Stocks in *Value Line's* Natural Gas Utility Industry have faced pressure over the past several months. It appears those movements can be traced partially to worries about the domestic economy, as actions taken by the authorities to prevent the spread of the coronavirus forced many businesses to shut down and individuals to stay at home, thus hurting spending. In fact, for the June period of 2020, GDP contracted a record 32.9% on an annualized basis, which was indicative of a deep recession. To make matters worse, there appears to be a resurgence of the disease in some states that have been on the path to reopening. It should be stated, however, that natural gas equities' reliable, healthy levels of dividend income are providing investors some relief, unlike a number of companies in other energy-related sectors, which have slashed or even suspended their payouts. What's more, there are standouts in our group for capital appreciation potential in both the 18-month period and out to 2023-2025.

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COVID-19

Corporate earnings are, no doubt, being squeezed by this unusual health crisis, given pressure on customer demand plus escalating bad-debt expense and other operating costs in connection with the pandemic. (There were nearly 5.5 million confirmed cases and over 170,000 fatalities in the United States alone at the time of this writing.) But companies are seeking regulatory relief to help offset the impact. Moreover, precautionary steps have been taken, including a work-from-home program for employees, where possible, and adherence to social distancing and other government guidelines when workers are in the service territories. And it should also be mentioned that this industry is considered essential to the nation's infrastructure, so businesses have remained open. Even so, the full damage of the coronavirus on the nation's economy is hard to determine right now because developments concerning the pandemic are continuously shifting. So, subscribers should be aware that our 2020 estimates are tentative.

Attractive Dividends

The main appeal of utility equities is their payouts, which tend to be adequately covered by corporate profits. (It's important to mention that the Financial Strength ratings for more than half of the 10 companies in our category are A, and the lowest is a respectable B+.) At the time of this industry review, the average yield for the group was about 3.5%, versus the *Value Line* median of 2.2%. Outstanding choices include *South Jersey Industries*, *UGI Corp.*, *Spire Inc.*, and *New Jersey Resources*. When the financial markets face heightened volatility (which seems to happen more frequently these days), solid dividend yields tend to act like an anchor, so to speak.

Prospects Over The 2023-2025 Span

We are optimistic, in general, about the industry's operating performance over the long run. Natural gas ought to remain an abundant resource in the United States, made possible partially by new technologies, so a shortage does not seem probable anytime soon. (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 country's population, now numbering more than 330 million, should remain on a steady, upward trajectory, which augurs well for future demand for utility services.

Nonetheless, there are risks to take under consideration. For a start, companies are subject to the regulatory authorities. That being the case, there are no guarantees that petitions for rate increases 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 may prompt customers to conserve natural gas and push up bad-debt expense. Lastly, operational difficulties created by leaks and other unfortunate events might well result in significant financial losses if not sufficiently covered by insurance.

Conclusion

Atmos Energy and *Chesapeake Utilities* were the only stocks ranked favorably for Timeliness when this industry report went to press. But that comes as no surprise, since historical price movements of this typically defensive sector have tended to be on the steady side. Nevertheless, these equities ought to draw the interest of income-hungry investors with a conservative bent, given that those good-yielding issues hold high grades for Price Stability, and the majority are ranked 1 (Highest) or 2 (Above Average) for Safety. And, as mentioned above, there are some good selections for price performance in the 18-month period and out to mid-decade. As always, our subscribers are advised to carefully examine the following reports before making a commitment.

Frederick L. Harris, III

Natural Gas Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)

Index: June, 1967 = 100