

## Southwest Gas Corporation

NASDAQ:SWX

**Analyst:** Peter Gadze

**Sector:** Consumer Staples

**Buy**

Price Target: \$79.40

### Key Statistics as of 11/12/2016

Market Price: \$71.59  
 Industry: Gas Utilities  
 Market Cap: \$3.42 B  
 52-Week Range: \$50.53 – 79.58  
 Beta: .35

### Catalysts:

- Increase in Dividend Growth (leads to higher net profit)
- 3<sup>rd</sup> Quarter Earnings

### Company Description:

Southwest Gas Corp. is a public utility that engages in the distribution of natural gas. It operates through two segments; Natural Gas Operations and Construction Services. Natural Gas Operations deal with the purchasing and delivery of natural gas efficiently to its customers. The Construction Services segment through Centuri, an underground piping company, provides companies with trenching and installation for industrial construction projects. This company was founded in Las Vegas, Nevada in March 1931 by Harold Laub and became a publicly owned company in January 1956.



## Thesis

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Southern Gas Corp. is a holding company that has an abundant source of energy and natural gas. They are growing very slowly compared to the market. With a company that has a volume of 360,084, there aren't any irregular fluctuations. For example, if you were to buy a share at \$72, it's very likely that it will stay near that price range when trying to sell your shares. It's possible that you would only profit very little from selling your shares since they grew very little when you first bought them, but what about the company's dividends? The benefit for investing in Southwest Gas Corp. is receiving their dividend payments quarterly. You will always make money on the side with your dividends rather than just buying high and selling low.

## People

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John P. Hester Jr serves as the President, Chief Executive Officer, and Director of Southwest Gas Corp. Before becoming President, he was an employee for 25 years and was announced Vice President in 2013. He handles the administration, finance, gas resources, legal marketing and regulatory affairs. Currently he's on the Catholic Charities of Southern Nevada Board of Trustees, College of Southern Nevada Foundation Board of Trustees, and the Las Vegas Metro Chamber Board of Trustees. Roy Centrella is the Chief Financial Officer and Senior Vice President of Southwest Corp. Prior to receiving this position, he joined the company as an accountant in 1983. Soon he was given managerial and executive roles as time went on.

## Why should I Invest in Dividend Stock?

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- Dividend investments are easily rewarded if you're in it for the long term.
  - Investors who've invested in dividend stocks for a long period of time have a lot of shares. The more shares you have, more income.
  - Dividends are less volatile. They're less likely to change rapidly overtime.
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Southwest Gas Corp. is a company that is gradually growing. Their prices aren't rising tremendously and they are a holding company. If you were to buy shares now in Southern Gas Corp., you wouldn't have to worry about the price per share rising since their company doesn't fluctuate much. However, if the price per share does go higher than expected, the company has an increase in net profits, or if the company expends less of its earnings for seeking growth, then the company would increase the amount dividends for their investors.

The dividend payments used to be low in starting at 20 cents per share, but they've only grown within the past decade. Here's their Dividend History:

Ex/Eff Date	Cash Amount
2/13/2006	0.205
2/13/2007	0.215
2/13/2008	0.225
2/11/2009	0.2375
2/11/2010	0.25
2/11/2011	0.265
2/13/2012	0.295
2/13/2013	0.33
2/13/2014	0.365
2/12/2015	0.405
2/11/2016	0.45
Growth from 06-16	29.48%

## Competition

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Southern Gas Corp. is the largest gas supplier in Arizona and Nevada, with some portions in California. They provide natural gas to roughly under 2 million customers in those states. Southwest Gas Corp has three competitors and they are:

- NV Energy Inc. (NVE)
- UNS Energy Corporation (UNS)
- Pinnacle West Capital Corporation (PNW)

NVE distributes electric service in Northern and Southern Nevada. They don't focus on the whole state and they have less customers compared to Southern Gas Corp. They provide energy services to 1.3 million customers and have market cap of \$2.9 billion.

UNS is a parent company of Tucson Electric Power and UniSource Energy Services in Tucson, Arizona. Their Electric Power company provides services to

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414,000 customers and UniSource to 243,000 customers. They also have a lower market cap compared to Southern Gas Corp. of \$2.53 billion. PNW is a holding company that provides energy and energy related to products to customers. They have market cap double the size of Southern Gas Corp. but provide services to their 1.2 million customers in Arizona. They have investors that provide a lot of revenue for this company and Southwest Gas Corp. They compete well for the amount of revenue they have compared to PNW. PNW isn't that big of a threat because Southwest Gas Corp. are able to sell more services around areas in Nevada, Arizona, and portions in California.

### 3<sup>rd</sup> Quarter Earnings

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According to the 3<sup>rd</sup> quarter earnings, Southwest Gas Corp. had excellent results. Slowly the company is moving towards a strong holding company that will be implemented in 2017. Customer growth grew by 1.5% which was one of their previous. 29,000 new customers were added into the natural gas segment. Added to an increase in customer, operating margin increased by \$6 million from the previous quarter. There is an expected infrastructure replacement to be put into work next year as well. \$57.3 million costs of pipe replacement was approved by Public Utilities Commission of Nevada making Southwest Gas Corp. build on its Centuri (Construction Service) segment. Centuri also had a record quarterly net income of \$14.9 million which was higher than the previous quarter of \$14.2 million. Overall expansion in the company grew by \$35 million this year and already Paiute Pipeline, a subsidiary of Southwest Gas Corp., announced it will grow up to \$17 million by 2018. The continuation of segment building and customer growth will impact the price to gradually increase since it will take the company some time to install the new infrastructure.

### Summary

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While Southwest Gas Corp.'s competitors focus on specific regions in either Arizona or Nevada, they don't cause any threat. Southwest Gas Corp. continues to build on its two segments making business more efficient and stabilized. Although this company isn't expecting staggering growth in the short run, I would recommend that you buy now

rather than later for a long term investment. The company has big plans for the future with the new infrastructures and the continued growth in dividends. There aren't any factors that can drive this price down and cause investors to sell their shares. With customer growth growing quarterly, Southwest Gas Corp., would soon be able to expand to other states in that area causing net profit to grow even more. But that would take time and by investing now, you can save money purchasing these shares low and watching them grow gradually annually. You are going to benefit in the long run and in the meantime, you will be receiving your dividend payments which have only been increasing the past decade.

**Southwest Gas Corporation**  
**(SWX)**

Analysis by: **11/10/2016**

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**NEUTRAL**

Current Price: **\$71.96**

Dividend Yield: **2.2%**

Intrinsic Value: **\$75.30**

Target Price: **\$79.40**

**Target 1 year Return: 12.55%**

**Probability of Price Increase: 90.8%**

**Description**  
Southwest Gas Corporation purchases, distributes, and transports natural gas in Arizona, Nevada, and California.

**General Information**  
Sector: Utilities  
Industry: Gas Utilities  
Last Guidance: November 3, 2015  
Next earnings date: February 25, 2017  
Estimated Country Risk Premium: 9.32%  
Effective Tax rate: 39%  
Effective Operating Tax rate: 27%

**Past Earning Surprises**

Quarter ending	Revenue	EBITDA
9/30/2015	-2.56%	-5.14%
12/31/2015	7.44%	6.82%
3/31/2016	-3.76%	-2.58%
6/30/2016	-3.57%	-8.31%
9/30/2016	0.83%	-8.09%
Mean	-0.32%	-3.46%
Standard error	2.1%	2.8%

**Peers**

- Atmos Energy Corporation
- WGL Holdings Inc.
- New Jersey Resources Corp.
- National Fuel Gas Company
- Vectren Corporation
- Northwest Natural Gas Company
- South Jersey Industries, Inc.
- ONE Gas, Inc.

**Market Data**

- Market Capitalization: \$3,416.81
- Daily volume (mil): 0.27
- Shares outstanding (mil): 47.48
- Diluted shares outstanding (mil): 47.79
- % shares held by institutions: 83%
- % shares held by investments Managers: 76%
- % shares held by hedge funds: 3%
- % shares held by insiders: 1.20%
- Short interest: 1.81%
- Days to cover short interest: 0.00
- 52 week high: \$79.58
- 52-week low: \$50.53
- Levered Beta: 0.55
- Volatility: 18.04%

**Target Price Distribution--P(price↑)=90.8%**

**Sensitivity Attribution Analysis**

Revenue	58.1%
Operating Expenses	33.3%
Dividends	0.1%
NWC	0.3%
CAPEX	8.0%
Operating Cash	0.2%

**Porter's 5 forces (scores are out of 100)**

Period	Revenue growth	Invested Capital	Net Claims	Price per share
Base Year	4.1%	\$3,080.42	\$1,826.43	\$76.72
9/30/2017	2.3%	\$3,243.30	\$1,623.19	\$82.68
9/30/2018	5.0%	\$3,585.49	\$1,484.60	\$88.54
9/30/2019	4.9%	\$3,943.76	\$1,307.73	\$94.90
9/30/2020	4.8%	\$4,033.94	\$1,079.04	\$101.76
9/30/2021	4.7%	\$4,267.84	\$794.51	\$109.08
9/30/2022	4.6%	\$4,045.80	\$439.34	\$116.80
9/30/2023	4.5%	\$3,889.18	\$33.94	\$124.84
9/30/2024	4.4%	\$3,713.27	-\$429.03	\$133.13
9/30/2025	4.3%	\$3,506.38	-\$976.25	\$141.54
9/30/2026	4.2%	\$3,266.99	-\$1,595.91	\$149.93
Continuing Period	4.1%			