Holding Co., Spire Inc., and UGI Corp. When the financial markets experience heightened volatility (which seems to be more often the case these days), healthy dividend yields provide a measure of much-needed stability.

Outlook For 2025-2027

We are optimistic, in general, about the industry’s long-term operating performance. Natural gas should continue to be an abundant resource in the United States, made possible partially by new technologies, so a shortage does not seem probable in the years ahead. (Presently, it’s estimated that roughly half of all domestic households use that energy source.) Too, there are limited alternatives for the services the companies in this category offer. Furthermore, it’s a challenge for new entrants in the market, given such factors as the size of existing competitors and the substantial initial capital outlays that are required. Finally, the nation’s population, now numbering more than 330 million, should stay on a steady, upward trajectory, which augurs well for future demand for utility services.

However, there are risks to take into consideration, other than the impact of increasing interest rates (mentioned earlier). Companies are subject to the regulatory authorities. That being the case, there are no guarantees that petitions for rate hikes will be accepted or that certain favorable provisions (which include temperature-adjusted rate mechanisms) will continue indefinitely. To further complicate matters, a slowdown in the economy might prompt customers to conserve natural gas and push up bad-debt expense. Lastly, operational difficulties created by leaks and other unfortunate events may well result in considerable financial losses if not sufficiently covered by insurance.

Conclusion

With the exception of Chesapeake Utilities, none of the stocks in our category stand out for Timeliness. Furthermore, as mentioned, there aren’t any appealing selections for capital gains potential during the 2025-2027 period. Nonetheless, they ought to be of interest to income-focused investors with a conservative orientation, given that these good-yielding issues boast high scores for Price Stability, and the majority are ranked 1 (Highest) or 2 (Above Average) for Safety. As always, our subscribers are advised to carefully examine the reports that follow before making a financial commitment.

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