crude oil prices. In a declining crude / rising gas price environment, this could significantly chip away at WMB's processing margin and lead to earnings & cash flow shortfalls.

Project Execution - If WMB suffers cost overruns at its expansion projects, economics could deteriorate and lower overall project returns.

TransCanada Corp

Company description

The company's pipeline network transports 15 bcf/d of natural gas and extends over 35,000 miles, while its storage capacity is about 360 bcf. Additionally, TransCanada owns or has an interest in over 10,900 MW of generation throughout Canada and the northeast United States.

Investment strategy

We rate TRP Neutral (2). TRP's asset mix of both pipeline (70%) and power (30%) assets offers attractive organic growth with incremental returns on new capital of 13% excluding acquisitions over the next five years.

Despite attractive returns on organic and new build projects, we believe this growth comes with the risk of capital cost overruns at new projects, namely, the restart of two units at TRP's operated nuclear power plant (Bruce Power) and a C$12.2 billion oil export pipeline from Alberta into the Midwest (Keystone Pipeline).

Valuation

We apply average multiple valuation methodologies to derive our $42 target. Our NAV yields a value of $42. We value regulated assets at a multiple of rate base (1.5x for pipelines and storage assets). We apply a 10% haircut to Canadian assets as they earn lower authorized returns. We value SRE's power generation assets at replacement value. These values are partially offset by the company's net debt. Our 10-year DCF yields a value of $50, using a 5.97% WACC. Our P/E and EV/EBITDA multiples for the pipelines are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. This analysis yields a multiple of 15.5x 2013E earnings and 8.5x 2013E EBITDA. We apply a merchant power multiple of 14x and 8x to power generation 2013E earnings and EBITDA. Our P/E and EV/EBITDA analyses yield values of $39 and $35.

Risks

The key risks to our investment thesis includes

(1) Exchange Rates – TRP has energy assets in the US and Canada. Significant changes in exchange rates could materially increase or decrease earnings.

(2) Regulatory – TRP spends capital in excess of depreciation to maintain and expand its pipeline infrastructure and relies on fair regulated returns. Changes in the regulatory environment could adversely impact returns.

(3) Nuclear Risk – Because of the high safety risks of operating a nuclear power plant, regulatory impediments may arise. Unplanned outages from sensitive technology, cost overruns or even terrorist attacks could also cause damage and create outages, impacting earnings.

(4) Capital Risk – We expect about half of TRP capex program will be funded through debt. Difficulties getting the appropriate debt funding could reduce the likelihood of projects being built timely.

(5) Energy Prices – TRP sells to the merchant market. Changes in power prices and/or cost of fuel could materially impact our estimates or WC requirements.

(6) Execution Risk – Expansion projects should add incremental earnings, but overspending could lead to lower returns. There is also a risk that projects will not be completed on-time or at all.

(7) Ravenswood – We assume capacity energy prices in NYC will fall in'11 due to capacity oversupply. Any differences in capacity pricing to our estimates could also impact our long-term estimates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

UGI Corp

Company description

UGI Corp operates as a diversified gas utility, electric utility and global propane distribution company. The company's utility and power assets are located in Pennsylvania. The company's propane business is composed of a 46% equity interest in AmeriGas Partners and a stable international propane distribution unit with principal operations in France, where the company controls about a quarter of the market.

UGI also operates an energy services business with generation and storage assets.

Investment strategy

We rate UGI a Buy (1). The company provides stable cash flows through a combination of an electric and gas utility. In addition, the company has one of the largest propane businesses in the USA and has an International Propane division that serves customers in Europe.

Historically UGI has generated strong free cash flows from its domestic propane and utilities businesses enabling the company to make bolt-on acquisitions and increase its dividend over time. However, the propane business in the US looks challenged as commodity prices move higher, and customers migrate to alternative fuels.

Valuation

Our average multiple valuation methodologies derives a $34 target price.

Our NAV yields a value of $37. We value regulated assets at a multiple of rate base (1.65x for gas utilities). The company's gas marketing segment is valued at 7x EBITDA, in-line with multiples for other marketers. These values are partially offset by the UGI's net debt.

We value UGI's interest in APU using our MLP team's target price ($36.50). We value UGI's GP interest based upon GP distributions of ~$1.5 million.

We value UGI's coal-fired power plants at their estimated replacement cost, which includes a discount applicable to Central App coal plants, of $980/KW.

International propane operations are valued at a 15% discount to our gas utility EV/EBITDA multiple of 7.0x, due to significant exposure to weather and exchange rates.

Our DDM values the company at $35. We calculate a hypothetical dividend, based on UGI's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current ERPs, betas and projected risk-free yields. For our P/E analysis, we use multiples of 16.0x, 10.0x, 16x and 11.0x for the company's Gas utility, Propane, Electric utility and Marketing/energy services assets. For our EV/EBITDA analysis, we use multiples of 7x and 6x for the company's Gas & Electric Utility/Propane businesses and Marketing/Energy services assets. International propane operations are valued at a 15% discount to our gas utilities, due to exposure to weather and exchange rates. Our P/E and EV/EBITDA analyses yield values of $31 and $34.

Risks

The key risks to our investment thesis are:

(1) Most of UGI's cash flows arise from regulated assets or the mature propane market. Slightly offsetting these stable cash flows are sensitivities to weather and exchange rates.

(2) The international propane unit accounts for 20% of UGI's operating income while AmeriGas accounts for approximately a third. Propane distributors compete in an unregulated market. While the barriers to entry are high, namely capital costs, UGI competes with a number of propane distributors and "mom & pop" dealers in the U.S. and Europe. Economics for alternative fuel types is also making it more economical for customers to switch into other fuels.

Flaga and Antargaz's earnings remain exposed to foreign currency fluctuations.

(3) UGI's utility earnings are sensitive to weather. Our earnings estimates assume normal weather and recovery of capital spent in excess of depreciation through higher customer rates. These rates depend on orders from Pennsylvania Public Utility Commission. At this point, we believe the commission has been constructive with regard to utility rate making.

(4) Earnings in the propane business are also impacted by weather as changes in weather can significantly impact volumes.

(5) Our margin assumptions at UGI's power plants are based on market prices and the capacity market in PJM. Higher fuel costs or regulatory impediments within the PJM market could adversely affect our earnings estimates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Vectren Corp

Company description

Vectren operates regulated electric and gas utilities in Indiana and Ohio, distributing natural gas to about 1 million customers and serving about 140,000 electric customers. The utilities represent over 80% of VVC's earnings. Vectren also operates non-regulated businesses, including coal mining, pipeline construction, and gas marketing.

Investment strategy

We rate Vectren shares Neutral. We believe the stock is fairly valued as a constructive regulatory environment is offset by concerns over the impact of flat basis spreads on the gas marketing operations and light demand for the coal mining unit.

Over 80% of earnings at VVC are derived from operations at the gas and electric utilities. In late 2009, the company's sole electric utility filed for rate relief. We expect resolution of this matter by year-end. In addition to rate relief, we expect growth at the utility will be arise from infrastructure riders, which allow timely returns on capital spending and customer growth.

The non-regulated operations include coal mining, gas marketing, pipeline construction and energy services. Coal mining and gas marketing operations have been hampered as of late due to reduced coal demand and thinning basis spreads.

Valuation

We average multiple valuation methodologies to derive our $31 target. Our NAV yields a value of $34. We value regulated assets at a multiple of rate base (1.7x for gas utilities). We value ProLiance at 8x earnings, in-line with our estimated marketing multiple. The company's coal mining and energy services segments are valued at 6x and 5x 2013E EBITDA, based on midstream and marketing multiples. These values are partially offset by the company's net debt. Our DDM values the company at $28. We calculate a hypothetical dividend, based on VVC's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use 2013E multiples of 16x for the gas utility and 16x for the electric utility and 10x for the company's unregulated assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 6.5x for the company's utility and unregulated assets. Our P/E and EV/EBITDA analyses yield values of $28 and $35.

Risks

The key risks to our investment thesis includes

(1) Capital Investment Growth — VVC spends capital to maintain and expand its utility systems. VVC relies on adequate base rates to earn its cost of capital.

(2) Concentration in the Midwest — Changes in the service area's economy could reduce demand for power.

(3) Gas and Purchased Power Costs — Higher costs can lead to higher working capital requirements and interest expense.

(4) Coal Margins — Key drivers behind the performance of the coal mining unit include coal prices, volumes and costs, which are all volatile.

(5) Non-Regulated Business — VVC's unregulated business continually enters into forwards and options that may create unanticipated losses.

(6) Capital Markets — VVC is a relatively small utility in terms of market cap and volume compared with other utilities. This may affect its ability to access the capital markets.

(7) Customer Growth — An unexpected increase or decrease in population could affect earnings substantially.

Events that would present upside risk to our target price include: 1) an improving economy in Vectren's service areas; 2) increased natural gas price volatility, including wider summer/winter differentials; and 3) improvements in coal production volumes and per unit margins.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Appendix A-1

Analyst Certification

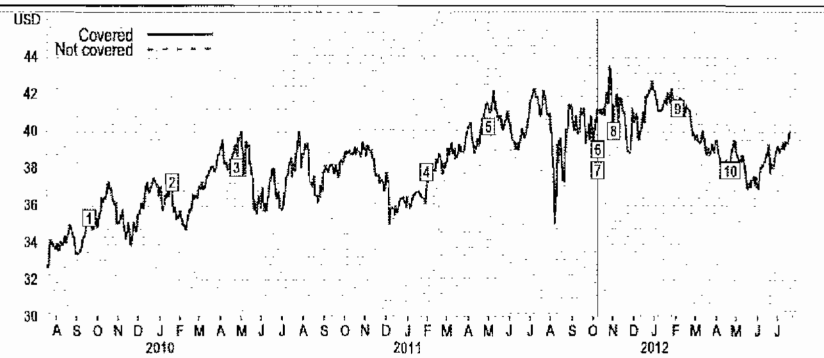
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

AGL Resources Inc (GAS)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



Date	Rating	Target Price	Closing Price
1 18-Sep-09	2M	*34.00	35.11
2 20-Jan-10	2M	*36.00	36.75
3 26-Apr-10	2M	*38.00	39.16
4 30-Jan-11	*1M	*41.00	36.09
5 2-May-11	*1L	*44.00	41.45
6 8-Oct-11	Stock rating system changed		
7 8-Oct-11	*2	44.00	40.44
8 2-Nov-11	2	*42.00	39.99
9 3-Feb-12	2	*43.00	41.55
10 23-Apr-12	2	*41.00	37.95

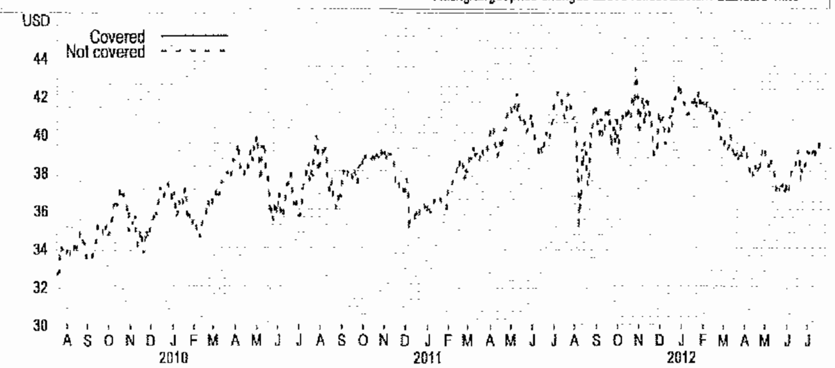
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AGL Resources Inc (GAS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



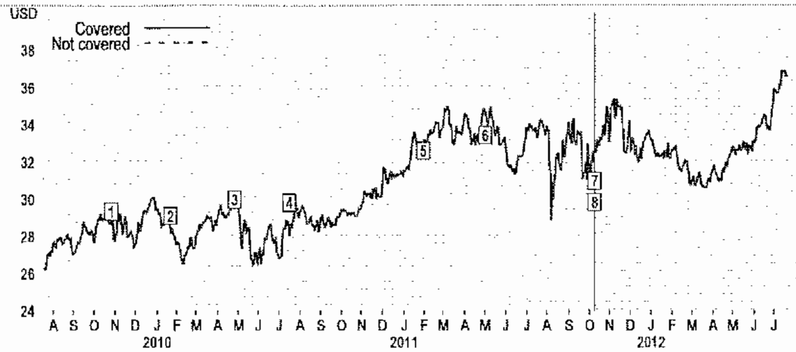
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2L	*28.00	28.84
2	21-Jan-10	2L	*30.00	28.55
3	27-Apr-10	2L	*31.00	29.46
4	16-Jul-10	*2M	*30.00	28.02
5	31-Jan-11	2M	*32.00	32.60
6	2-May-11	*2L	*35.00	34.61
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*2	35.00	31.94

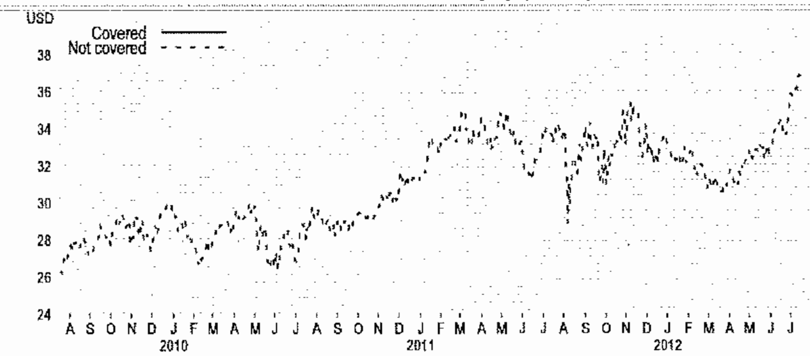
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



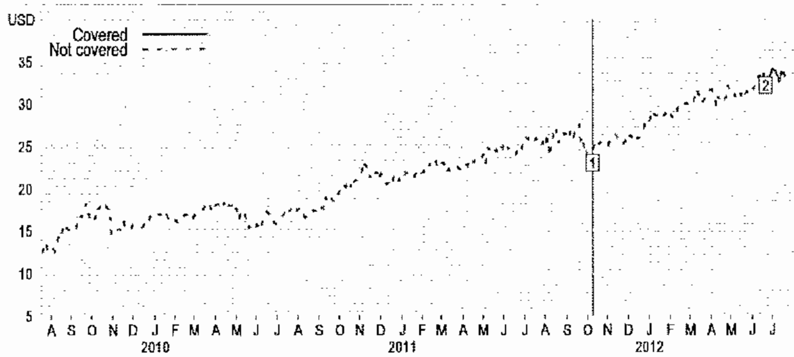
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Brookfield Infrastructure Partners (BIP)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since June 21 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	21-Jun-12	*2	*34.00	32.18

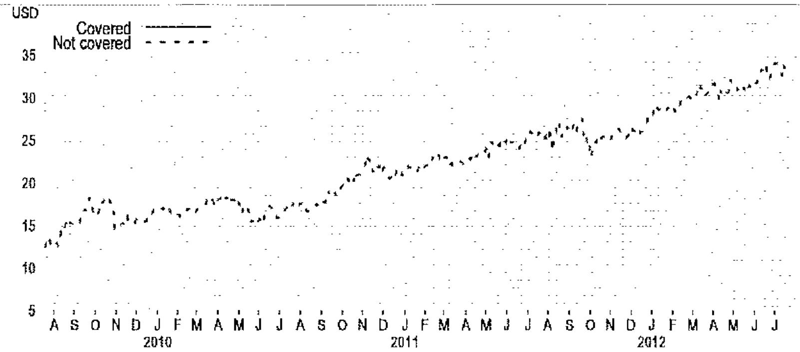
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Brookfield Infrastructure Partners (BIP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since June 21 2012



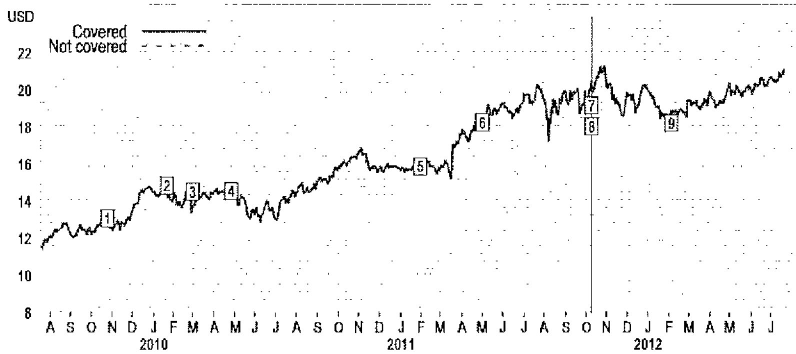
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	26-Oct-09	*1M	*14.00	12.70
2	21-Jan-10	1M	*16.00	14.56
3	1-Mar-10	1M	*15.50	13.60
4	27-Apr-10	1M	*16.00	14.18
5	31-Jan-11	1M	*18.00	16.15
6	2-May-11	1M	*21.00	18.59
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*2	21.00	19.93
9	3-Feb-12	*1	*22.00	18.88

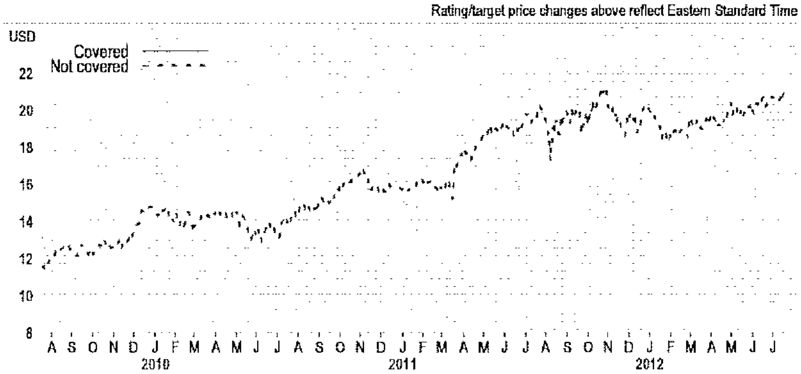
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



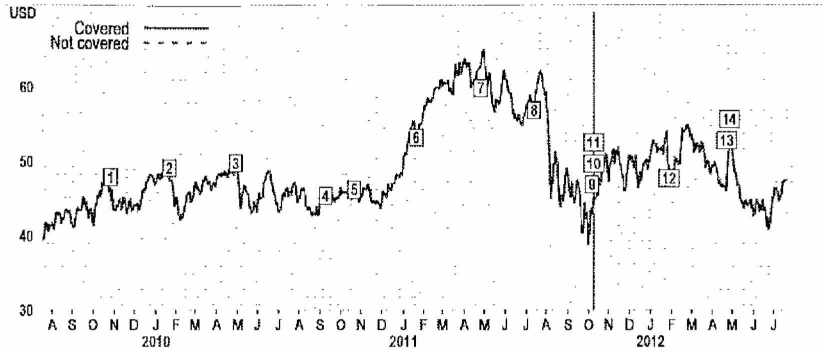
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Energen Corp (EGN)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2M	*46.00	46.55
2	21-Jan-10	2M	*50.00	48.35
3	29-Apr-10	2M	*51.50	48.71
4	9-Sep-10	2M	*49.00	44.96
5	21-Oct-10	2M	*50.00	45.04
6	20-Jan-11	2M	*60.00	53.84
7	26-Apr-11	2M	*64.00	62.82
8	13-Jul-11	*1M	*69.00	57.12
9	6-Oct-11	1M	*61.00	43.74
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	61.00	42.92
12	27-Jan-12	1	*63.00	49.29
13	23-Apr-12	1	*60.00	46.01
14	26-Apr-12	1	*65.00	51.30

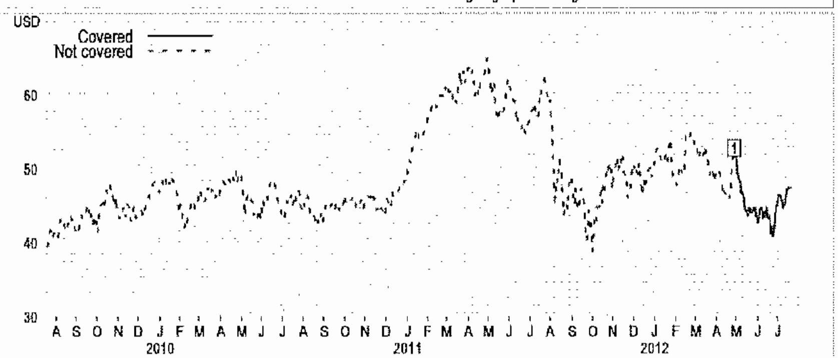
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Energen Corp (EGN)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Apr-12	*ADD MP	-	51.72

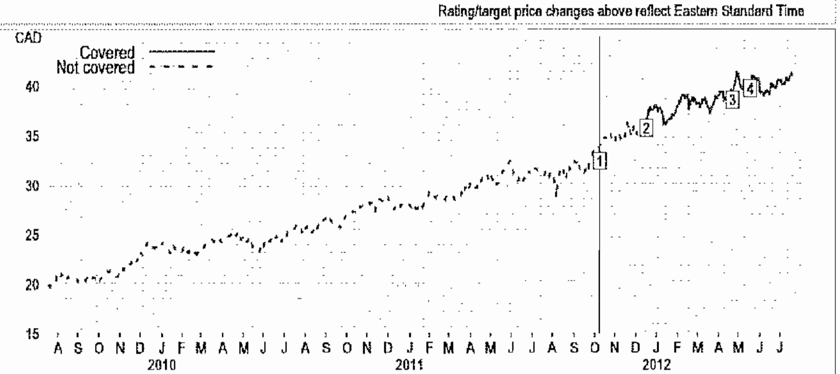
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB.TO)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since December 16 2011



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	16-Dec-11	*2	*37.37	35.85
3	23-Apr-12	2	*35.68	39.50
4	18-May-12	2	*41.50	40.03

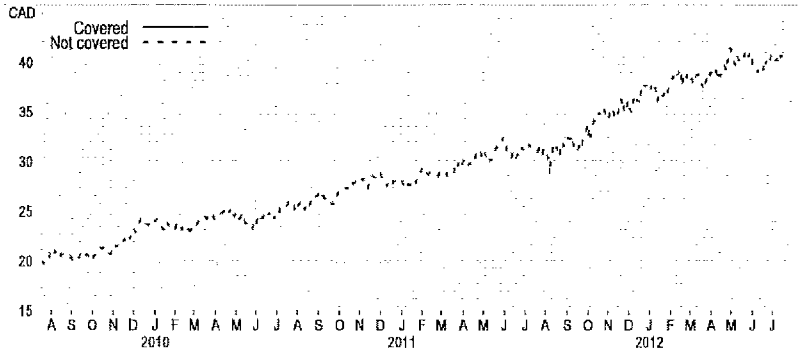
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB.TO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since December 16 2011



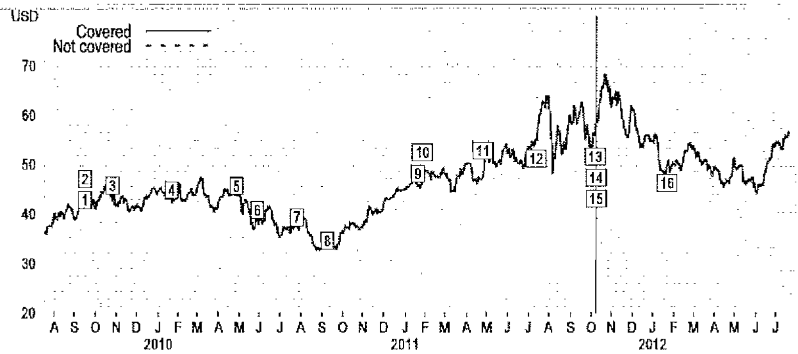
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

EQT Corporation (EQT)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	16-Sep-09	1H	*43.00	42.09
2	16-Sep-09	*2H	43.00	42.09
3	27-Oct-09	*2M	43.00	43.73
4	21-Jan-10	2M	*47.00	43.27
5	28-Apr-10	2M	*50.50	44.46
6	28-May-10	*1M	*50.00	39.19
7	27-Jul-10	1M	*46.50	37.39
8	9-Sep-10	1M	*41.50	34.50
9	20-Jan-11	*2M	*46.50	45.49
10	27-Jan-11	2M	*50.00	46.75
11	26-Apr-11	2M	*48.00	47.28
12	13-Jul-11	2M	*59.00	55.09
13	7-Oct-11	2M	*61.00	55.80
14	8-Oct-11	Stock rating system changed		
15	8-Oct-11	*2	61.00	55.80
16	23-Jan-12	2	*52.00	50.13

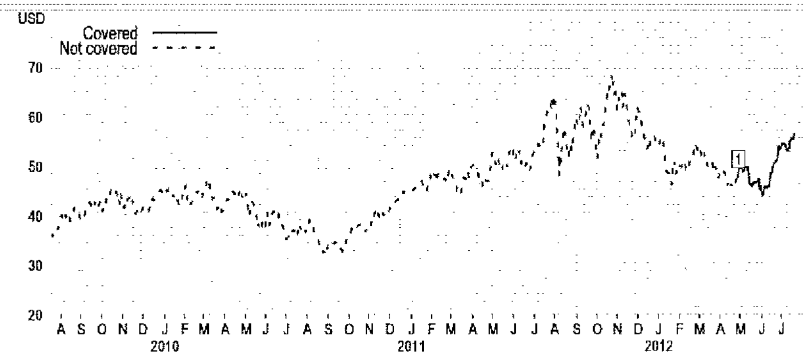
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

EQT Corporation (EQT)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Apr-12	*ADD LP	-	47.83

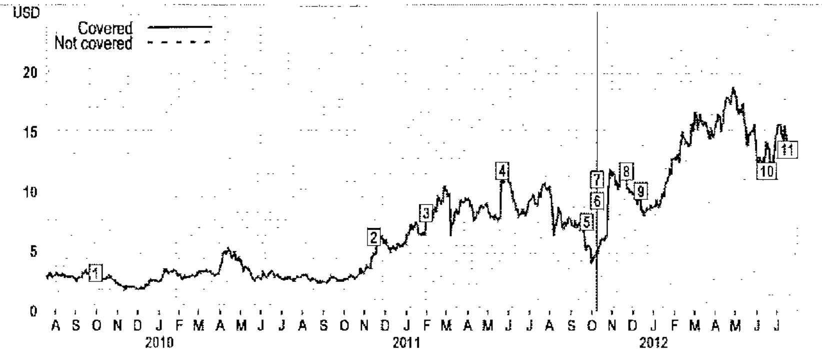
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Cheniere Energy Inc (LNG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



Date	Rating	Target Price	Closing Price
1 30-Sep-09	2S	*3.75	2.93
2 14-Nov-10	2S	*5.00	4.37
3 31-Jan-11	*1S	*10.00	7.31
4 23-May-11	1S	*15.50	11.76
5 23-Sep-11	1S	*14.00	5.07
6 8-Oct-11	Stock rating system changed		
7 8-Oct-11	*1H	14.00	4.60
8 22-Nov-11	1H	*19.00	11.34
9 13-Dec-11	1H	*16.00	9.34
10 15-Jun-12	1H	*26.00	14.10
11 17-Jul-12	1H	*23.00	13.84

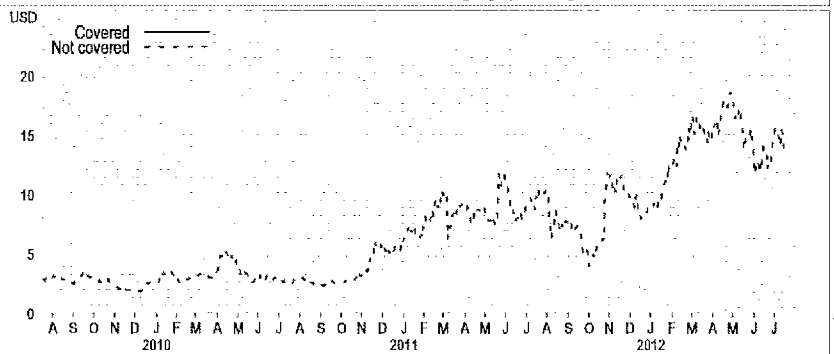
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Cheniere Energy Inc (LNG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



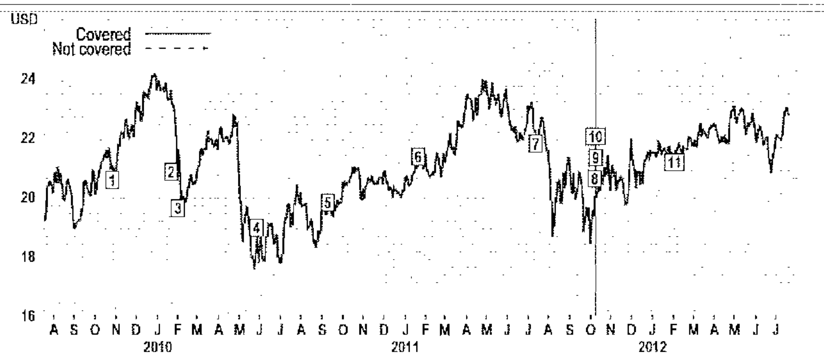
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MDU Resources Group Inc (MDU)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



Date	Rating	Target Price	Closing Price
1 27-Oct-09	*2M	*21.00	21.06
2 21-Jan-10	2M	*26.00	23.59
3 1-Feb-10	2M	*23.00	20.85
4 27-May-10	*1M	*22.50	18.22
5 9-Sep-10	1M	*22.00	19.53
6 20-Jan-11	1M	*23.50	21.32
7 13-Jul-11	*2M	*24.00	22.26
8 7-Oct-11	2M	*21.50	19.34
9 8-Oct-11	Stock rating system changed		
10 8-Oct-11	*2	21.50	19.34
11 2-Feb-12	2	*21.00	21.31

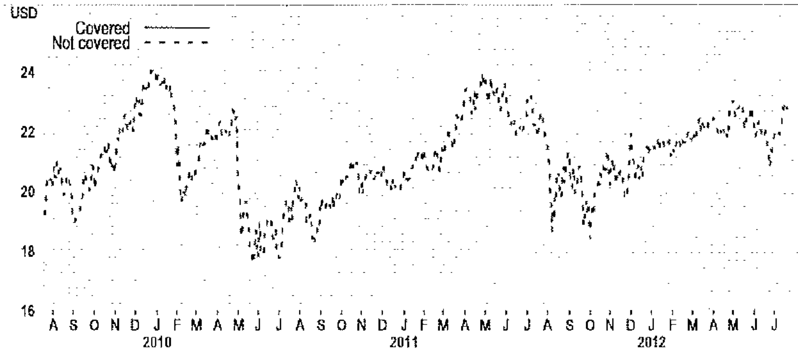
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MDU Resources Group Inc (MDU)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



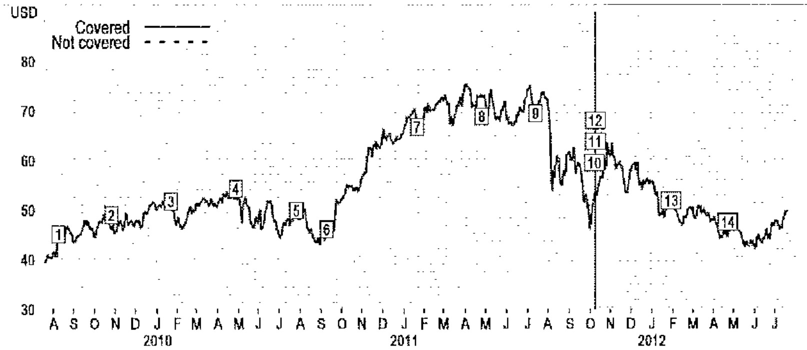
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

National Fuel Gas Co (NFG)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	9-Aug-09	*2H	*42.00	44.71
2	27-Oct-09	*2M	*47.00	46.42
3	21-Jan-10	2M	*52.00	51.09
4	28-Apr-10	2M	*54.00	52.67
5	27-Jul-10	2M	*52.00	49.20

	Date	Rating	Target Price	Closing Price
6	9-Sep-10	2M	*47.50	45.03
7	20-Jan-11	*3S	*67.00	66.81
8	26-Apr-11	3S	*79.00	73.45
9	13-Jul-11	*2H	70.00	70.82
10	7-Oct-11	*1H	*64.00	51.92

	Date	Rating	Target Price	Closing Price
11	8-Oct-11	Stock rating system changed		
12	8-Oct-11	*1	64.00	51.92
13	29-Jan-12	1	*63.00	50.56
14	23-Apr-12	1	*57.00	44.60

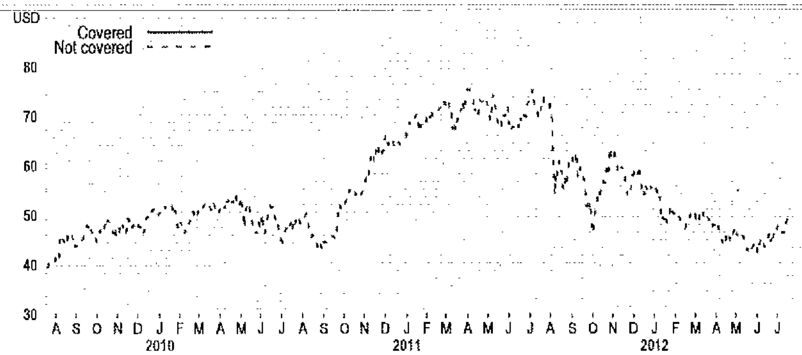
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

National Fuel Gas Co (NFG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011

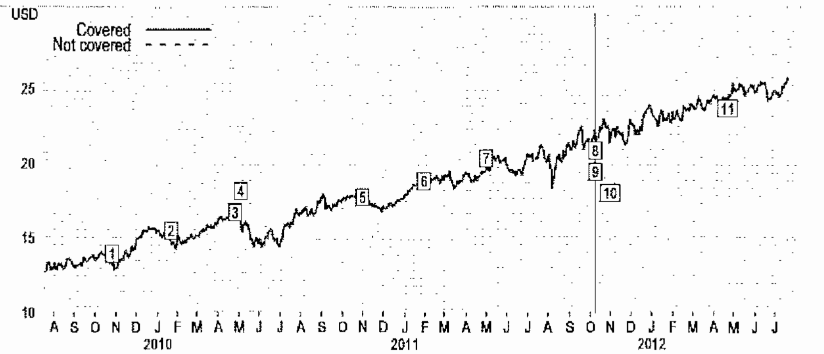


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



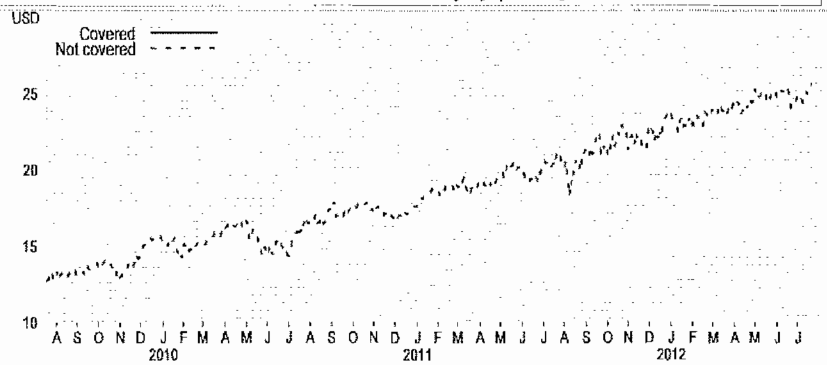
	Date	Rating	Target Price	Closing Price
1	27-Oct-09	1H	*15.00	13.47
2	21-Jan-10	*2M	*16.00	14.87
3	27-Apr-10	2M	*16.50	16.27
4	5-May-10	2M	*17.00	16.20
5	1-Nov-10	2M	*18.00	17.17
6	31-Jan-11	2M	*20.00	18.62
7	2-May-11	2M	*21.00	19.52
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	21.00	21.55
10	1-Nov-11	2	*22.00	21.32
11	23-Apr-12	2	*24.00	24.30

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA

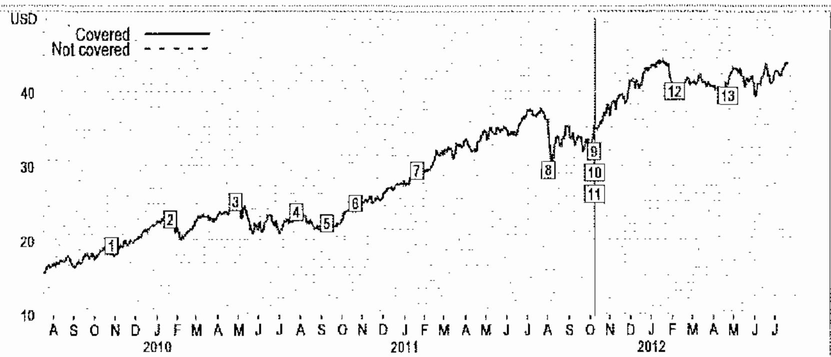


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Oneok Inc (OKE)

Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2M	*20.00	18.87
2	21-Jan-10	2M	*22.50	22.79
3	28-Apr-10	2M	*25.00	24.43
4	27-Jul-10	2M	*25.50	23.96
5	9-Sep-10	2M	*23.75	22.17
6	21-Oct-10	2M	*26.00	24.61
7	20-Jan-11	2M	*28.75	29.12
8	2-Aug-11	2M	*36.00	35.75
9	7-Oct-11	*1M	*37.50	33.96
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	37.50	33.96
12	3-Feb-12	*2	*43.00	40.85
13	23-Apr-12	2	*45.00	41.09

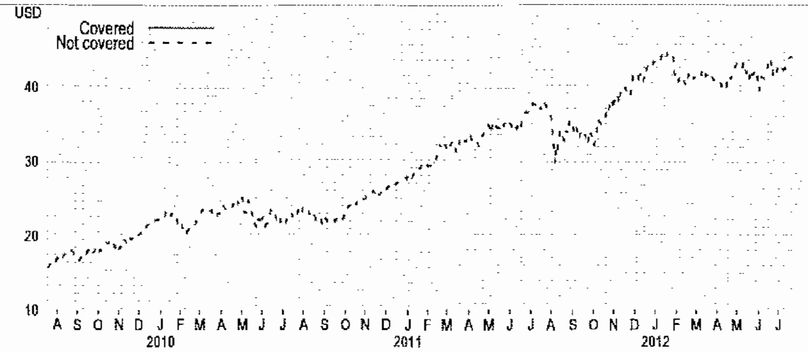
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Oneok Inc (OKE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



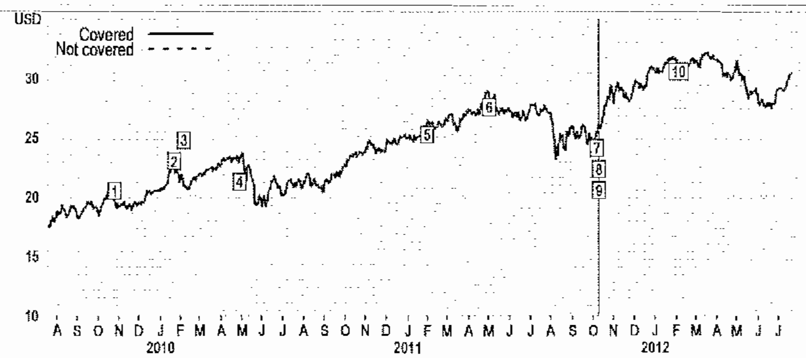
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	26-Oct-09	*3H	*18.00	19.69
2	21-Jan-10	3H	*21.50	22.61
3	4-Feb-10	*2H	21.50	20.93
4	28-Apr-10	2H	*23.00	23.15
5	31-Jan-11	*2M	*25.00	26.23
6	2-May-11	2M	*28.00	28.71
7	6-Oct-11	2M	*26.00	25.51
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	26.00	25.33
10	3-Feb-12	2	*32.00	30.56

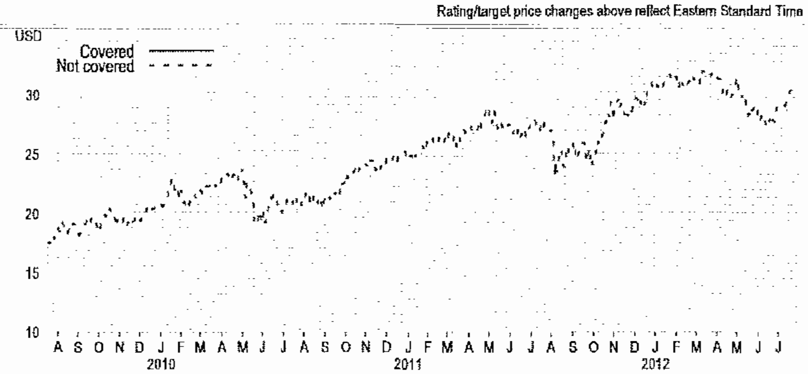
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



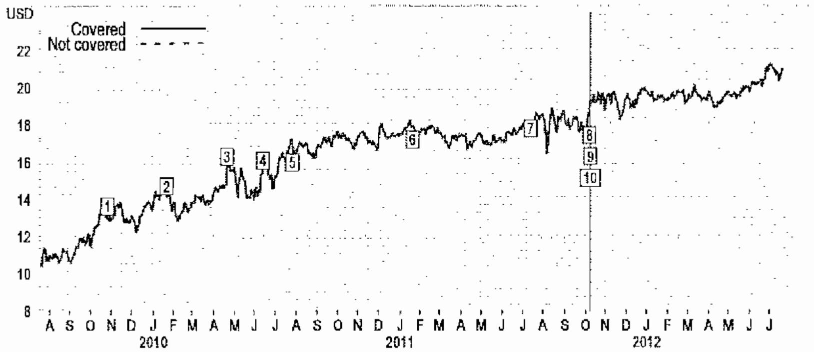
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*1M	*14.82	13.08
2	21-Jan-10	1M	*17.40	14.57
3	21-Apr-10	1M	*17.72	14.78
4	14-Jun-10	1M	*18.05	15.41
5	27-Jul-10	1M	*18.05	17.20
6	20-Jan-11	*1L	*19.00	17.92
7	13-Jul-11	1L	*19.25	17.99
8	7-Oct-11	1L	*20.50	18.55
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*1	20.50	18.55

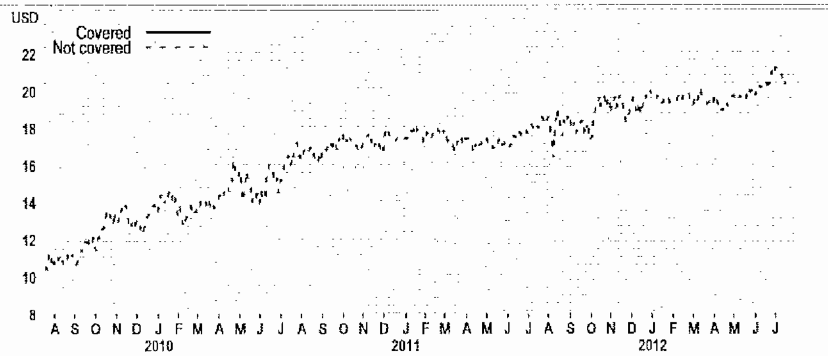
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



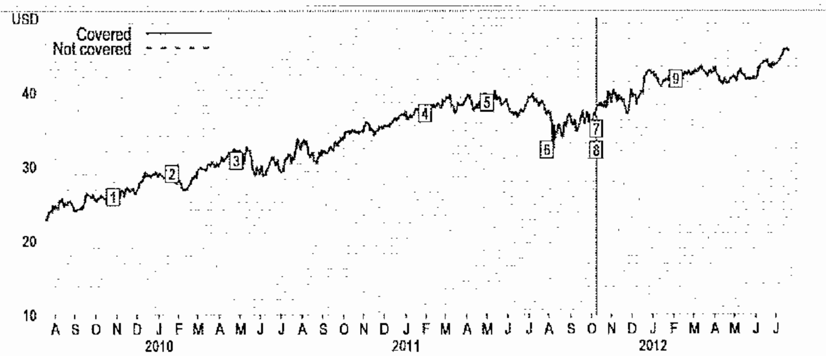
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*1M	30.00	25.21
2	21-Jan-10	1M	*35.00	28.31
3	27-Apr-10	1M	*37.00	31.51
4	31-Jan-11	*2M	*41.00	37.24
5	2-May-11	2M	*43.00	39.59
6	28-Jul-11	*1M	*45.00	37.09
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*1	45.00	36.78
9	3-Feb-12	1	*47.00	42.68

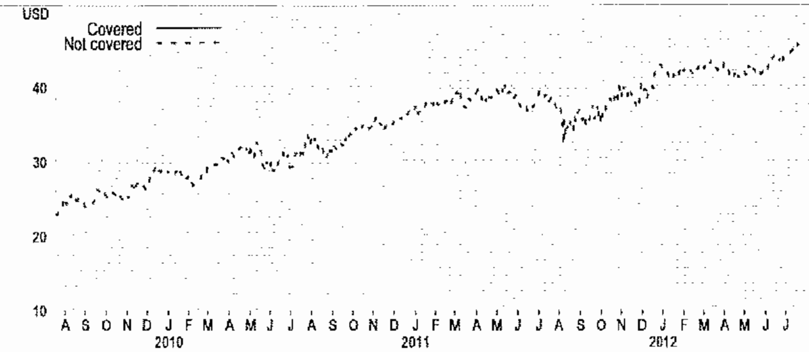
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



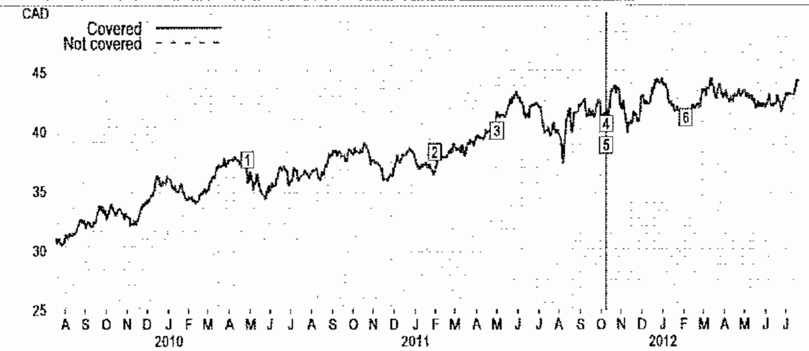
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	28-Apr-10	2H	*37.00	36.31
2	31-Jan-11	2H	*36.00	36.55
3	2-May-11	*2M	*40.00	41.62
4	6-Oct-11	Stock rating system changed		
5	8-Oct-11	*2	40.00	41.52
6	3-Feb-12	2	*42.00	41.50

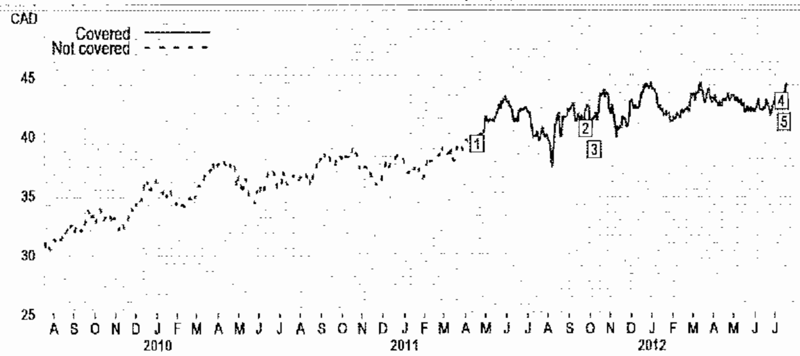
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	19-Apr-11	*ADD LP	-	39.83
2	26-Sep-11	*REM LP	-	42.29
3	7-Oct-11	*ADD LP	-	41.52
4	11-Jul-12	*REM LP	-	43.16
5	16-Jul-12	*ADD LP	-	43.35

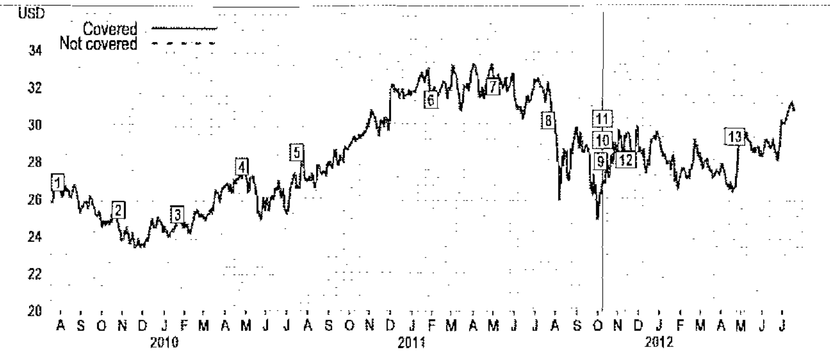
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UGI Corp (UGI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



Date	Rating	Target Price	Closing Price
1 29-Jul-09	2H	*26.00	26.78
2 27-Oct-09	*2M	26.00	24.79
3 21-Jan-10	*1M	*31.00	25.15
4 27-Apr-10	1M	*32.00	27.09
5 16-Jul-10	1M	*33.00	26.59

Date	Rating	Target Price	Closing Price
6 31-Jan-11	*2M	33.00	31.35
7 2-May-11	2M	*36.00	32.74
8 21-Jul-11	2M	*34.00	32.29
9 6-Oct-11	*1M	*31.00	26.40
10 8-Oct-11	Stock rating system changed		

Date	Rating	Target Price	Closing Price
11 8-Oct-11	*1	31.00	26.27
12 13-Nov-11	1	*33.00	29.41
13 23-Apr-12	1	*31.00	26.62

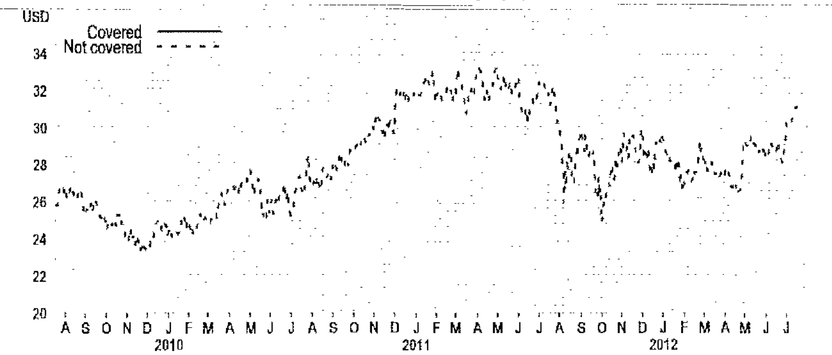
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UGI Corp (UGI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



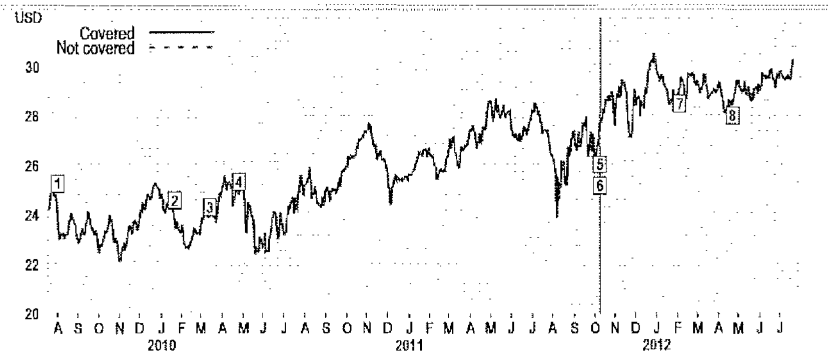
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



Date	Rating	Target Price	Closing Price
1 2-Aug-09	*2M	25.00	24.56
2 21-Jan-10	2M	*26.00	23.80
3 15-Mar-10	2M	*25.00	23.92

Date	Rating	Target Price	Closing Price
4 27-Apr-10	2M	*26.00	24.83
5 8-Oct-11	Stock rating system changed		
6 8-Oct-11	*2	26.00	26.77

Date	Rating	Target Price	Closing Price
7 3-Feb-12	2	*28.00	29.08
8 23-Apr-12	2	*29.00	28.46

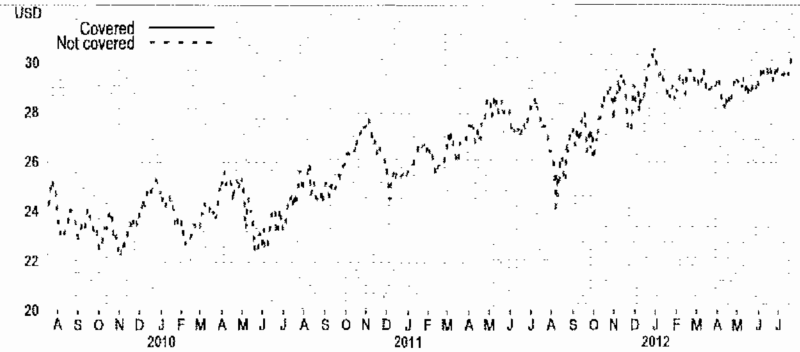
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



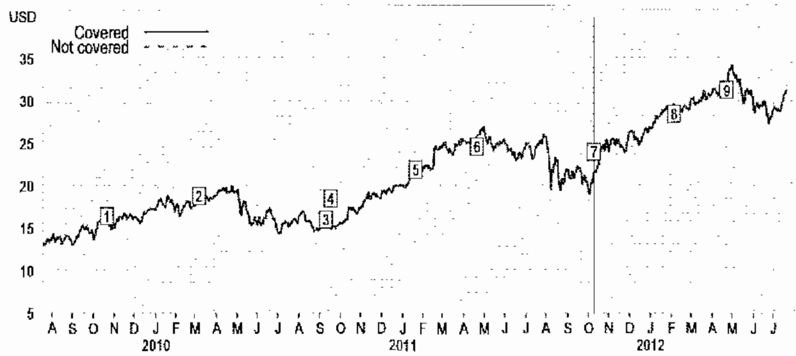
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Williams Companies Inc (WMB)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	21-Oct-09	*1M	*20.41	16.20
2	5-Mar-10	1M	*25.31	18.89
3	9-Sep-10	1M	*24.50	15.74
4	16-Sep-10	1M	*23.27	15.06
5	20-Jan-11	1M	*26.13	21.33
6	20-Apr-11	1M	*31.03	25.95
7	8-Oct-11	Stock rating system changed		
8	3-Feb-12	*1	*32.50	29.70
9	23-Apr-12	1	*36.00	32.31

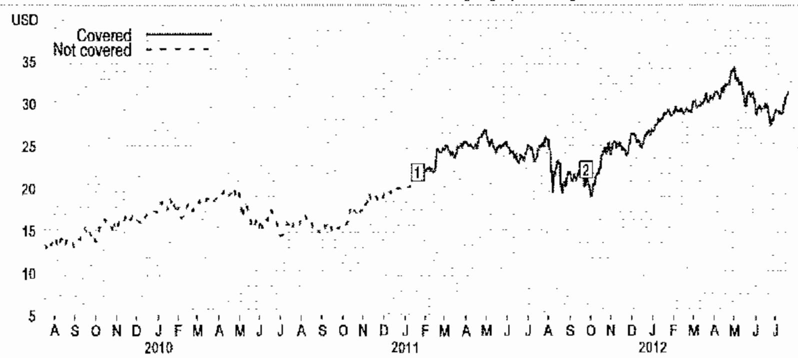
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Williams Companies Inc (WMB)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	21.33
2	26-Sep-11	*REM MP	-	21.36

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sioban G Hickie,Associate,holds a long position in the securities of Cheniere Energy Inc.

Citigroup Global Markets,Inc. was an advisor in Williams Partners LP's acquisition of Caiman Energy LLC.

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The Firm is a market maker in the publicly traded equity securities of Integrys Energy Group, Inc..

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	12 Month Rating			*Relative Rating*		
Data current as of 1 Jul 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	53%	37%	10%	10%	80%	10%
% of companies in each rating category that are investment banking clients	44%	43%	40%	48%	43%	45%

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Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings,** which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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Citigroup Global Markets Inc	Faisel Khan, CFA; Timm Schneider; John K Tysseland; Amit Marwaha; Sunil Sibal; Louis Lazzara; Anthony Pettinari

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 24 July 2012 09:35 AM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to CenterPoint Energy Inc, Enbridge Inc., EQT Corporation, Kinder Morgan Inc, MarkWest Energy Partners LP, NiSource Inc, Oneok Inc, Integrys Energy Group, Inc., UGI Corp, The Williams Companies Inc. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citiVelocity.com.)

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25 October 2012 | 75 pages

Integrated Natural Gas & Gas Utilities (Citi)
North America

Integrated Natural Gas & Gas Utilities

Q3 Preview; EGN Top Pick; LNG, SRE, WMB, KMI and ENB

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- **Valuations Remain Fair** – Since raising our target multiples on regulated utilities last quarter, the sector has continued to see multiple expansion versus the broader markets as investors scramble for yield and stability in earnings. Our proprietary Integrated Natural Gas index now trades at a 27% premium to the S&P 500. Since 2000, the index has traded at an average discount of 10% to the S&P. We think valuations at these levels are fair given Citi's outlook on interest rates, credit spreads and inflation. We don't expect significant downside from these levels given interest rates appear to be range bound and could grind lower at a slow pace in light of renewed efforts for further quantitative easing. Meanwhile, the trend in dividend growth rates remains appealing. Over the past five years, the sector has seen a CAGR of 10.5%. Our analysis assumes the dividend tax rate remains unchanged.

- **NGL Markets Likely to Remain Turbulent** — While fractionation capacity remains tight at the moment, an incremental ~600Kbbls/d of fractionation capacity (Belvieu) is expected to come on-line through Q1'14 and could further over-supply the Ethane market. We will likely continue to see pockets of price volatility until additional cracking capacity (via the petchems) comes on-line towards the second half of the decade. On the propane side, a cold winter would be the primary near-term driver to help work off some of the excess inventories. That said, our in-house forecasts is calling for a ~2% warmer-than-normal heating season. We expect an incremental 250Kbbls/d of propane export capacity will be on-line by 2014, however, this changes little to remediate the near-term supply glut.

- **Top Pick** — Energen (EGN) remains our Top Pick within the Integrated Natural Gas sector. Please see our recent deep-dive on EGN for additional color (EGN: Mirror, Mirror on the Wall, Who's the Most Undervalued of 'Em All?). On the quarter, we expect EGN management to tighten up 2013 production & capex guidance. EGN will host a conference call on October 25th at 11AM. Dial-in # 866.301.2585.

- **Other Recommendations** — We continue to remain bullish on Cheniere (LNG), and Sempra Energy (SRE) with leverage to the US LNG export thesis. We believe Williams (WMB) and Kinder Morgan (KMI, Covered by MLP team) are C-corporations that continue to offer superior dividend growth over the next several years. Lastly, shares of Enbridge (ENB) appear modestly under-valued given the recent sell-off and are now hovering around pre-analyst day levels.

Data Summary

Company	Ticker	Rating Old	Rating New	Target Price Old	Target Price New	Current Year Earnings Estimates Old	Current Year Earnings Estimates New
Atmos Energy	ATO	2	2	US$39.00	US$39.00	US$2.19	US$2.37
Brookfield Infr	BIP	2	2	US$34.00	US$34.00	US$1.14	US$1.14
CenterPnt Energy	CNP	1	1	US$23.00	US$23.00	US$1.20	US$1.24
Energen	EGN	1	1	US$65.00	US$65.00	US$3.53	US$3.53
Enbridge	ENB.TO	2	2	C$44.00	C$44.00	C$1.68	C$1.66
EQT	EQT	2	2	US$58.00	US$64.00	US$1.71	US$1.70
AGL Res	GAS	2	2	US$43.00	US$43.00	US$2.74	US$2.72
Cheniere Energy	LNG	1H	1H	US$25.00	US$25.00	US$-1.11	US$-1.11
MDU Res Grp	MDU	2	2	US$22.00	US$22.00	US$1.20	US$1.20
Natl Fuel Gas Co	NFG	1	1	US$57.00	US$57.00	US$2.48	US$2.49
NiSource Inc	NI	2	2	US$26.00	US$27.00	US$1.41	US$1.24
Oneok Inc	OKE	2	2	US$46.00	US$49.00	US$1.73	US$1.72
Spectra Ener	SE	2	2	US$29.00	US$29.00	US$1.50	US$1.57
Sempra Energy	SRE	1	1	US$80.00	US$80.00	US$4.19	US$4.19
Questar Corp	STR	2	2	US$21.75	US$21.75	US$1.17	US$1.17
Southwest Gas	SWX	2	2	US$50.00	US$50.00	US$3.03	US$2.79
Integrys En	TEG	2	2	US$55.00	-	US$3.45	US$3.00
TransCanada	TRP.TO	2	2	C$42.00	C$44.00	C$2.21	C$1.97
UGI	UGI	1	1	US$34.00	US$34.00	US$1.85	US$1.78
Vectren	VVC	2	2	US$31.00	US$31.00	US$1.78	US$1.79
Williams Cos Inc	WMB	1	1	US$36.00	US$40.00	US$1.22	US$1.17

Q3'12 Preview

Figure 1. CIRA EPS Forecasts vs. Consensus; Conference Call Information

Ticker	Company	CQ3 '12 CIRA Est.	CQ3 '12 Consensus*	Delta	FY 2012 CIRA Est.	FY 2012 Consensus*	Delta	FY 2013 CIRA Est.	FY 2013 Consensus*	Delta
GAS	AGL Resources	$0.15	$0.21	($0.06)	$2.72	$2.69	$0.02	$3.05	$3.01	$0.05
ATO	Atmos Energy **	$0.01	$0.08	($0.07)	$2.37	$2.29	$0.08	$2.48	$2.45	$0.03
CNP	Centerpoint Energy	$0.34	$0.33	$0.01	$1.24	$1.18	$0.06	$1.25	$1.27	($0.03)
LNG	Cheniere Energy	($0.17)	($0.27)	$0.10	($1.11)	($1.48)	$0.37	($0.70)	($1.43)	$0.73
ENB	Enbridge	$0.36	$0.35	$0.01	$1.66	$1.64	$0.02	$1.87	$1.87	$0.00
EQT	EQT Corporation	$0.34	$0.30	$0.04	$1.70	$1.52	$0.18	$2.02	$2.30	($0.28)
MDU	MDU Resources	$0.38	$0.39	($0.01)	$1.20	$1.17	$0.03	$1.33	$1.37	($0.05)
NFG	National Fuel Gas	$0.45	$0.38	$0.07	$2.49	$2.49	$0.01	$2.70	$2.62	$0.09
NI	NiSource	$0.02	$0.07	($0.05)	$1.24	$1.45	($0.21)	$1.53	$1.57	($0.04)
OKE	Oneok	$0.34	$0.32	$0.02	$1.72	$1.69	$0.03	$2.12	$2.04	$0.08
SWX	Southwest Gas	$0.06	($0.21)	$0.27	$2.79	$2.70	$0.09	$2.94	$2.86	$0.08
SE	Spectra Energy	$0.26	$0.30	($0.04)	$1.57	$1.58	($0.01)	$1.77	$1.79	($0.02)
SRE	Sempra Energy	$1.03	$1.00	$0.03	$4.19	$4.19	$0.00	$4.19	$4.28	($0.09)
STR	Questar	$0.19	$0.19	$0.00	$1.17	$1.18	($0.01)	$1.27	$1.27	$0.00
TEG	Integrys Energy	$0.28	$0.35	($0.07)	$3.00	$3.13	($0.14)	$3.23	$3.45	($0.22)
TRP	TransCanada***	$0.55	$0.54	$0.01	$1.97	$2.07	($0.11)	$2.51	$2.44	$0.06
UGI	UGI Corp**	($0.15)	($0.13)	($0.02)	$1.78	$1.83	($0.05)	$2.40	$2.50	($0.10)
VVC	Vectren Corporation	$0.25	$0.33	($0.08)	$1.79	$1.73	$0.05	$1.87	$1.87	$0.00
WMB	Williams	$0.25	$0.27	($0.02)	$1.17	$1.17	$0.00	$1.47	$1.38	$0.10

*FirstCall ** Sept Year End *** Canadian Dollars

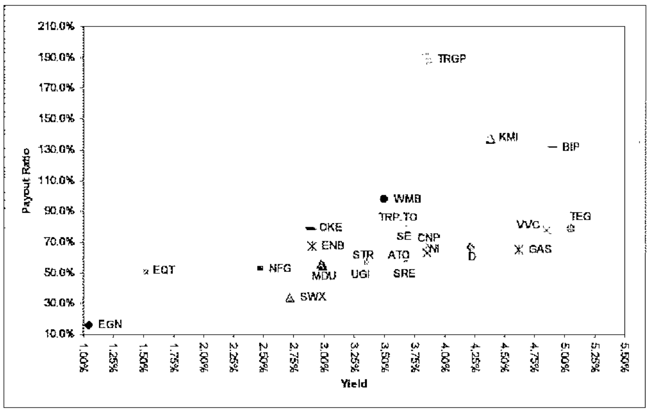
Ticker	Company	Conference Call Info			
		Date	Time	Number	Conference ID
GAS	AGL Resources	11/1	9:00 AM	866-383-8009	87750312
ATO	Atmos Energy	11/8	10:00 AM	877-485-3107	n/a
CNP	Centerpoint Energy	11/7	11:30 AM	800-653-1761	30496727
LNG	Cheniere Energy	N/A	N/A	N/A	N/A
ENB	Enbridge	11/6	9:00 AM	TBD	TBD
EGN	Energen	10/25	11:00 AM	866-901-2585	N/A
EQT	EQT Resources	10/25	10:30 AM	412-858-4600	10006583
TEG	Integrys Energy	11/6	9:00 AM	TBD	TBD
MDU	MDU Resources	11/1	11:00 AM	800-603-1779	N/A
NFG	National Fuel Gas	11/2	11:00 AM	800-299-6183	95413478
NI	NiSource	10/30	9:00 AM	888-286-8010	74213498
OKE	Oneok	10/31	11:00 AM	800-946-0712	8481950
STR	Questar	10/31	9:30 AM	800-309-9491	43180249
SWX	Southwest Gas	N/A	N/A	N/A	N/A
SE	Spectra Energy	11/1	9:00 AM	888-252-3715	40011318
SRE	Sempra Energy	11/6	1:00 PM	888-850-2545	7834926
TRP	TransCanada	10/30	11:00 AM	866-266-1793	N/A
UGI	UGI Corp	11/8	4:00 PM	877-317-6789	N/A
VVC	Vectren	11/5	2:00 PM	866-821-5457	N/A
WMB	Williams	10/31	9:30 AM	888-490-2771	N/A

Source: Citi Research, Factset

Where do Valuations & Yield Stand?

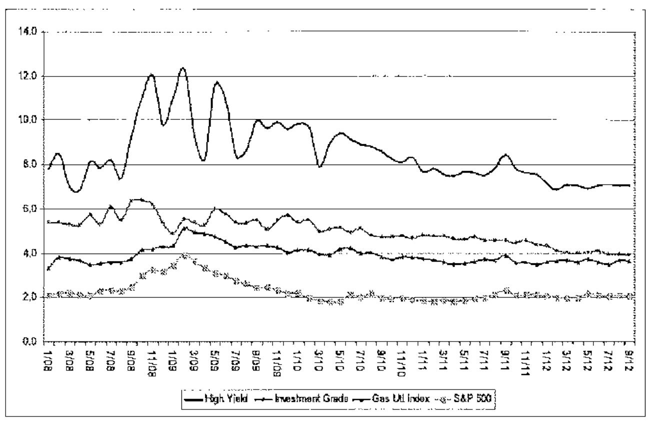
Overall, the integrated natural gas sector continues to provide above average yields versus the broader markets. Figure 2 shows the distribution of integrated natural gas companies in our universe, with their corresponding payout ratio and yield. The group has an average yield of 3.5%, and nearly 80% of the stocks are posting a yield more than 3%. Excluding the companies with disproportionate leverage to their MLP structure through LP/GP distributions (i.e. TRGP, KMI, BIP, WMB, OKE), payout ratios are within their historical range of 60-65% range. We don't expect this to deviate much over the next few years. Companies with higher than average payout ratios (i.e. 70%+), excluding those with an MLP, are primarily being impacted by weakness in their non-regulated businesses. This could limit further dividend growth in the near-term.

Figure 2. Integrated Natural Gas – Payout Ratio vs. Yields



Source: Citi Research, Factset

Figure 3. Comparing Yield Across Investments (2008-Present)

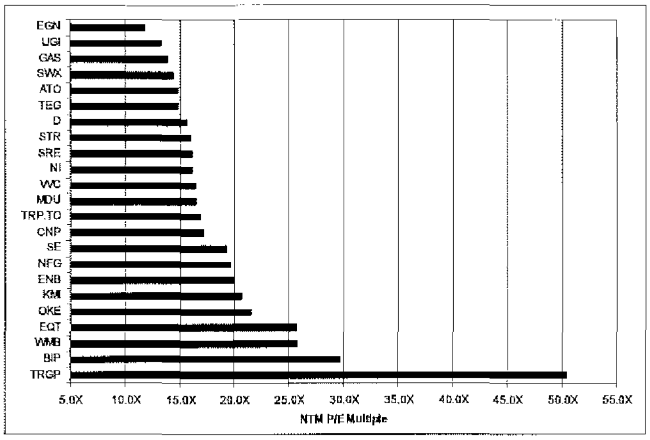


Source: Citi Research, Factset

Quantitative easing programs have significantly ramped up since 2008, and central banks have a dovish bias towards accommodative monetary policy and expected to remain intact until at least the middle of the decade. These policies have a distinct impact on investor expectations and have driven them to migrate towards higher yielding asset classes.

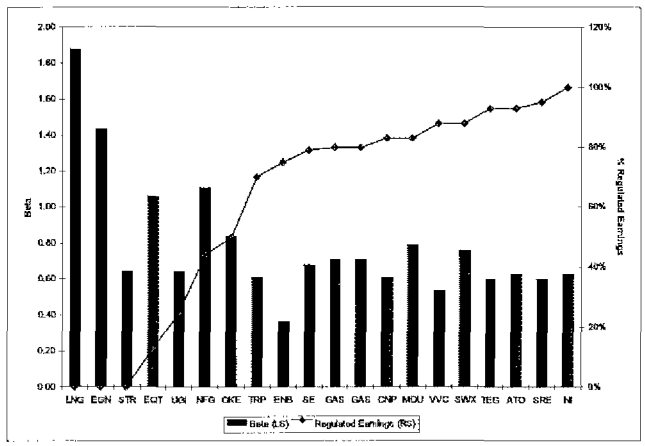
Figure 3 displays the gradual decline in yields on High Yield (HY) and Investment Grade (IG) bonds since 2008. Today, the spread between HY and IG bonds relative to our Gas Utilities index is ~+350 bps and –50 bps. This is significantly below the average yield spread over the past 4 years (i.e. 390 bps, +60 bps). So long as spreads between HY and IG bonds persist at these current levels, we think Gas Utilities valuations will remain within their current range. Hence, we don't think valuations from current levels will deviate significantly.

Figure 4. Integrated Natural Gas - Forward P/E Multiples



Source: Citi Research, Factset

Figure 5. Integrated Natural Gas – Beta vs. Regulated Earnings

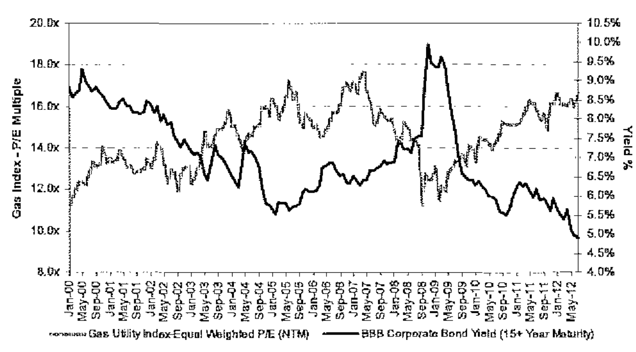


Source: Citi Research, Factset

Overall, integrated gas utilities traded at 19.4X FY13 earnings. Excluding names in the Figure 3 with significant leverage to MLP distributions, the group is trading at 16X FY13 earnings, in-line with our BBB bond yield methodology used to arrive at our target multiples for regulated utilities.

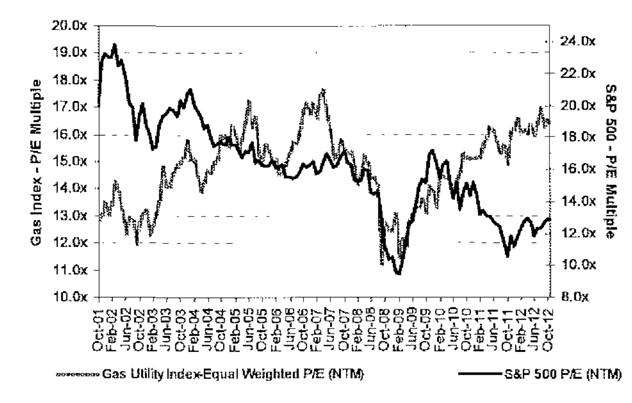
Currently, valuations are at ~95% of their peak multiples we witnessed in April/2007. Given the Citi Economics team outlook for the 10 year treasury and bond yields, we don't think the sector is susceptible to significant downside risk at this time given investors continued focus on yield and capital preservation. Nearly 65% of our universe generates three-quarters of its earnings stream from regulated businesses, which corresponds with average beta of 0.65 amongst this group.

Figure 6. Integrated Gas Utilities – Valuation vs. BBB Yields



Source: Citi Research, Factset

Figure 7. Integrated Gas Utilities – Valuation Comparison



Source: Citi Research, Factset

Despite the fact Integrated Gas Utilities have now experienced multiple expansion for 28 consecutive months versus the S&P 500, we think valuations are likely to persist at current levels as investors continue to pay-up for earnings stability and income.

Our view is contingent on legislators in the US being able to avoid the fiscal cliff and dividends tax rates not reverting to ordinary income tax levels. If the US government is unable to come up with a revised plan for tax rates in coming months, there could be meaningful downside risk to valuations for our sector.

Commodity Prices

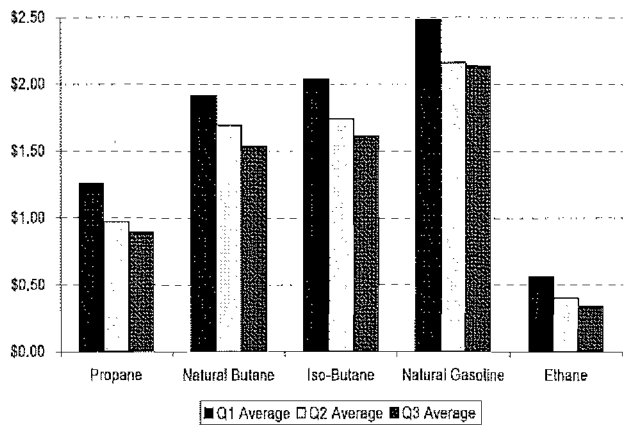
Figure 8. CIRA Commodity Price Forecasts

	1QA 2012	2QA 2012	3QA 2012	4QTD 2012	2012E	1QE 2013	2QE 2013	3QE 2013	4QE 2013	2013E
Oil Prices ($/bbl)										
West Texas Intermediate	$ 102.99	$ 93.30	$ 92.16	$ 91.31	$ 94.94	$ 92.00	$ 82.00	$ 87.00	$ 82.00	$ 85.75
WTS Midland	$ 99.32	$ 88.02	$ 88.85	$ 87.94	$ 91.03	$ 89.24	$ 79.54	$ 84.39	$ 79.54	$ 83.18
Bakken (Clearbrook)	$ 90.61	$ 86.75	$ 91.04	$ 93.37	$ 90.44					
Differentials ($/bbl)										
WTS Midland	$ (3.67)	$ (5.28)	$ (3.31)	$ (3.37)	$ (3.91)	$ (2.76)	$ (2.46)	$ (2.61)	$ (2.46)	$ (2.57)
Bakken	$ (12.38)	$ (6.55)	$ (1.12)	$ 2.06	$ (4.50)					
Natural Gas Prices ($/MMBtu)										
US Henry Hub	$ 2.43	$ 2.29	$ 2.88	$ 3.25	$ 2.71	$ 3.60	$ 3.60	$ 3.60	$ 3.60	$ 3.60
US Rockies (Opal)	$ 2.40	$ 2.16	$ 2.75	$ 3.27	$ 2.65	$ 3.55	$ 3.40	$ 3.41	$ 3.58	$ 3.49
Canada (AECO hub)	$ 2.12	$ 1.88	$ 2.31	$ 2.96	$ 2.32	$ 3.14	$ 2.96	$ 3.27	$ 3.37	$ 3.19
Natural Gas Liquids ($/Gal)										
NGL	$ 1.27	$ 1.00	$ 0.95	$ 1.08	$ 1.07	$ 1.08	$ 0.97	$ 1.02	$ 0.97	$ 1.01
% NGL-to-Brent	*45%*	*39%*	*36%*	*40%*	*40%*	*43%*	*43%*	*43%*	*43%*	*43%*
North American Chemical Margins										
Ethylene (cents/lb)	25.9	27.4	24.7	22.1	25.0	21.9	24.4	19.6	20.9	21.7
High Density Polyethylene ($/ton)	$ (127)	$ (40)	$ (60)	$ 4	$ (56)	$ 9	$ 30	$ 86	$ 35	$ 40
Polypropylene (cents/lb)	2.2	0.9	2.4	2.6	2.0	2.2	2.3	3.4	3.0	2.7

Source: Citi Research

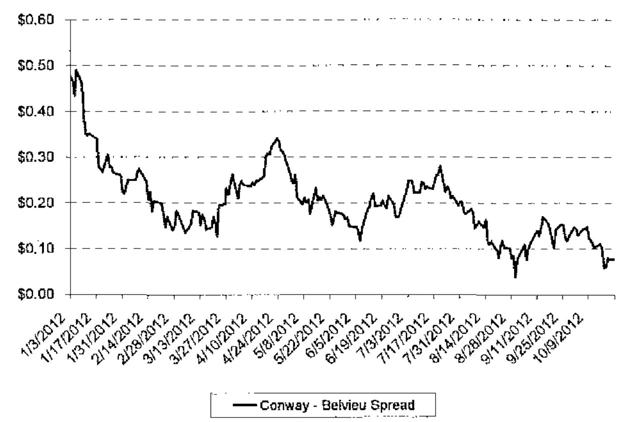
During the Quarter, natural gas prices posted a 26% sequential increase to \$2.88/Mcf. WTI remained relatively flat, down ~1% sequentially to \$92.16/bbl while composite NGL prices declined ~6% to \$0.95/gal. We provide a more detailed NGL breakout by product below.

Figure 9. NGL Product Prices ($/gal) by quarter



Source: Citi Research, Bloomberg

Figure 10. Conway – Belvieu Ethane – Propane Mix ($/gal) Differential

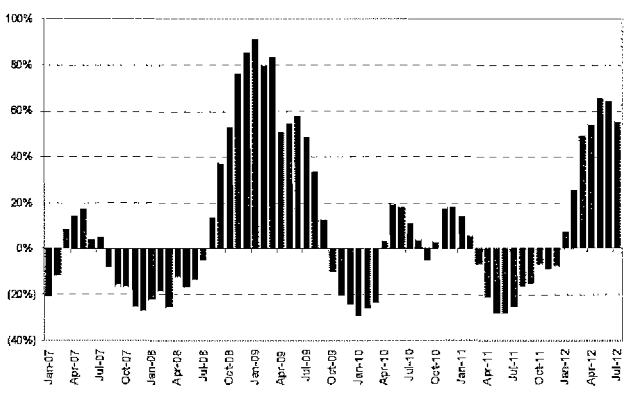


Source: Citi Research, Bloomberg

Ethane prices averaged ~$0.34/gal at Mt Belvieu during Q3, with Propane at ~$0.89/gal. The purity Ethane – Propane mix spread between Belvieu & Conway compressed to ~$0.16/gal during Q3 versus ~$0.22 in Q2.

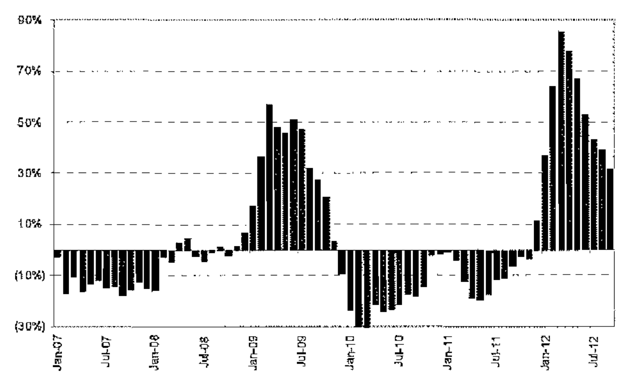
Generally speaking, Ethane & Propane prices (which make up over 50% of the average composite NGL barrel) remain under pressure as the supply – demand dynamic of increased liquids directed drilling and lack of downstream demand create an unfavorable pricing environment. In turn, we have seen Ethane & Propane inventories surge versus historical norms (see charts below), though we note that the recent y/y surplus has been trending lower.

Figure 11. Y/Y % Change in Ethane Inventories



Source: Citi Research, EIA

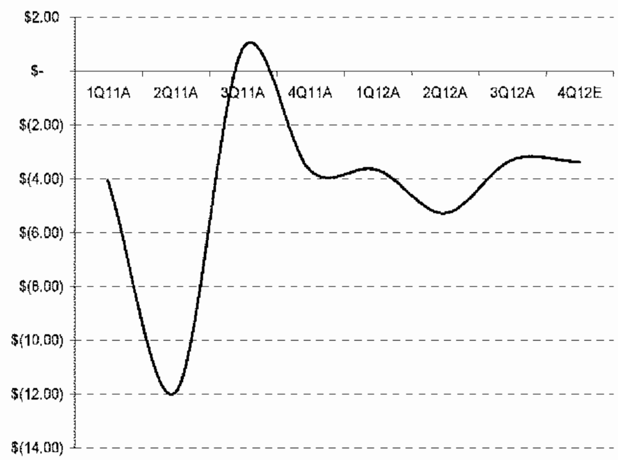
Figure 12. Y/Y % Change in Propane Inventories



Source: Citi Research, EIA

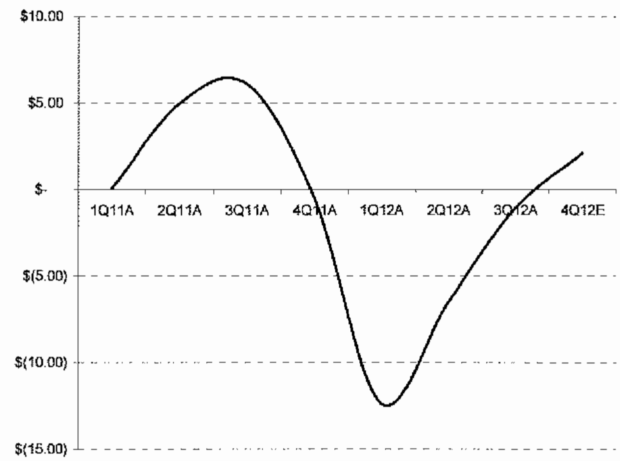
We believe the NGL markets will likely remain volatile over the near-term. While fractionation capacity remains tight at the moment, an incremental ~600Kbbls/d of fractionation capacity (Belvieu) is expected to come on-line through Q1'14 and could further over-supply the Ethane market. We will likely continue to see pockets of price volatility until additional cracking capacity (via the petchems) comes on-line towards the second half of the decade. On the propane side, a cold winter would be the primary near-term driver to help work off some of the excess inventories. That said, our in-house forecast is calling for a 2% warmer-than-normal heating season. We expect an incremental 250Kbbls/d of export capacity will be on-line by 2014, however, this changes little to remediate the near-term supply glut.

Figure 13. WTI – Midland (WTS) Differential ($/bbl)



Source: Citi Research, Bloomberg

Figure 14. WTI – Bakken (Clearbrook) Differential ($/bbl)



Source: Citi Research, Bloomberg

Permian differentials (vs. WTI) compressed slightly to a ~$3/bbl discount versus $5/bbl in Q2. The only name with Permian E&P exposure under our coverage universe is our Top Pick Energen (EGN), which we are reflecting in our operating model and assumptions for Q3.

Bakken differentials, using Clearbrook as a proxy, have also come in substantially since the beginning of the year as a result of (primarily) increased rail capacity. Bakken barrels can now access coastal markets (~80Kbb;/d make it to St. James, for example) and are being priced versus LLS and / or Brent, a more profitable outlet for producers even after adjusting for shipping costs of ~$12 - $16/bbl+ given prevailing Brent / LLS & WTI spreads. We estimate that Clearbrook barrels averaged ~$91/bbl, or a ~$1 differential to WTI. This is in stark contrast to the ~$12/bbl discount we witnessed in Q1'12. Out of our Integrated Gas group, only Least Preferred MDU Resources (MDU) has Bakken exposure, and we have adjusted our operating model.

Figure 15. Earnings Estimates & Commentary

Company	Q3-2012 Estimates		Comments
	Earnings	Consensus	
ATO	EPS: $0.01 EBIT: $42 MM	EPS: $0.08 EBIT: $47 MM	LDC - ATO appealed its Mid-Tex rate case ($47 mm) to the Railroad Commission of Texas, decision by Dec 20/12. During Q3, ATO filed for a rate increase at its KY LDC (10.5% ROE, 51% Equity, $37 mm rate increase) and in TN ($11 mm, 11% ROE, 51% Equity, $209 mm). Expect marginal loss at Non-regulated segment as Oct/Jan spread up 20% Y/Y in Q3/12, but implied volatility fell during quarter. Earnings growth to average 6-8% to 2016, >90% regulated earnings
BIP	FFO: $0.55 EBITDA: $204 MM	FFO: $0.56 EBITDA: $201MM	Our FFO estimate is in-line with consensus. We primarily expect and update on closing time with respect to the recent utility acquisitions in UK & Latin America. We would also look for additional color on divestitures of non-core assets (Timber) as well as color on potential North American midstream acquisitions. Maintain Neutral & $34 Target
CNP	EPS: $0.34 EBIT: $336 MM	EPS: $0.33 EBIT: $339 MM	Total rig count during Q3/12 in Haynesville & Fayetteville now ~1/3 of total outstanding rigs during the same period last year. Recent increase in gas prices could improve volumes into 2013. Focus shifted to gathering & processing liquid rich plays and crude remains an option.Potential partnership with E&P looking for take-or-pay structure. $1.7 Bn in debt coming due over the next two years.
ENB	EPS: $0.36 EBIT: $664 MM	EPS: $0.35 EBIT: $650 MM	We are in-line with consensus for Q3. Enbridge recently hosted an Analyst Meeting in New York. We don't really expect any groundbreaking news on the call but are looking for additional color on the recent Cabin Gas plant deferral as well as an update on major growth projects. ENB's EPS guidance is ~10-12% growth through 2016. We maintain our Neutral Rating & C$44 Target. Given the recent pull-back, shares of ENB appear mildly undervalued at current levels.
EQT	EPS: $0.34 EBIT: $115 MM	EPS: $0.30 EBIT: $112 MM	We are $0.04p/s above consensus, though we realize that the EPS number can vary quite a bit on a quarterly basis given potential re-sale of capacity on the TGP 300 line (impacts Midstream costs for E&P biz). This will be EQT's first earnings call since the MLP (EQM) went public. The latter will host its own conference call. We hope to get some more color on future asset drop-downs from EQT to EQM. Also hope to get some incremental color on how EQT can pull forward NPV (potential additional strategic initiatives on the horizon). We maintain our Neutral Rating $58 Target
GAS	EPS: $0.15 EBIT: $70 MM	EPS: $0.21 EBIT: $82 MM	Lowering FY12 guidance to $2.60-$2.75 from $2.80-$2.95 on milder weather Q3/12 Pre-announcement of $16 mm ($0.08 per share) pre-tax hedge loss at Wholesale segment. Investors already pricing in impact of warmer weather and soft trading results. Expect recovery of losses from trading in Q412/Q113 on physical gas sales

Source: Citi Research, Factset

Figure 16. Earnings Estimates & Commentary

Company	Q3-2012 Estimates Earnings	Q3-2012 Estimates Consensus	Comments
MDU	EPS: $0.38 EBIT: $132 MM	EPS: $0.39 EBIT: $135 MM	MDU remains on the Least Preferred list.Our Q3 estimate is in line with consensus. We are looking for additional drilling results on the company's Richland County (Bakken) Acreage. MDU's initial two wells IPs at an average ~150boe/d but the company has gone back for recompletion. We assume Richland county is worth ~$1.50p/s and fully include this in our DCF valuation. We maintain our Neutral Rating & $22 Target.
NI	EPS: $0.02 EBIT: $112 MM	EPS: $0.07 EBIT: $148 MM	Potential decision on Col. Gas of MA rate case decision later this month. Raising target price to $27 per share
NFG	EPS: $0.45 EBIT: $85 MM	EPS: $0.38 EBIT: $74 MM	We are above the Street for FQ4. 2013 Guidance is already out there and the company already gave an ops update on the Utica & Marcellus during the quarter. We do not expect any incremental Utica well results on this call. Company could get some questions on MLP on the call. We are towards high-end of company guidance range for FY'12. We maintain our Buy rating & $57 Target
OKE	EPS: $0.34 EBIT: $245 MM	EPS: $0.32 EBIT: $230 MM	We are marginally above consensus here for Q3. OKE recently hosted an analyst meeting in NYC so story should be relatively fresh on investor's minds. We expect a general update on the NGL markets and some additional update on progress of the open season of the Bakken pipeline. OKE likely will not be able to comment on the ongoing utility rate case (currently in negotiations). We estimate a $0.16/gal Conway - Belvieu optimization spread
TEG	EPS: $0.28 EBIT: $47 MM	EPS: $0.35 EBIT: $55 MM	$440 mm acquisition of power plant expected to close in early Q2/13, included in rate base at WPS, potential $0.15-0.20 uplift to EPS in 2014 Expect margin compression at IES due to increasing retail competition in IL. WPS electric & gas rate case settlement filed. Could result in incremntal $16 mm increase in rates in 2013 if approved. Lowering 2012/2013/2014 EPS to $3.00/$3.23/$3.44 from $3.45/$3.68/$3.86 on weakness in retail, pressure on ROEs in Illinois and need to raise equity over the next 12 months to fund acquisition and maintain leverage ratios. FY 2012 Guidance $3.00-$3.15 per share Reducing target price from $59 to $55 per share
TRP	EPS: $0.55 EBIT: $815 MM	EPS: $0.54 EBIT: $757 MM	Headwinds at West Power, Bruce Power outages to be a drag on quarter Valuation is fair at these levels; clarity on Mainline to be resolved in early 2013

Source: Citi Research, Factset

Figure 17. Earnings Estimates & Commentary

Company	Q3-2012 Estimates Earnings	Q3-2012 Estimates Consensus	Comments
SWX	EPS: $0.06 EBIT: $19 MM	EPS: -$0.21 EBIT: -$4 MM	Nevada PUC expected to issue decision by late October, on pending gas rate proceeding (Docket No. 12-04005). SWX requesting $27 mm base rate increases, 10.65% ROE (53.56% of Equity), $940 mm rate base. Staff recommending a rate increase of $8.3 mm increase, 9.1% ROE (53.56% Equity). We assume an increase of $10 mm in our model. Rate case in CA filed for ~$12 mm. Decision expected in 2014. Update on NPL organizational changes and outlook for construction spending
SE	EPS: $0.26 EBIT: $414 MM	EPS: $0.30 EBIT: $414 MM	Empress continues to remain a headwind on weak frac spreads, NGL prices bottomed in early part of Q3/12 as Petchem demand returns during the quarter but correlation to Oil remains at historic low levels
STR	EPS:$0.19 EBIT: $65 MM	EPS: $0.19 EBIT: $64 MM	Our estimate is in-line with consensus for Q3. 2013 Guidance on Call. We recently downgraded STR to Neutral from Buy based on valuation. Solid management team and assets - but not a cheap name on valuation. Don't expect any near-term catalysts other than Wexpro II approval, which already seems to be discounted in stock. We maintain our Neutral & $21.75 Target
SRE	EPS: $1.03 EBIT: $483 MM	EPS: $1.00 EBIT: N/A	Mexican pipeline estimated to cost $1 BN, projected to come on-line by 2015, 25 yr firm capacity contracts in USD, Could add between $0.20-$0.25 per share to earnings by 2016 EIX GRC ~50% of request. In-line with expectations. SRE decision could occur late December or in early 2013.
UGI	EPS: -$0.15 EBIT: $42 MM	EPS: -$0.13 EBIT: -$20 MM	FY 2013 Guidance $2.45-$2.55 per share. Potential up-side at midstream segment
VVC	EPS: $0.25 EBIT: $63 MM	EPS: $0.33 EBIT: $79 MM	Look to infrastructure segment to offset on-going weakness in Coal and Marketing Utilities to be in-line
WMB	EPS: $0.25 EBIT: $415 MM	EPS: $0.27 EBIT: $435 MM	We below consensus for Q3. We have updated our model to reflect the announced Geismar drop-down. Our target price is now $40p/s (mostly as a result of valuation uplift from Geismar as well as updates to our operating model). We maintain our Buy rating. Our math indicates that the hurricane had a ~$0.03p/s impact on WMB EPS in Q3'12. We expect much of the conference call to focus on the current state of the NGL & midstream markets as well as any incremental color on the Geismar drop-down to WPZ and potential expansions / acquisitions on the Olefins side.

Source: Citi Research, Factset

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

AGL Resources Inc (GAS)

- Refer to Figure 15 for details

- Company Update
- Estimate Change

Faisel Khan, CFA
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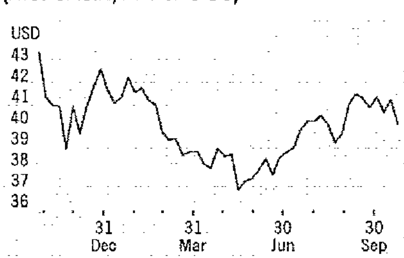
Neutral	**2**
Price (24 Oct 12)	US$40.09
Target price	US$43.00
Expected share price return	7.3%
Expected dividend yield	4.6%
Expected total return	**11.8%**
Market Cap	US$4,711M

Price Performance
(RIC: GAS.N, BB: GAS US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.59A	0.22A	0.03A	0.88A	2.74A	2.92A
2012E	**1.18A**	**0.26A**	**0.15E**	**1.12E**	**2.72E**	**2.69E**
Previous	1.18A	0.28A	0.14E	1.14E	2.74E	na
2013E	**1.18E**	**0.45E**	**0.26E**	**1.17E**	**3.05E**	**3.01E**
Previous	1.17E	0.33E	0.25E	1.17E	2.92E	na
2014E	**1.17E**	**0.44E**	**0.25E**	**1.20E**	**3.06E**	**3.11E**
Previous	1.20E	0.32E	0.24E	1.20E	2.97E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Atmos Energy Corp (ATO)

- Company Update
- Estimate Change

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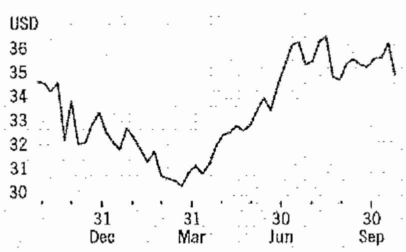
Neutral	**2**
Price (24 Oct 12)	US$35.24
Target price	US$39.00
Expected share price return	10.7%
Expected dividend yield	3.9%
Expected total return	**14.5%**
Market Cap	US$3,178M

Price Performance
(RIC: ATO.N, BB: ATO US)



- Refer to Figure 15 for details

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.76A	1.65A	0.08A	-0.21A	2.28A	2.34A
2012E	**0.72A**	**1.33A**	**0.32A**	**0.01E**	**2.37E**	**2.29E**
Previous	0.72A	1.33A	0.14E	0.00E	2.19E	na
2013E	**0.82E**	**1.39E**	**0.27E**	**0.01E**	**2.48E**	**2.45E**
Previous	0.84E	1.40E	0.15E	0.02E	2.41E	na
2014E	**0.86E**	**1.40E**	**0.28E**	**0.03E**	**2.56E**	**2.60E**
Previous	0.85E	1.41E	0.15E	0.01E	2.42E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Electric Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Brookfield Infrastructure Partners (BIP)

- Refer to Figure 15 for details

- **Company Update**

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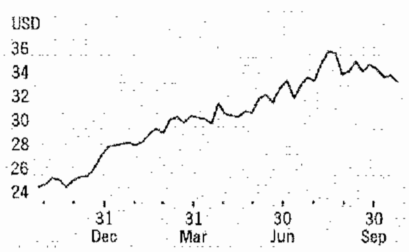
Neutral	**2**
Price (24 Oct 12)	US$33.88
Target price	US$34.00
Expected share price return	0.4%
Expected dividend yield	4.9%
Expected total return	**5.3%**
Market Cap	US$4,813M

Price Performance
(RIC: BIP.N, BB: BIP US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.29A	0.17A	0.38A	0.30A	1.13A	1.15A
2012E	**0.08A**	**0.34E**	**0.36E**	**0.36E**	**1.14E**	**0.96E**
Previous	0.08A	0.34E	0.36E	0.36E	1.14E	na
2013E	**0.13E**	**0.36E**	**0.33E**	**0.32E**	**1.14E**	**1.43E**
Previous	0.13E	0.36E	0.33E	0.32E	1.14E	na
2014E	**na**	**na**	**na**	**na**	**1.42E**	**1.63E**
Previous	na	na	na	na	1.42E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

CenterPoint Energy Inc (CNP)

- Refer to Figure 15 for details

- Company Update
- Estimate Change

Faisel Khan, CFA
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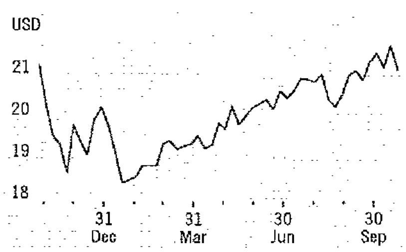
faisel.khan@citi.com

Buy	**1**
Price (24 Oct 12)	US$21.12
Target price	US$23.00
Expected share price return	8.9%
Expected dividend yield	3.8%
Expected total return	**12.7%**
Market Cap	US$9,026M

Price Performance
(RIC: CNP.N, BB: CNP US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.34A	0.27A	0.93A	0.27A	1.82A	1.27A
2012E	**0.33A**	**0.29A**	**0.34E**	**0.28E**	**1.24E**	**1.18E**
Previous	0.34A	0.24E	0.34E	0.28E	1.20E	na
2013E	**0.35E**	**0.26E**	**0.35E**	**0.28E**	**1.25E**	**1.27E**
Previous	0.35E	0.26E	0.35E	0.28E	1.24E	na
2014E	**0.36E**	**0.27E**	**0.37E**	**0.29E**	**1.30E**	**1.35E**
Previous	0.36E	0.26E	0.37E	0.29E	1.28E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Storage & Transportation (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Cheniere Energy Inc (LNG)

- Refer to Figure 1 for details

- **Company Update**

Faisel Khan, CFA
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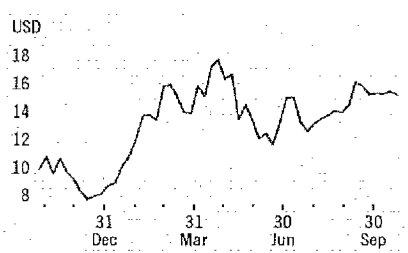
Buy/High Risk	**1H**
Price (24 Oct 12)	US$15.78
Target price	US$25.00
Expected share price return	58.4%
Expected dividend yield	0.0%
Expected total return	**58.4%**
Market Cap	US$3,383M

Price Performance
(RIC: LNG.A, BB: LNG US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	-0.60A	-0.67A	-0.67A	-0.66A	-2.60A	-2.57A
2012E	**-0.43A**	**-0.43A**	**-0.17E**	**-0.17E**	**-1.11E**	**-1.48E**
Previous	-0.43A	-0.43A	-0.17E	-0.17E	-1.11E	na
2013E	**-0.17E**	**-0.17E**	**-0.18E**	**-0.19E**	**-0.70E**	**-1.43E**
Previous	-0.17E	-0.17E	-0.18E	-0.19E	-0.70E	na
2014E	**-0.21E**	**-0.23E**	**-0.25E**	**-0.27E**	**-0.96E**	**-0.55E**
Previous	-0.21E	-0.23E	-0.25E	-0.27E	-0.96E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Storage & Transportation (GICS) | Pipelines (Citi)
North America | United States

Company Focus

Enbridge Inc. (ENB.TO)

- Refer to Figure 15 for details

- **Company Update**
- **Estimate Change**

Timm Schneider
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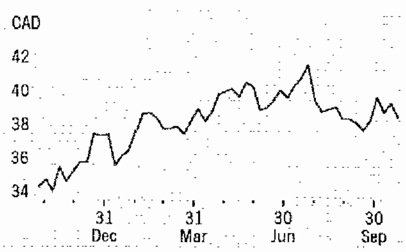
timm.schneider@citi.com

Neutral	**2**
Price (24 Oct 12)	C$38.93
Target price	C$44.00
Expected share price return	13.0%
Expected dividend yield	3.3%
Expected total return	**16.3%**
Market Cap	C$31,049M
	US$31,252M

Price Performance
(RIC: ENB.TO, BB: ENB CN)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.44A	0.24A	0.34A	0.34A	1.36A	1.48A
2012E	**0.49A**	**0.35A**	**0.36E**	**0.46E**	**1.66E**	**1.64E**
Previous	0.49A	0.35A	0.33E	0.47E	1.68E	na
2013E	**0.51E**	**0.41E**	**0.43E**	**0.51E**	**1.87E**	**1.87E**
Previous	0.53E	0.44E	0.45E	0.54E	1.97E	na
2014E	**0.60E**	**0.58E**	**0.58E**	**0.65E**	**2.41E**	**2.14E**
Previous	0.60E	0.58E	0.58E	0.65E	2.41E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Exploration & Production (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Energen Corp (EGN)

- Refer to Figure 1 for details

- Company Update

Timm Schneider
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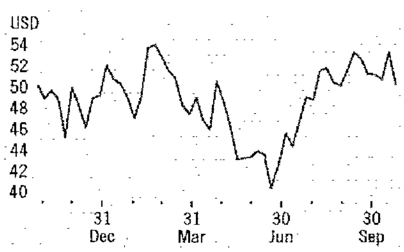
timm.schneider@citi.com

Buy	**1**
Price (24 Oct 12)	US$51.04
Target price	US$65.00
Expected share price return	27.4%
Expected dividend yield	1.1%
Expected total return	**28.4%**
Market Cap	US$3,681M

Price Performance
(RIC: EGN.N, BB: EGN US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.30A	0.87A	0.75A	0.98A	3.91A	3.91A
2012E	**1.33A**	**0.73A**	**0.58E**	**0.89E**	**3.53E**	**3.62E**
Previous	1.33A	0.73A	0.58E	0.89E	3.53E	na
2013E	**1.59E**	**0.93E**	**0.86E**	**1.14E**	**4.51E**	**4.52E**
Previous	1.59E	0.93E	0.86E	1.14E	4.51E	na
2014E	**na**	**na**	**na**	**na**	**5.21E**	**5.39E**
Previous	na	na	na	na	5.21E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Exploration & Production (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

EQT Corporation (EQT)

- Refer to Figure 15 for details

- Company Update
- Target Price Change
- Estimate Change

Timm Schneider
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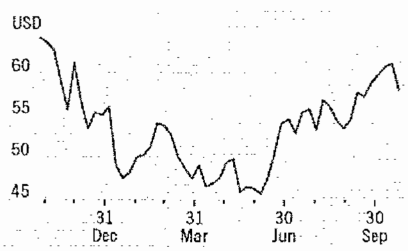
timm.schneider@citi.com

Neutral	**2**
Price (24 Oct 12)	US$57.98
Target price	US$64.00
from US$58.00	
Expected share price return	10.4%
Expected dividend yield	1.5%
Expected total return	**11.9%**
Market Cap	US$8,673M

Price Performance
(RIC: EQT.N, BB: EQT US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.65A	0.51A	0.45A	0.60A	2.21A	2.21A
2012E	**0.50A**	**0.21A**	**0.34E**	**0.65E**	**1.70E**	**1.52E**
Previous	0.50A	0.21A	0.36E	0.64E	1.71E	na
2013E	**0.61E**	**0.41E**	**0.38E**	**0.62E**	**2.02E**	**2.31E**
Previous	0.69E	0.47E	0.44E	0.70E	2.30E	na
2014E	**0.79E**	**0.63E**	**0.61E**	**0.87E**	**2.90E**	**3.48E**
Previous	0.85E	0.68E	0.65E	0.94E	3.11E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Multi-Utilities (GICS) | Utilities (Citi)
North America | United States

Company Focus

Integrys Energy Group, Inc. (TEG)

- Refer to Figure 16 for details

- Company Update
- Target Price Change
- Estimate Change

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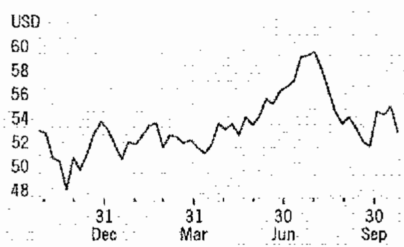
Neutral	**2**
Price (24 Oct 12)	US$53.52
Target price	-
from US$55.00	
Expected share price return	-
Expected dividend yield	-
Expected total return	**-**
Market Cap	US$4,190M

Price Performance
(RIC: TEG.N, BB: TEG US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.57A	0.36A	0.50A	1.00A	3.42A	3.38A
2012E	**1.48A**	**0.19A**	**0.28E**	**1.04E**	**3.00E**	**3.13E**
Previous	1.56E	0.50E	0.18E	1.21E	3.45E	na
2013E	**na**	**na**	**na**	**na**	**3.23E**	**3.45E**
Previous	na	na	na	na	3.68E	na
2014E	**na**	**na**	**na**	**na**	**3.44E**	**3.69E**
Previous	na	na	na	na	3.86E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

MDU Resources Group Inc (MDU)

- Refer to Figure 16 for details

- **Company Update**

Timm Schneider
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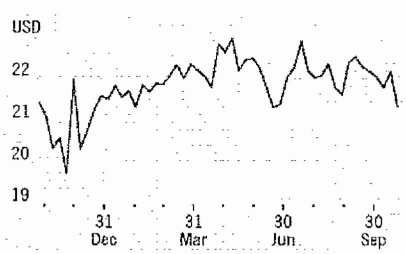
timm.schneider@citi.com

Neutral	**2**
Price (24 Oct 12)	US$21.33
Target price	US$22.00
Expected share price return	3.1%
Expected dividend yield	3.0%
Expected total return	**6.1%**
Market Cap	US$4,028M

Price Performance
(RIC: MDU.N, BB: MDU US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.20A	0.24A	0.34A	0.39A	1.17A	1.19A
2012E	**0.19A**	**0.18A**	**0.38E**	**0.45E**	**1.20E**	**1.17E**
Previous	0.19A	0.18A	0.38E	0.45E	1.20E	na
2013E	**0.29E**	**0.22E**	**0.41E**	**0.40E**	**1.33E**	**1.37E**
Previous	0.29E	0.22E	0.41E	0.40E	1.33E	na
2014E	**0.34E**	**0.31E**	**0.47E**	**0.47E**	**1.59E**	**1.53E**
Previous	0.34E	0.31E	0.47E	0.47E	1.59E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

National Fuel Gas Co (NFG)

- Company Update
- Estimate Change

- Refer to Figure 16 for details

Timm Schneider
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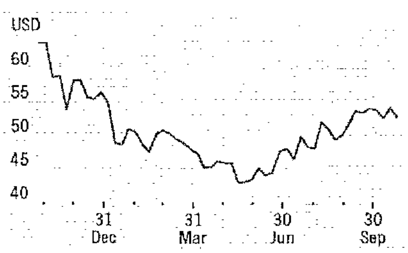
timm.schneider@citi.com

Buy	**1**
Price (24 Oct 12)	US$52.53
Target price	US$57.00
Expected share price return	8.5%
Expected dividend yield	2.5%
Expected total return	**11.0%**
Market Cap	US$4,376M

Price Performance
(RIC: NFG.N, BB: NFG US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.70A	1.00A	0.56A	0.45A	2.71A	2.71A
2012E	**0.73A**	**0.81A**	**0.52A**	**0.45E**	**2.49E**	**2.49E**
Previous	0.73A	0.81A	0.52A	0.44E	2.48E	na
2013E	**0.83E**	**0.95E**	**0.47E**	**0.46E**	**2.70E**	**2.64E**
Previous	0.84E	0.95E	0.46E	0.45E	2.70E	na
2014E	**0.74E**	**0.93E**	**0.48E**	**0.44E**	**2.58E**	**2.74E**
Previous	0.75E	0.90E	0.45E	0.40E	2.50E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

NiSource Inc (NI)

- Refer to Figure 16 for details

- Company Update
- Target Price Change
- Estimate Change

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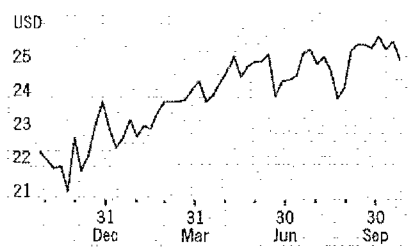
Neutral	**2**
Price (24 Oct 12)	US$25.16
Target price	US$27.00
from US$26.00	
Expected share price return	7.3%
Expected dividend yield	3.8%
Expected total return	**11.1%**
Market Cap	US$7,168M

Price Performance
(RIC: NI.N, BB: NI US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.72A	0.14A	0.12A	0.31A	1.29A	1.35A
2012E	**0.66A**	**0.24A**	**0.02E**	**0.34E**	**1.24E**	**1.45E**
Previous	0.66A	0.20E	0.15E	0.41E	1.41E	na
2013E	**0.71E**	**0.27E**	**0.15E**	**0.40E**	**1.53E**	**1.57E**
Previous	0.71E	0.22E	0.18E	0.46E	1.56E	na
2014E	**0.76E**	**0.31E**	**0.17E**	**0.41E**	**1.64E**	**1.68E**
Previous	0.72E	0.25E	0.22E	0.52E	1.71E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Oneok Inc (OKE)

- Refer to Figure 16 for details

- Company Update
- Target Price Change
- Estimate Change

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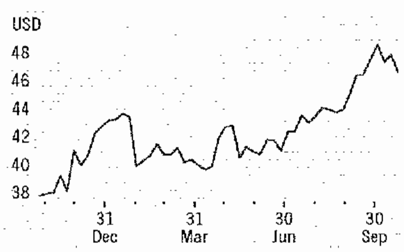
Neutral	**2**
Price (24 Oct 12)	US$47.19
Target price	US$49.00
from US$46.00	
Expected share price return	3.8%
Expected dividend yield	3.8%
Expected total return	**7.6%**
Market Cap	US$9,677M

Price Performance
(RIC: OKE.N, BB: OKE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.19A	0.51A	0.57A	1.08A	3.36A	1.67A
2012E	**0.58A**	**0.28A**	**0.34E**	**0.52E**	**1.72E**	**1.69E**
Previous	0.58A	0.35E	0.34E	0.46E	1.73E	na
2013E	**0.68E**	**0.37E**	**0.42E**	**0.64E**	**2.12E**	**2.05E**
Previous	0.71E	0.42E	0.47E	0.58E	2.19E	na
2014E	**0.84E**	**0.52E**	**0.53E**	**0.68E**	**2.57E**	**2.44E**
Previous	0.87E	0.56E	0.57E	0.67E	2.68E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Questar Corp (STR)

■ Refer to Figure 17 for details

■ **Company Update**

Timm Schneider
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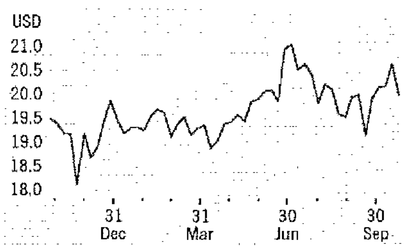
timm.schneider@citi.com

Neutral	**2**
Price (24 Oct 12)	US$20.14
Target price	US$21.75
Expected share price return	8.0%
Expected dividend yield	3.4%
Expected total return	**11.4%**
Market Cap	US$3,589M

Price Performance
(RIC: STR.N, BB: STR US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.39A	0.22A	0.20A	0.34A	1.16A	1.16A
2012E	**0.41A**	**0.22A**	**0.19E**	**0.35E**	**1.17E**	**1.18E**
Previous	0.41A	0.22A	0.19E	0.35E	1.17E	na
2013E	**0.46E**	**0.22E**	**0.20E**	**0.39E**	**1.27E**	**1.27E**
Previous	0.46E	0.22E	0.20E	0.39E	1.27E	na
2014E	**0.48E**	**0.24E**	**0.22E**	**0.41E**	**1.34E**	**1.33E**
Previous	0.48E	0.24E	0.22E	0.41E	1.34E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Sempra Energy (SRE)

- Refer to Figure 17 for details

- **Company Update**

Faisel Khan, CFA
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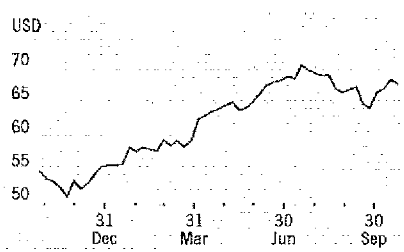
Buy	**1**
Price (24 Oct 12)	US$67.66
Target price	US$80.00
Expected share price return	18.2%
Expected dividend yield	3.7%
Expected total return	**21.9%**
Market Cap	US$16,353M

Price Performance
(RIC: SRE.N, BB: SRE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.06A	2.11A	1.22A	1.33A	4.57A	4.47A
2012E	**0.98A**	**0.97A**	**1.03E**	**1.20E**	**4.19E**	**4.19E**
Previous	0.98A	0.97A	1.03E	1.20E	4.19E	na
2013E	**na**	**na**	**na**	**na**	**4.19E**	**4.28E**
Previous	na	na	na	na	4.19E	na
2014E	**na**	**na**	**na**	**na**	**4.50E**	**4.67E**
Previous	na	na	na	na	4.50E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Southwest Gas Corp (SWX)

- Refer to Figure 17 for details

- Company Update
- Estimate Change

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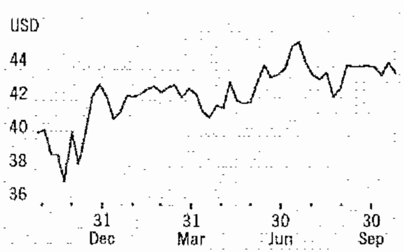
Neutral	**2**
Price (24 Oct 12)	US$43.70
Target price	US$50.00
Expected share price return	14.4%
Expected dividend yield	2.7%
Expected total return	**17.1%**
Market Cap	US$2,016M

Price Performance
(RIC: SWX.N, BB: SWX US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.48A	0.09A	-0.34A	1.19A	2.42A	2.43A
2012E	**1.70A**	**-0.08A**	**0.06E**	**1.11E**	**2.79E**	**2.70E**
Previous	1.70A	0.08E	0.10E	1.15E	3.03E	na
2013E	**na**	**na**	**na**	**na**	**2.94E**	**2.86E**
Previous	na	na	na	na	3.04E	na
2014E	**na**	**na**	**na**	**na**	**3.01E**	**2.88E**
Previous	na	na	na	na	3.04E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Storage & Transportation (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Spectra Energy Corp (SE)

- Refer to Figure 17 for details

- **Company Update**
- **Estimate Change**

Faisel Khan, CFA
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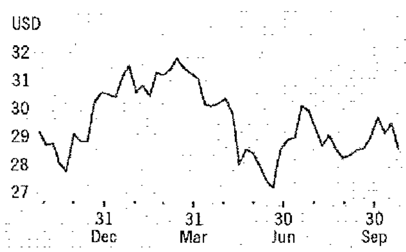
Neutral	**2**
Price (24 Oct 12)	US$28.86
Target price	US$29.00
Expected share price return	0.5%
Expected dividend yield	3.8%
Expected total return	**4.3%**
Market Cap	US$18,842M

Price Performance
(RIC: SE.N, BB: SE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.53A	0.42A	0.37A	0.45A	1.77A	1.77A
2012E	**0.52A**	**0.33A**	**0.26E**	**0.46E**	**1.57E**	**1.57E**
Previous	0.52A	0.39E	0.20E	0.39E	1.50E	na
2013E	**0.59E**	**0.39E**	**0.32E**	**0.47E**	**1.77E**	**1.78E**
Previous	0.52E	0.38E	0.19E	0.43E	1.53E	na
2014E	**0.68E**	**0.49E**	**0.41E**	**0.54E**	**2.11E**	**1.95E**
Previous	0.61E	0.48E	0.29E	0.49E	1.87E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Storage & Transportation (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

The Williams Companies Inc (WMB)

- Refer to Figure 17 for details

- Company Update
- Target Price Change
- Estimate Change

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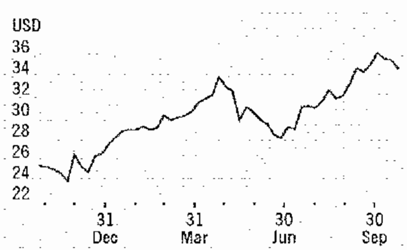
Buy	**1**
Price (24 Oct 12)	US$34.66
Target price	US$40.00
from US$36.00	
Expected share price return	15.4%
Expected dividend yield	4.2%
Expected total return	**19.6%**
Market Cap	US$21,713M

Price Performance
(RIC: WMB.N, BB: WMB US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.36A	0.39A	0.40A	0.36A	1.51A	1.23A
2012E	**0.39A**	**0.22A**	**0.25A**	**0.31E**	**1.17E**	**1.17E**
Previous	0.39A	0.26E	0.28E	0.29E	1.22E	na
2013E	**0.36E**	**0.36E**	**0.36E**	**0.39E**	**1.47E**	**1.35E**
Previous	0.31E	0.30E	0.36E	0.39E	1.36E	na
2014E	**0.41E**	**0.40E**	**0.46E**	**0.48E**	**1.75E**	**1.73E**
Previous	0.41E	0.40E	0.43E	0.45E	1.69E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Storage & Transportation (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | Canada

Company Focus

TransCanada Corp (TRP.TO)

- Company Update
- Target Price Change
- Estimate Change

■ Refer to Figure 16 for details

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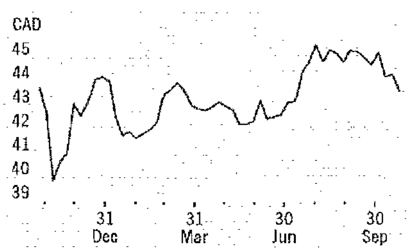
Neutral	**2**
Price (24 Oct 12)	C$43.60
Target price	C$44.00
from C$42.00	
Expected share price return	0.9%
Expected dividend yield	3.7%
Expected total return	**4.6%**
Market Cap	C$30,735M
	US$30,936M

Price Performance
(RIC: TRP.TO, BB: TRP CN)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.62A	0.50A	0.54A	0.53A	2.19A	2.23A
2012E	**0.48A**	**0.37A**	**0.55E**	**0.57E**	**1.97E**	**2.07E**
Previous	0.48A	0.47E	0.67E	0.59E	2.21E	na
2013E	**0.60E**	**0.58E**	**0.71E**	**0.61E**	**2.51E**	**2.44E**
Previous	0.61E	0.61E	0.76E	0.63E	2.61E	na
2014E	**0.66E**	**0.67E**	**0.81E**	**0.71E**	**2.85E**	**2.70E**
Previous	0.66E	0.69E	0.84E	0.71E	2.90E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

UGI Corp (UGI)

- Refer to Figure 17 for details

- Company Update
- Estimate Change

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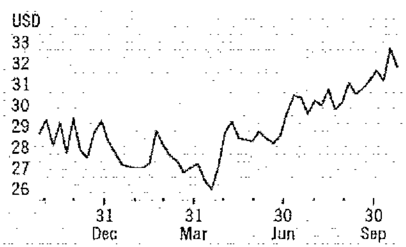
Buy	**1**
Price (24 Oct 12)	US$32.21
Target price	US$34.00
Expected share price return	5.6%
Expected dividend yield	3.4%
Expected total return	**8.9%**
Market Cap	US$3,619M

Price Performance
(RIC: UGI.N, BB: UGI US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.97A	1.12A	-0.20A	-0.17A	1.93A	2.10A
2012E	**0.78A**	**1.20A**	**-0.05A**	**-0.15E**	**1.78E**	**1.83E**
Previous	0.78A	1.20A	0.05E	-0.17E	1.85E	na
2013E	**na**	**na**	**na**	**na**	**2.40E**	**2.50E**
Previous	na	na	na	na	2.44E	na
2014E	**na**	**na**	**na**	**na**	**2.47E**	**2.61E**
Previous	na	na	na	na	2.44E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

Vectren Corp (VVC)

- Refer to Figure 17 for details

- Company Update
- Estimate Change

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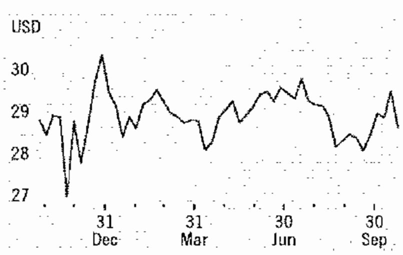
Neutral	**2**
Price (24 Oct 12)	US$28.80
Target price	US$31.00
Expected share price return	7.6%
Expected dividend yield	4.9%
Expected total return	**12.5%**
Market Cap	US$2,363M

Price Performance
(RIC: VVC.N, BB: VVC US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.55A	0.18A	0.43A	0.57A	1.73A	1.73A
2012E	**0.63A**	**0.32A**	**0.25E**	**0.59E**	**1.79E**	**1.73E**
Previous	0.63A	0.23E	0.27E	0.66E	1.78E	na
2013E	**0.75E**	**0.16E**	**0.27E**	**0.70E**	**1.87E**	**1.87E**
Previous	0.72E	0.09E	0.27E	0.70E	1.78E	na
2014E	**0.75E**	**0.14E**	**0.29E**	**0.72E**	**1.89E**	**2.01E**
Previous	0.72E	0.09E	0.29E	0.72E	1.83E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

AGL Resources Inc

Company description

AGL Resources (AGL) is a natural gas distribution company serving over 2.3 million customers in six eastern U.S. states through its regulated gas delivery businesses. AGL also operates three subsidiaries, Sequent Energy Management, Southstar Energy Services and Pivotal Energy Development, which provide merchant energy services, retail energy supply and storage capacity.

Investment strategy

We rate the shares of AGL (GAS) Neutral (2). AGL has created shareholder value through a focus on operational efficiency at its legacy operations and by capital discipline through investments in under-managed assets. AGL will be able to grow earnings through a combination of rate relief and capital growth at its utilities and construction of storage fields at its Energy Services segment. Earnings at the wholesale gas business could be volatile as margins are highly dependent on seasonal price differentials and basis spreads; however, this is now a relatively small part of earnings.

On December 7, 2010, AGL announced the acquisition of Nicor for $3.1 billion. While the deal appears expensive, we believe the deal can be accretive through a combination of balance sheet optimization and synergies at the wholesale business.

Valuation

We apply four valuation methods to derive a $43 target. 1) NAV yields a value of $45. We value regulated assets at a multiple of rate base (1.65x for utilities, 1.65x for pipelines/storage). We value the Energy Investments unit, which includes storage assets and a propane facility, at 8x 2013E EBITDA (in line with the pipeline/storage multiple), given stable cash flows. AGL's wholesale & retail segments at slightly lower multiples, since they have less stable earnings & cash flows. The segments are valued at 6.5x and 8x 2013E EBITDA, in line with midstream & marketing multiples. These values are partially offset by AGL's net debt. Atlanta Gas Light includes regulatory assets associated with the pipeline replacement program, which we treat as rate base as the program's costs earns a return on capital invested. Environmental Recovery Costs are not included in rate base (no return is associated with program). Our DDM values the company at $42. We calculate a hypothetical dividend, based on AGL's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E & EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas & projected risk-free yields. For our P/E analysis, we use multiples of 16x for the company's regulated & retail marketing assets and 10.0x for the wholesale assets. For our EV/EBITDA analysis, we use multiples of 8x for the company's regulated and retail marketing assets and 6.5x for the wholesale business. Our P/E & EV/EBITDA analyses (2013E earnings) yield values of $45 and $40.

Risks

The key risks to our thesis on AGL are (1) Regulatory: AGL has a constructive relationship with its regulators in Georgia, Virginia, Illinois and New Jersey. We believe these states have generally been constructive when it comes to rate setting for gas utilities. (2) Market and Counterparty Risk: AGL's wholesale segment is exposed to counterparty risk since it deals with over 270 counterparties and re-contracting risk related to its asset management activities and adverse movements in commodity prices. However, as earnings from the utilities have grown over time, Wholesale is now only 5% of the business. (3) Customer growth: An unexpected increase or decrease in population could affect earnings and cash flows (favorably or unfavorably). (4) Capital Markets: AGL is a relatively small utility in terms of market cap and trading volumes, impacting AGL's ability to access capital markets while this type of liquidity may make it difficult for institutional. We believe the recent announced merger with Nicor will alleviate some of this risk. (5) Integration risk: AGL has a history of M&A. The integration of the Nicor (GAS) deal could face challenges given AGL's entrance into a new regional territory and scrutiny from regulators in arriving at cost cuts to generate value from the deal.

If the impact on the company from any of these factors proves to be less or more than we anticipate, the stock could materially outperform or underperform our target.

Atmos Energy Corp

Company description

Atmos Energy is an integrated natural gas company headquartered in Texas. The company distributes natural gas to over 3 million customers in 12 states, operates pipeline systems and storage facilities and provides natural gas marketing services through its subsidiary Atmos Energy Marketing.

We estimate ATO will grow utility rate base by over 4% annually over the next five years. 94% of utility margins are weather normalized. Furthermore, 86% of rates are adjusted annually (without the need for rate cases) or are decoupling from demand. Only Colorado, Illinois and Iowa (~5% of rate base) do not have mechanisms in place for either decoupling or weather normalization

Investment strategy

We rate Atmos Energy (ATO) Neutral (2). Our Neutral rating on ATO is premised on the company's limited growth profile and lack of near-term catalysts. Atmos generates stable earnings from a mostly regulated utility asset base with low/mid single-digit EPS growth and a stable dividend over the next five years.

We expect ATO will continue to grow earnings by investing in its regulated asset base, which we estimate will grow by 4% annually over the next five years. 86% of rates are adjusted annually without the need to enter costly and risky rate cases.

Valuation

We average multiple valuation methodologies to derive our $39 target. Our NAV yields a value of $40. We value regulated assets at a multiple of rate base (1.7x for utilities). We value the pipeline assets at 8x '13E EBITDA and the marketing business at 5x '13E EBITDA. These values are partially offset by the company's net debt. Our DDM values the company at $40. We calculate a hypothetical dividend, based on ATO's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16X, 16x and 10x for the company's utility, pipeline/storage and marketing assets. For our EV/EBITDA analysis, we use multiples of 8x, 8x and 6.5x for the company's utility, pipeline/storage and marketing assets. Our P/E and EV/EBITDA analyses (2013E earnings) yield values of $39 and $38.

Risks

The key risks to our investment thesis on AGL are (1) Capital Investment Recovery – ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (2) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably.(3) Capital Markets – ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock. (4) ATO operates a gas marketing business. Our research shows that ATO hedges their physical delivery of gas using its access to storage and pipeline transportation capacity. If the financial hedges and local markets become dislocated, ATO could incur a liability.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Brookfield Infrastructure Partners

Company description

Brookfield Infrastructure Partners, which is dual-listed on both the Toronto & New York Stock Exchanges under the ticker BIP, is a Bermuda based infrastructure holding company with operational headquarters in Toronto, Canada. BIP's asset portfolio encompasses operations around the globe, with its primary business lines divided into 3 major segments. Utilities (~52% of 2011 EBITDA), Transport & Energy (~40% of 2011 EBITDA), Timber (~7% of 2011 EBITDA).

Investment strategy

We rate Brookfield Infrastructure Partners (BIP) Neutral. While we do not argue with BIP's generally risk-averse (long-term contracts) and diversified business model (across industries & geographic locations), the shares appear fully valued based on our implied target yield model.

Valuation

Our target price is based on a 2013 estimated distribution of $1.66 per unit and a 4.93% implied target yield. Our target yield is derived from BIP's historical average spread to the US 10-year Treasury. We estimate an average 10-year yield of 1.88% in 2013, an average of the 1-year forward 10-YR yield.

Risks

The primary upside risks to our target price are: 1) Accretive asset acquisitions; 2) Organic growth project announcements; and 3) Higher than expected distribution payout (over the historical 60-70% range). On the downside, we identify: 1) Continued economic weakness, specifically in Europe, could lead to some re-contracting risk; 2) Project execution around the company's $1bn growth project backlog; and 3) Potential changes on the regulatory front with respect to partnership tax treatment in the US.

CenterPoint Energy Inc

Company description

CenterPoint Energy Inc (CNP) is an energy delivery company based in Houston, Texas, serving over 3 million natural gas customers and 2 million electric customers. CenterPoint also operates two interstate natural gas pipelines and a field services business. The electric delivery business generates about 40% of the company's operating income, while the gas utilities, pipelines, and field services businesses make up the remainder.

Investment strategy

We rate the shares of CNP Buy (1). Our rating takes into account stable cash flows on CNP's gas and electric utility system, complemented by growth on the pipeline and gathering system, through re-contracting of pipeline capacity, expansion of pipeline capacity, regulated growth and gas well connections.

Valuation

We average multiple valuation methodologies to derive our $23 target.

Our NAV yields a value of $23. We value regulated assets at a multiple of rate base (1.7x for utilities, 1.7x for pipelines). The company's marketing and midstream segments are valued at 5x and 7x 2013 EBITDA. These values are partially offset by the company's net debt.

Our DDM values the company at $21.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x on 2013E earnings for the company's utility and pipeline assets, while applying 12x and 8x multiples to the company's gathering and marketing assets. For our EV/EBITDA analysis, we use multiples of 8x and 8x on 2013E EBITDA for the company's utility and pipeline assets, while applying 7x and 5x multiples to the company's gathering and marketing assets. Our P/E and EV/EBITDA analyses yield values of $22 and $24.

Risks

The key risks to our investment thesis are (1) TX Regulatory Environment — At this point, the PUCT cannot affect the price of power, but can affect charges for delivery. The PUCT may look to reduce delivery rates below what we consider to be a reasonable rate of return. (2) Capital Investment Recovery – CNP, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (3) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably. (4) Commodity Prices – Earnings at the field services segments are highly sensitive to changes in NGL and natural gas prices. (5) Gathering Projects - Our estimates are dependent on the future build-out of gathering facilities in the Haynesville Shale. Any decision to limit the build-out or difficulties encountered during the build-out could impact our estimates.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Cheniere Energy Inc

Company description

Cheniere was a first mover in the race to site and develop LNG terminals in the U.S. The company currently has ownership of the Sabine Pass Regas terminal in the Gulf of Mexico. The company proposes to build a liquefaction facility at its Sabine Pass terminal to export US gas to other parts of the world.

Investment strategy

We rate Cheniere Buy/High Risk (1H). Cheniere is a pure play energy stock solely focused on Liquefied Natural Gas infrastructure development in the U.S. Cheniere initially established itself as a first mover in the race to build regasification facilities in the U.S. by acquiring sites in the Gulf of Mexico that had: 1) community and environmental support to site the facility; 2) deepwater port access (40 to 45 feet of draft) and compatibility with shipping traffic; 3) large enough sites to easily incorporate strict U.S. safety codes; and 4) sufficient pipeline take-away capacity and access to large volume industrial and power consumers.

In the last few years, regasification capacity became overbuilt in the US and Cheniere was unable to contract for all its capacity at its only operated terminal, Sabine Pass. With the decline in US natural gas prices and the discovery of an ample amount of shale gas, Cheniere now believes it can export gas from its terminal at Sabine by adding liquefaction capabilities. While this is a high cost endeavor, the low price of gas could support this sort of opportunity.

Cheniere's has a high amount of debt and its new business plan is predicated on it selling capacity to buyers of natural gas in Asia and Europe. We believe probability of Cheniere being successful has gone up with recent contract signings with Asian & European firms with solid reputations. Cheniere is the sole company in the US to have all regulatory license to export to FTA and non-FTA countries.

Valuation

We use four valuation analyses to derive our $25.00 per share target price.

Our NAV analysis results in $27 per share. Our analysis is based on the liquidation value of the pipelines owned at Cheniere Energy, Inc, 10.9 million units of CQP common units at $25.00 per unit (MLP analyst target price), combined with subordinated unit (135 million sub units) and Class B units (45 mm held at LNG in 2012, Quarterly PIK rate of 3.5%) are valued at a 40% discount to our target price for CQP.

Our DCF analysis results in a share price of $25 per share on a consolidated basis. This is a result of a relatively high cost of capital.

Our WACC reflects an equity risk premium of 6.5%, an assumed bond spread to the ten-year Treasury yield of roughly 870 bps, a risk free rate of 1.81% and a two-year beta of 1.86. The Company's cost of equity is 14% and WACC is 14%. We assume Cheniere Inc. holds no debt at the parent company.

Our P/E and EV/EBITDA multiple analyses are based on 2018 as a peak year for earnings and EBITDA. We estimate peak earnings per share of nearly $2.00 and EBITDA of nearly $2.366 billion on a consolidated basis. These estimates consider the equity required to fund the liquefaction facility. These metrics yield an equity valuation of $19 and $28 per share.

The average of these values yields a $25 per share target price.

Risks

We rate LNG High risk. LNG is an extremely risky and speculative investment. Cheniere generates no earnings and will not generate any earnings in our model until 2016. Our recommendation is based on Cheniere moving forward with at two liquefaction trains. The company has a substantial amount of debt on its balance sheet that could come due in the middle of next year. If the company is unable to move forward with a liquefaction train, Cheniere (LNG) could experience a liquidity event in which case equity investors could lose all their investment.

The key risks to our investment thesis are (1) Regulatory – Cheniere permits are regulated by authorities at the DOE and the FERC to export LNG to non-free trade countries. (2) Natural gas prices – Currently natural gas prices are low, which makes US exports competitive to the rest of the world. (3) Integrity costs at the pipelines or LNG terminals could impose significant costs pressures. (4) Declines in natural gas production in the US could cause Cheniere's proposal to come under pressure. (5) The Company's tight liquidity position could limit its ability to execute on its plan. (6) Cheniere has proposed signing contracts with foreign buyers in Asia and Europe. While we believe in contract sanctity, history has shown that contracts can always be changed in the oil and gas industry.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Enbridge Inc.

Company description

Enbridge is one of Canada's largest energy companies by market cap (~C$32 billion). The firm is headquartered in Calgary, Alberta.

Enbridge primarily operates in the following lines of business (shown in line with actual reporting segments):

1) Crude Oil Pipelines & Storage

2) Natural Gas Pipelines, Processing & Energy Services

3) Natural Gas Distribution; and

4) Sponsored Investments & Corporate.

Enbridge owns a 23% LP stake and a 2% GP stake in Enbridge Energy Partners (NYSE: EEP), which owns the US portion of the Mainline pipeline system (known as "Lakehead") as well as gas gathering & processing infrastructure in West Texas. EEP is accounted for under the Sponsored Investments segment.

Enbridge also owns a 70% stake in Enbridge Income Fund (EIF), a publicly traded yield-oriented investment vehicle listed on the Toronto stock exchange. EIF is also accounted for under the Sponsored Investments segment.

Investment strategy

We rate shares of Enbridge Neutral (2). Our enthusiasm over the company's risk-averse business model and earnings growth projections of 10%-15% per year through 2015 are tampered by what we believe is a full valuation (premium to group vs. 10% historical average). Enbridge's performance since the beginning of the decade is highlighted by industry-leading returns on equity (~16% vs. peers at 13%) and an increase in enterprise value from $12.3bn to $51bn.

Valuation

We use four equally weighted methodologies to derive our C$44 target price. We value ENB at C$40 p/s on an NAV basis, where we value the company's hard assets at C$62bn and then back out $21bn of net debt and ~C$10bn of expansion capex for an equity value of ~C$31bn ($40p/s); C$59 on a DCF model, where we estimate long-term growth (beyond 2015) at 5% per annum and a discount rate of 5.43% (cost of capital); C$42p/s on an EV/EBITDA basis where we use 2015E EBITDA discounted two years at the company's cost of capital and a 12.2x historical forward trading multiple; and C$45p/s on a long-term P/E multiple using 2015E earnings discounted by two years at the company's cost of capital and a 19.1x historical forward trading multiple.

Risks

The primary upside risk to our thesis is that ENB is able to secure a larger amount of growth projects than we have estimated in our numbers. In addition, higher than expected volumes on ENB's mainline system tied to higher than expected oil sands growth could lead to better than expected results.

The primary downside risk to our thesis is that ENB is unable to execute on its growth backlog in an efficient manner, reducing returns on capital. In addition, lower than expected crude oil demand in the United States could have an adverse effect on volumes on ENB's mainline system.

Energen Corp

Company description

Energen Corp is an integrated natural gas company with operations in the exploration and production and natural gas delivery businesses. The company operates two primary segments: 1) a regulated gas delivery business providing service to roughly 450,000 customers in central and northern Alabama (Alabama Gas Company); and 2) a natural gas and oil production business with over 2 trillion cubic feet (Tcf) of proved reserves in the San Juan, Permian, Black Warrior, and north Louisiana/east Texas basins (Energen Resources).

Investment strategy

We rate Energen Buy. We believe that the company's relatively low internal decline rate and exposure to crude oil will bode well over the longer term with respect to cash flow generation and earnings growth.

Valuation

Our target price is $65, based on the average of the following valuation methodologies:

Our NAV calculation results in a target price of $61: We estimate that Alagasco is worth ~$1.2bn based on 2013E EBITDA of $137mm and an 8.5x EBITDA multiple. We value EGN's E&P business at ~$4.5bn, which includes proved reserves of 2Tcfe, and affords 50% risked credit for probable oil reserves. We value natural gas reserves at $0.90/Mcf and crude oil reserves at $18/bbl. We then subtract ~$1.4 billion of net debt and other liabilities to derive an equity value of $4.4bn, or $61p/s.

Our DCF analysis results in $66p/s using the company's weighted average cost of capital at 8.07%. We value the E&P business and the Utility separately and then subtract net debt. We value the E&P business at $70p/s and the Utility at $16p/s and then back out consolidated debt of ~$19p/s for our $66TP.

Our long-term P/E analysis results in a value of $66p/s. We base our analysis on a blended 19x multiple on 2012E earnings of $3.53p/s.

Our EV/EBITDA analysis values Energen at $66p/s. We value Alagasco at $1.2bn (8.5x 2013E EBITDA of $137mm) and the E&P segment at $5.1bn (5x 2014E EBITDA discounted to 2012). We then subtract ~$1.4bn of net debt to derive an overall equity value of $66p/s.

Risks

Commodity Prices and Interest Rate: EGN's exploration and production business represents a majority of projected operating income. Fluctuation in the price of oil and natural gas will cause volatility in our estimates and could affect the share price positively and negatively.

Accounting and Financial Risk: On the financial front, Energen frequently enters into derivative transactions for the purpose of hedging its oil and gas production. While limiting downside risk, these arrangements could limit upside in a rising commodity price environment.

If the impact on the company from any of these factors proves to be greater or less than we anticipate, the stock would likely have difficulty achieving our target price or could exceed our target price.

EQT Corporation

Company description

EQT Corp is a regional integrated natural gas company with operations in the state of Pennsylvania and surrounding areas. The company operates three business units: (1) EQT Midstream, which operates Midstream Gathering, Processing, Transportation & Storage assets in EQT's area of operation, (2) EQT Distribution, a gas utility and (3) EQT Production, an E&P business active in the Appalachian Region.

Investment strategy

We rate the shares Neutral as our fundamental analysis shows that the shares are fairly valued at current levels and that industry leading production growth is priced in.

Valuation

Our target price is $64, based on the averaged value of the following valuation methodologies. Our NAV calculation results in a target price of $66p/s. We estimate that Distribution is worth ~$850mm based on $107mm of 2013E EBITDA and a 8x multiple. We value EQT's E&P business at ~$6bn, which includes proved reserves of 5.4Tcfe, but affords no credit for probable and possible reserves. We value proved natural gas reserves at $1.15/Mcf and Crude Oil reserves at $18/bbl, though EQT is essentially a pure-play natural gas name. We value the Midstream business at $5bn based on 2013E EBITDA of $430mm (ex Marketing) and a 11.2x EBITDA multiple (blended pipeline & midstream multiple). We assume the Marketing business is worth ~$180mm based on 2013E EBITDA of $37mm (5x mid-cycle multiple). We then subtract ~$2.3bn of net debt and other liabilities. Our DCF analysis results in $70 p/s using the Firm's weighted average cost of capital. We value the E&P segment and other business lines individually and then subtract net debt to derive our per share value. Our long-term P/E analysis results in a value of $53p/s. We base our analysis on 2013 estimated earnings. Our EV/EBITDA multiple analysis values EQT at $68p/s, based on 2013 EBITDA estimates and a blended multiple of 10.1x.

Risks

Although the firm has a large E&P exposure, it is balanced to some degree by the regulated utility & pipeline assets. In addition, EQT is an investment grade company.

Commodity Price Risk - Commodity prices remain volatile. While, the company has hedged a portion of its production over the next two years, stockholders' expectations of future natural gas prices will have an impact on EQT stock.

Execution Risk - EQT is spending in excess of its cash flows and is therefore exposed to project cost overruns as these could put additional strain on the company's balance sheet.

If the negative impact on the company from any of these factors proves to be greater than we anticipate, the stock could have difficulty achieving our target price. On the other hand, we may have overestimated these risk factors and the stock could increase more than we expect.

Integrys Energy Group, Inc.

Company description

Integrys Energy Group (TEG) operates as a natural gas and electric utility with over 2 million customers in Minnesota, Wisconsin, Michigan, and Illinois. Integrys also offers retail and wholesale energy services. Wisconsin Public Service Corporation (WPSC) merged with People's Energy Corporation (PEC) in February 2007 to form Integrys Energy Group.

During 2009, TEG announced plans to scale back or sell its Energy Services segment. We expect removal of these assets by end of 2010.

Investment strategy

We rate TEG Neutral (2). Our rating on Integrys Energy Group (TEG) takes into account the company's recent outperformance, related to a move by investor's towards higher yielding stocks.

The company has undergone tremendous change over the last couple years through multiple acquisitions and divestitures.

As TEG exits its energy services business and provides better visibility on its earnings growth platform based on its remaining businesses, we feel the stock could justify a premium, but at its current level, the premium is too high.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

The key risks to our investment thesis are (1) Capital Investment – TEG spends capital in excess of depreciation to maintain and expand its utility, relying on adequate base rates to earn its cost of capital. We assume regular, fair rate relief. (2) Concentration in the Midwest – Changes in the economy in TEG's service areas could increase or decrease the need for gas and power. (3) Weather Fluctuations – Without weather normalization or decoupling rate mechanisms at all its gas and electric utilities, TEG is exposed to fluctuations in temperatures and conservation(4)Higher Gas and Purchased Power Costs – TEG may encounter energy costs, which are generally passed on to customers, but lead to near term working capital requirements (5)Marketing Business – TEG's energy marketing business continually enters into forwards and options which may create unanticipated gains and losses depending on any changes in contract values. Uncertainty surrounding the future of this business and collateral requirements may also impact the value of the stock (6) Short Interest - A significant short interest in the stock could lead to near-term volatility.

If the impact on the company from any of these factors is more or less than we expect, the stock could outperform or underperform our target.

MDU Resources Group Inc

Company description

MDU Resources Group, Inc. is a diversified natural resources company with operations in three main business lines: 1) Energy (natural gas and oil production, natural gas pipelines and energy services) 2) Construction Materials & Construction Services, and 3) Utility-Related (electric and natural gas distribution).

Investment strategy

We rate MDU Neutral. MDU's regulated business should remain fairly stable and provide dividend protection. Higher oil prices and expected crude oil production in the Bakken play (and potentially the Niobrara / Heath Shale, though we afford no value for these plays yet) help offset declining legacy natural gas production and should help drive MDU's oil/gas mix to between 40-60% going forward. Our estimates on the construction materials and services side remain conservative.

Valuation

Our target price is $22, based on the average value of the following valuation methodologies.

Our NAV valuation results in a value of $21p/s where we value MDU's hard assets at ~$6.4bn and then back out ~$1.6bn of net debt & ~$1bn of growth capex at the utility for an equity value of $20.80p/s. Our DCF valuation results in $22p/s and assumes that the company's E&P assets are worth ~$12p/s with MDU's remaining business lines at ~$24p/s, we then back out net debt & growth capex at the Utility. We estimate a long-term growth rate (beyond 2015) of 3% and use a discount rate of 6.59% the company's weighted average cost of capital. Our EV/EBITDA calculation results in $23p/s and uses a blended 2013E EBITDA multiple of 6.7x, while our long-term P/E methodology derives $23p/s using 2013E EPS and a 17.1x blended multiple.

Risks

If the impact on the company from any of the following proves to be greater than we anticipate, MDU will likely have difficulty achieving our target price. Likewise, if any of these factors prove to have less of an effect than we anticipate, MDU could materially outperform our target.

Commodity Price Volatility – MDU is exposed to commodity price volatility through its E&P business. Fluctuation in the price of oil and natural gas will cause volatility in our estimates. If MDU is able to realize commodity prices higher than our forecasts, than our valuation is likely to go up, and vice versa.

Reserve Replacement – MDU's ability to find reserves and grow production is an important factor to our valuation framework analysis. To the extent that MDU is not able to find more natural gas reserves, replace its reserves, and increase production through its current inventory of developed reserves, our valuation model would be impaired.

Capital Investment Recovery – MDU spends capital in excess of depreciation to maintain and expand its local distribution assets to provide better services to its customers. MDU relies on the state commissioners to approve its capital investment and rate increases to recover costs in excess of depreciation.

Acquisition Integration – MDU routinely acquires companies to grow its businesses. If the performance of these acquisitions is less than expected or if MDU overpays for the businesses, MDU's own performance will suffer.

National Fuel Gas Co

Company description

National Fuel Gas (NFG) is an integrated natural gas company that produces, transports, distributes and markets natural gas and oil.

The company produces natural gas from about 660 billion cubic feet (bcfe) of proved reserves out of the Appalachian Region and the West Coast. NFG's distribution business provides natural gas and transportation service to roughly 732,000 customers in western New York and northwestern Pennsylvania through its utility, National Fuel Gas Distribution. NFG s interstate natural gas pipelines and storage assets provide service to customers in the surrounding utility territories.

Investment strategy

We rate NFG Buy. We estimate that the firm's Marcellus acreage could boost long-term production levels to 20-30%+ per year. The company's regulated business lines (Pipes & Distribution) bear no direct commodity price exposure and serve as a balancing point with respect to overall risk exposure. We currently give the company full value for the Marcellus and assume around 7,000 locations. We do not give the company any credit for a potential JV.

Valuation

Our target price is $57, based on the average of the following valuation methodologies.

Our NAV calculation results in a target price of $64p/s valuing NFG's hard assets at $6.7bn and then backing out ~$1.2bn of net debt for an equity value of $6bn. Our DCF valuation results in a target price of $61p/s where we value the E&P segment at $47p/s and the rest of the business as $29p/s based on a long-term growth rate of 2% (beyond 2015) We back out $15p/s in debt. We use the company's cost of capital as our discount rate. Our EV/EBITDA methodology results in $58p/s using 2013E EBITDA and a blended multiple of 7.4x, while our long-term earnings calculation is $47p/s using 2013E EPS and a blended 17x EPS multiple.

Risks

Commodity Price Risk -- Fluctuation in the price of oil and natural gas will cause volatility in our estimates. If the commodity prices go up from the current level, it could affect NFG's share price positively.

Reserve replacement -- NFG's ability to find reserves in its undeveloped acreage and to sustain production is key to our valuation framework. To the extent that NFG is not able to find more reserves, replace reserves it uses in production, and sustain production through its current inventory of developed reserves, our valuation model would become impaired. Conversely, to the extent that NFG can find more reserves cheaply and increase its production, this would increase its valuation.

NFG's commodity exposed business lines are offset through regulated (i.e. minimal direct commodity price risk) segments.

If the impact from the above risks turns out to be greater/less than we anticipate, the stock could fail to achieve/exceed our target price.

NiSource Inc

Company description

NiSource Inc (NI) is, primarily, a regulated utility with an integrated network of gas distribution, transportation, and storage assets in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana.

The company operates four business units, including Gas Distribution, which delivers natural gas in several states; Gas Transmission and Storage Operations, which provide interstate natural gas transmission and storage services from the Gulf of Mexico to the Northeast; Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCo); and Other Operations, which include energy-related services and a co-generation facility.

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). NI provides long-term earnings power of $1.60+ per share, including growth from expected rate increases at NiSource's utilities. Our estimates do not include i) substantial industrial load growth at the utility or ii) the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale, and iii) better than expected production results across NI's mineral right holdings. Monetization of Utica mineral rights remains unclear, so we rate the shares Neutral, but initial data is constructive.

Valuation

We average multiple valuation methodologies to derive our $27 target. Our NAV yields a value of $28. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $25. Our P/E and EV/EBITDA multiples (2014 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x and 16x for the company's utility and pipeline assets. For our EV/EBITDA analysis, we use multiples of 8x and 8x for the company's utility and pipeline assets. Our P/E and EV/EBITDA analyses yield values of $27 and $27.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

Oneok Inc

Company description

Oneok is an integrated energy company operating amidst the energy value chain through three operating segments: (1) the Oneok Partners (OKS) investment, which is a Master Limited Partnership involved in a natural gas gathering, processing, marketing, NGL fractionation, storage and pipeline transportation; (2) a local distribution business providing service to customers in Kansas, Oklahoma, and Texas (Distribution), and (3) a natural gas marketing and trading segment with both retail and wholesale customers (Energy Services).

Investment strategy

We rate shares of OKE Neutral. OKE offers investors a solid free cash flow profile (mostly as a result of the company's ownership stake and associated GP + LP cash flows from OKS) with an emphasis on returning this cash to shareholders. We believe that this cash flow generation profile is priced into shares at current levels. The company's Distribution & Energy Services business carry no direct commodity price risk, though periods of flattening basis and seasonal spreads can negatively affect Energy Marketing earnings. OKE carries some indirect commodity price risk via its ownership in OKS, which is mainly exposed to natural gas liquids prices.

Valuation

We use four equally weighted valuation scenarios to reach our target price of $49.

Our NAV calculation results in a value of $51p/s valuing OKE's hard assets at ~$13bn and we then back out ~$2.2bn of net debt for an equity value of ~$11bn. Our DCF methodology results in a target price of $53p/s and assumes long-term growth of ~3% (beyond 2015) and a discount rate of 7.81%, the firm's cost of capital. Our long-term P/E multiple calculation results in $44p/s using a blended 21x EPS multiple on 2013E earnings, while our long-term EV/EBITDA valuation is $47p/s using a 9.6x blended multiple on 2013E EBITDA.

Risks

The company's exposure to commodity prices (via cash flows from OKS) is balanced to some degree by the regulated natural gas distribution business. The Energy Services segment is more exposed to seasonal & basis spreads rather than absolute commodity prices.

Production from Regional Producing Basins - OKS is dependent on volumes from producing fields where the company gathers, processes, fractionates, transports, and markets natural gas and natural gas liquids. If producers were to cut back on drilling, OKS could suffer declines in throughput.

Capital Investment Recovery - Oneok spends capital in excess of depreciation to maintain and expand its distribution system. OKE is exposed to regulatory risk in that it may not be able to recover the full amount of capital spent via customer rates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially outperform our target.

Questar Corp

Company description

Questar Corp (STR) is a regional, integrated natural gas utility company with operations in the Rocky Mountains. The company has three operating segments, including 1) a regulated gas delivery business in Utah, Questar Gas; 2) an interstate pipeline and underground storage business, Questar Pipeline; and 3) a regulated natural gas and oil E&P business (Wexpro).

Investment strategy

We rate the shares of Questar Corp Neutral, which takes into account: 1) low-single digit EBIT growth at the company's pipeline segment; 2) ~$60mm per year of infrastructure replacement spend at the utility through 2016; and 3) a 20% rate of return on an increasing capital base (i.e., Wexpro). STR is essentially a fully-regulated business. Our estimates assume that Wexpro II will get passed and that Wexpro will invest ~$150mm of capital through 2015.

Valuation

Our target price is $21.75, based on the average of the following valuation methodologies:

Our NAV calculation results in a target price of $22.50p/s. We estimate that the distribution business is worth $1.2bn based on 2013E EBITDA and an 8x mid-cycle EBITDA multiple. We value STR's Pipeline & Storage business at ~$1.6bn, which is based on 2013E EBITDA and an 8x mid-cycle multiple. We value the regulated E&P business, Wexpro, at $2.25bn. This is based on a DDM (dividend discount model). We then subtract ~$1.2 billion of net debt to derive an equity value.

Our DCF analysis results in $21p/s. We derive a NPV of cash flows over the next 10 years discounted at the firm's WACC. We then add the residual value of the Utility & pipeline assets as well as the residual value of Wexpro. We subtract net debt of ~$1.2bn to derive the equity value.

Our long-term P/E analysis results in a value of $22.21p/s. We base our analysis on 2013 estimated earnings.

Our EV/EBITDA multiple analysis values Questar at $21.50p/s. We use a weighted average 2013E EBITDA multiple of 8.6x on projected EBITDA of $577mm. We subtract ~$1.2bn of net debt to reach our $20p/s target.

Risks

The primary risks to our Neutral thesis are:

1) Lack of drilling success at the regulated E&P segment would result in a lower investment base and therefore a lower return and a potentially lower share price.

2) Faster than expected growth at any of the company's business lines (specifically the Pipeline segment & STR Fueling) could lead to better than expected results and pose an upside risk.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially outperform our target.

Sempra Energy

Company description

Sempra Energy (SRE) is an integrated natural gas and electric company. The company's operations include Sempra Utilities, which consists of 6.2 million gas and 1.3 million electric meters in Southern California; Sempra Generation, which owns about 2,600 megawatts (MW) of net, active generation; Sempra Pipeline & Storage, which operates natural gas pipeline, storage, and owns interests in utility assets in South America; and Sempra LNG, which is currently developing and operating LNG re-gasification plants to import natural gas into the U.S.

Investment strategy

We rate the shares of Sempra Energy Buy (1). Sempra's diversified portfolio of assets in the gas and power sector gives the company sustained earnings power through consistent and growing returns from its utility operations, and a power generation portfolio that is 80% contracted. We believe Sempra is well positioned to take advantage of the current volatility in commodity prices, power demand in California, and future expected demand for liquefied natural gas (LNG).

Valuation

We average multiple valuation methodologies to derive our $80 target.

Our NAV yields a value of $76. We value regulated assets at a multiple of rate base (1.65X for utilities, 1.65X for pipelines, transmission and storage assets). The company's trading business is valued at the expected sale price. We value SRE's electric generation at replacement value ($800-$1,000/KW for CCGT assets). These values are partially offset by the company's net debt.

Our DDM values the company at $83. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we apply multiples of 16X, 16X and 14X to 2014 earnings at the utility, pipeline and generation segments. Our P/E analysis yields a value of $82.

For our EV/EBITDA analysis, we apply multiples of 8X, 8X and 8.5X to 2014 utility, pipeline and generation EBITDA. Our EV/EBITDA analysis yields a value of $80.

Risks

The key risks to our investment thesis are (1) The utilities are subject to regulation from federal, state and local authorities which may impose rulings adverse to Sempra's interests. (2) California's Department of Water Resources power contract with Sempra Generation expired in 2011. Earnings may be materially impacted as a result of volatile merchant power prices. (3) Uncertainty in the contracting of capacity on expansions at the company's LNG facilities may negatively impact earnings in the coming years, along with changes in the regulatory outlook towards exporting gas. (4) Sempra is exposed to currency issues in Mexico and earnings could be impacted with significant volatility in the value of the Mexican Peso. (5) Ability to access debt or equity markets at a reasonable cost in the future could materially impact growth in the future. (6) The opportunity for further upside exists if Sempra can take advantage of the growing need for renewable generation in the desert SW. (7) SRE is successful in obtaining regulatory approval to export natural and close financing. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price and our rating.

Southwest Gas Corp

Company description

Southwest Gas provides regulated gas distribution services for 1.8 million customers in Arizona, Nevada and California. We estimate the total regulated utility asset base (rate base) to be about $2.3 billion. SWX also operates two FERC-regulated pipelines ($85 million rate base) and an unregulated pipeline construction business (~$35 million annual EBITDA).

Investment strategy

We rate SWX Neutral (2). Our Neutral rating is premised on the company obtaining a reasonable rate of return on its regulated asset base. SWX's regulated customer base has been driven by population growth in Arizona and Nevada, which has slowed recently. This type of historical growth within a regulatory framework inevitably leaves shareholders exposed to regulatory lag; however, utilities are entitled to just and reasonable rates. Last year, SWX earned below authorized return levels. We estimate that upcoming rate relief and slowing capital growth should help to mitigate the impact of regulatory lag in the coming years and improve return metrics for the utility segment. The construction business has potential to grow considerably from ~10% of EBIT. However, recent management changes in the segment and competition from larger pipeline service companies could limit the growth potential of the division. We remain cautious until we see the growth strategy start to materialize.

Valuation

We average multiple valuation methodologies to derive our $50 target. Our NAV yields a value of $56. We value regulated assets at a multiple of rate base (1.65x for utilities, 1.65x for pipelines). We value the Construction Services segment at 5x EBITDA, based on a midstream asset multiple. These values are partially offset by the company's net debt. Our DDM values the company at $45. We calculate a hypothetical dividend, based on SWX's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x, 16x and 8x for the company's utility, pipeline and pipeline construction assets. For our EV/EBITDA analysis, we use multiples of 8x, 8x and 5x for the company's utility, pipeline and pipeline construction assets. Our P/E and EV/EBITDA analyses yield values of $46 and $53.

Risks

The key risks to our investment thesis include: i) a challenging regulatory body in Arizona, which has become more constructive; ii) the potential need to raise equity to fund the capex program, sensitivity of earnings to changes in weather; and iii) the stock's relative lack of trading liquidity, and the relatively low market capitalization of the company compared with other utilities. These concerns are offset by a stable regulated earnings stream from the transmission pipelines and natural gas utilities which account for more than 90% of earnings. Other risks to the shares attaining our target price include:

(2) Population growth - Housing demand and tepid economic growth within the Southwest region of the U.S. could slow to a rate below estimates or increase above our estimates, causing us to revise our estimates and valuation.

(3) Capital investment recovery - SWX spends capital to maintain and expand its operations. The company will continue to rely on state regulatory commissions to recover costs in excess of depreciation. While we believe SWX's relationship with the ACC has been more productive than those of other utilities operating in the state, the ACC and the other commissions may not allow the company to earn a reasonable rate of return on its rate base.

(4) Capital markets - SWX is a relatively small utility in terms of market capitalization and daily volumes. This may impact its ability to access the capital markets.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Spectra Energy Corp

Company description

Spectra Energy is an integrated natural gas company operating in both the United States and Canada. The company maintains four distinct operating segments with over $20 billion in assets: 1) natural gas transmission and storage in the US; 2) natural gas distribution in Canada; 3) natural gas gathering, processing and transmission in Canada; and 4) gathering & processing in the US through a 50% joint venture with ConocoPhillips.

Investment strategy

We rate Spectra (SE) at Neutral (2). We expect SE will grow regulated earnings by expanding its North American pipeline and storage network; however, commodity prices and Canadian exchange rates could add substantial volatility to midstream earnings.

Valuation

We apply multiple valuation methodologies to derive our $29 target. Our NAV yields a value of $34. We value regulated assets at a multiple of rate base (1.65x for utilities, 1.65x for pipelines). We value the Field Services segment at 8.5x 2014E EBITDA, based on our midstream multiple. These values are partially offset by the company's net debt. Our 10-year DCF yields a value of $32, by utilizing a 6.4% WACC. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x, 16x and 10x for the company's utility, pipeline and midstream assets. For our EV/EBITDA analysis, we use multiples of 8.5x, 8.5x and 14.5x for the company's utility, pipeline and midstream assets. We value the Canadian pipelines at a slight discount to account for lower authorized returns. Our P/E and EV/EBITDA analyses yield values of $30 and $31.

Our valuation assumes 2014 earnings represent normalized earnings at SE. Hence, we discount our valuation back 1 year to arrive at our 2013 target price.

Risks

The key risks to our investment thesis include:

(1) Significant capital requirements over the medium term and the earnings sensitivity to volatile commodity prices and the Canadian dollar.

(2) Capital Investment Recovery - SE spends capital to maintain and expand its pipeline and distribution operations. SE relies on the OEB and the FERC to recover costs or approve projects.

(3) Processing Contract Volatility - SE is exposed to commodity price volatility through its POP and keep-whole processing contracts. An increase in commodity prices could allow SE to outperform our expectations.

(4) Production from Gas Producing Regions - SE is dependent on volumes from producing fields throughout North America. Significant production declines could require SE to charge producers higher fees to compensate for lower volume on its systems, potentially degrading its competitive position. Conversely, production increases could enhance its competitive position.

(5) Demand from Refineries and Petrochemical Producers - Nat gas liquids produced by SE are primarily marketed to refineries and petrochemical producers. Lower demand could lead to margin compression.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

The Williams Companies Inc

Company description

The Williams Company Inc (WMB) is an integrated natural gas company that processes, trades, and transports natural gas and oil. The company also operates Midstream Canadian & Olefins business.

WMB also owns a ~78% stake in Williams Partners (incl. GP interest), a Midstream & Pipeline MLP. WMB is the operator of the WPZ assets.

Investment strategy

We rate the shares of The Williams Company Buy based on our analysis of the company's ownership of WPZ and combined growth at WPZ and the Canadian Midstream & Olefins business.

Valuation

We employ a variety of valuation techniques to derive our target price of $40 for the shares of The Williams Company Inc.

1) Discounted Cash Flow: We model in WPZ contribution via LP and GP distributions. We tax distributions 20%. We discount our cash flows at our WACC. Our DCF value per share is $42.

2) Net Asset Value: For the Olefins portion, our forward EBITDA multiple is 5x 2013 EBITDA. To account for WMB's stake in WPZ, we value the LP units at Current Trading Price x WMB owned units. We then tax-affect this figure (we use 20% tax rate to account for LP deferrals) to derive an implied valuation of $10 billion for the LP shares. For the GP interest, we value estimated 2013E GP distributions of $748 million by a 21.1x multiple, then tax-effect (~20%) to derive a valuation of $12.6 billion for the GP interest. We back out ~$800mm of net debt to derive our equity value. Our NAV is $39p/s.

3) EV/EBITDA: We value shares of WMB at $42 on an EV/EBITDA basis. We use 2013 EBITDA estimates. We back out WPZ minority interest, to account for the proportionate share WMB does not own at a blended multiple.

4) Long-Term P/E: We use a consolidated EPS on 2014E EPS (discounted) for a value of $35.

Risks

Risks we see to Williams achieving our target price include the following:

WPZ - WMB will generate a sizable portion of its cash flow via WPZ and therefore from keep-whole operations, which depend on the spread between natural gas and crude oil prices. In a declining crude / rising gas price environment, this could significantly chip away at WMB's processing margin and lead to earnings & cash flow shortfalls.

Project Execution - If WMB suffers cost overruns at its expansion projects, economics could deteriorate and lower overall project returns.

TransCanada Corp

Company description

The company's pipeline network transports 15 bcf/d of natural gas and extends over 35,000 miles, while its storage capacity is about 360 bcf. Additionally, TransCanada owns or has an interest in over 10,900 MW of generation throughout Canada and the northeast United States.

Investment strategy

We rate TRP Neutral (2). TRP's asset mix of both pipeline (70%) and power (30%) assets offers attractive organic growth with incremental returns on new capital of 13% excluding acquisitions over the next five years.

Despite attractive returns on organic and new build projects, we believe this growth comes with the risk of capital cost overruns at new projects, namely, the restart of two units at TRP's operated nuclear power plant (Bruce Power) and a C$12.2 billion oil export pipeline from Alberta into the Midwest (Keystone Pipeline).

Valuation

We apply average multiple valuation methodologies to derive our $44 target. Our NAV yields a value of $39. We value regulated assets at a multiple of rate base (1.5x for pipelines and storage assets). We apply a 10% haircut to Canadian assets as they earn lower authorized returns. We value TRP's power generation assets at replacement value. These values are partially offset by the company's net debt. Our 10-year DCF yields a value of $49, using a 5.97% WACC. Our P/E and EV/EBITDA multiples for the pipelines are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. This analysis yields a multiple of 15.5x 2014E earnings and 8.5x 2014E EBITDA. We apply a merchant power multiple of 14x and 8x to power generation 2014E earnings and EBITDA. Our P/E and EV/EBITDA analyses yield values of $43 and $46.

Risks

The key risks to our investment thesis includes

(1) Exchange Rates – TRP has energy assets in the US and Canada. Significant changes in exchange rates could materially increase or decrease earnings.

(2) Regulatory – TRP spends capital in excess of depreciation to maintain and expand its pipeline infrastructure and relies on fair regulated returns. Changes in the regulatory environment could adversely impact returns.

(3) Nuclear Risk – Because of the high safety risks of operating a nuclear power plant, regulatory impediments may arise. Unplanned outages from sensitive technology, cost overruns or even terrorist attacks could also cause damage and create outages, impacting earnings.

(4) Capital Risk – We expect about half of TRP capex program will be funded through debt. Difficulties getting the appropriate debt funding could reduce the likelihood of projects being built timely.

(5) Energy Prices – TRP sells to the merchant market. Changes in power prices and/or cost of fuel could materially impact our estimates or WC requirements.

(6) Execution Risk – Expansion projects should add incremental earnings, but overspending could lead to lower returns. There is also a risk that projects will not be completed on-time or at all.

(7) Ravenswood – We assume capacity energy prices in NYC will fall in'11 due to capacity oversupply. Any differences in capacity pricing to our estimates could also impact our long-term estimates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

UGI Corp

Company description

UGI Corp operates as a diversified gas utility, electric utility and global propane distribution company. The company's utility and power assets are located in Pennsylvania. The company's propane business is composed of a 46% equity interest in AmeriGas Partners and a stable international propane distribution unit with principal operations in France, where the company controls about a quarter of the market.

UGI also operates an energy services business with generation and storage assets.

Investment strategy

We rate UGI a Buy (1). The company provides stable cash flows through a combination of an electric and gas utility. In addition, the company has one of the largest propane businesses in the USA and has an International Propane division that serves customers in Europe.

Historically UGI has generated strong free cash flows from its domestic propane and utilities businesses enabling the company to make bolt-on acquisitions and increase its dividend over time. However, the propane business in the US looks challenged as commodity prices move higher, and customers migrate to alternative fuels.

Valuation

Our average multiple valuation methodologies derives a $34 target price.

Our NAV yields a value of $37. We value regulated assets at a multiple of rate base (1.65x for gas utilities). The company's gas marketing segment is valued at 7x EBITDA, in-line with multiples for other marketers. These values are partially offset by the UGI's net debt.

We value UGI's interest in APU using our MLP team's target price ($36.50). We value UGI's GP interest based upon GP distributions of ~$1.5 million.

We value UGI's coal-fired power plants at their estimated replacement cost, which includes a discount applicable to Central App coal plants, of $980/KW.

International propane operations are valued at a 15% discount to our gas utility EV/EBITDA multiple of 7.0x, due to significant exposure to weather and exchange rates.

Our DDM values the company at $35. We calculate a hypothetical dividend, based on UGI's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.

Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current ERPs, betas and projected risk-free yields. For our P/E analysis, we use multiples of 16.0x, 10.0x, 16x and 11.0x for the company's Gas utility, Propane, Electric utility and Marketing/energy services assets. For our EV/EBITDA analysis, we use multiples of 7x and 6x for the company's Gas & Electric Utility/Propane businesses and Marketing/Energy services assets. International propane operations are valued at a 15% discount to our gas utilities, due to exposure to weather and exchange rates. Our P/E and EV/EBITDA analyses yield values of $31 and $34.

Risks

The key risks to our investment thesis are:

(1) Most of UGI's cash flows arise from regulated assets or the mature propane market. Slightly offsetting these stable cash flows are sensitivities to weather and exchange rates.

(2) The international propane unit accounts for 20% of UGI's operating income while AmeriGas accounts for approximately a third. Propane distributors compete in an unregulated market. While the barriers to entry are high, namely capital costs, UGI competes with a number of propane distributors and "mom & pop" dealers in the U.S. and Europe. Economics for alternative fuel types is also making it more economical for customers to switch into other fuels.

Flaga and Antargaz's earnings remain exposed to foreign currency fluctuations.

(3) UGI's utility earnings are sensitive to weather. Our earnings estimates assume normal weather and recovery of capital spent in excess of depreciation through higher customer rates. These rates depend on orders from Pennsylvania Public Utility Commission. At this point, we believe the commission has been constructive with regard to utility rate making.

(4) Earnings in the propane business are also impacted by weather as changes in weather can significantly impact volumes.

(5) Our margin assumptions at UGI's power plants are based on market prices and the capacity market in PJM. Higher fuel costs or regulatory impediments within the PJM market could adversely affect our earnings estimates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Vectren Corp

Company description

Vectren operates regulated electric and gas utilities in Indiana and Ohio, distributing natural gas to about 1 million customers and serving about 140,000 electric customers. The utilities represent over 80% of VVC's earnings. Vectren also operates non-regulated businesses, including coal mining, pipeline construction, and gas marketing.

Investment strategy

We rate Vectren shares Neutral. We believe the stock is fairly valued as a constructive regulatory environment is offset by concerns over the impact of flat basis spreads on the gas marketing operations and light demand for the coal mining unit.

Over 80% of earnings at VVC are derived from operations at the gas and electric utilities. In late 2009, the company's sole electric utility filed for rate relief. We expect resolution of this matter by year-end. In addition to rate relief, we expect growth at the utility will be arise from infrastructure riders, which allow timely returns on capital spending and customer growth.

The non-regulated operations include coal mining, gas marketing, pipeline construction and energy services. Coal mining and gas marketing operations have been hampered as of late due to reduced coal demand and thinning basis spreads.

Valuation

We average multiple valuation methodologies to derive our $31 target. Our NAV yields a value of $34. We value regulated assets at a multiple of rate base (1.7x for gas utilities). We value ProLiance at 8x earnings, in-line with our estimated marketing multiple. The company's coal mining and energy services segments are valued at 6x and 5x 2013E EBITDA, based on midstream and marketing multiples. These values are partially offset by the company's net debt. Our DDM values the company at $28. We calculate a hypothetical dividend, based on VVC's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use 2013E multiples of 16x for the gas utility and 16x for the electric utility and 10x for the company's unregulated assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 6.5x for the company's utility and unregulated assets. Our P/E and EV/EBITDA analyses yield values of $28 and $35.

Risks

The key risks to our investment thesis includes

(1) Capital Investment Growth — VVC spends capital to maintain and expand its utility systems. VVC relies on adequate base rates to earn its cost of capital.

(2) Concentration in the Midwest — Changes in the service area's economy could reduce demand for power.

(3) Gas and Purchased Power Costs — Higher costs can lead to higher working capital requirements and interest expense.

(4) Coal Margins — Key drivers behind the performance of the coal mining unit include coal prices, volumes and costs, which are all volatile.

(5) Non-Regulated Business — VVC's unregulated business continually enters into forwards and options that may create unanticipated losses.

(6) Capital Markets — VVC is a relatively small utility in terms of market cap and volume compared with other utilities. This may affect its ability to access the capital markets.

(7) Customer Growth — An unexpected increase or decrease in population could affect earnings substantially.

Events that would present upside risk to our target price include: 1) an improving economy in Vectren's service areas; 2) increased natural gas price volatility, including wider summer/winter differentials; and 3) improvements in coal production volumes and per unit margins.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

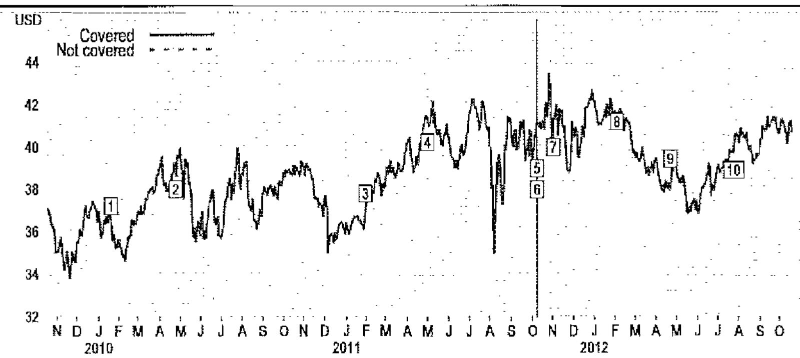
IMPORTANT DISCLOSURES

AGL Resources Inc (GAS)

Ratings and Target Price History

Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-10	2M	*36.00	36.75
2	26-Apr-10	2M	*38.00	39.16
3	30-Jan-11	*1M	*41.00	36.09
4	2-May-11	*1L	*44.00	41.45
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*2	44.00	40.44
7	2-Nov-11	2	*42.00	39.99
8	3-Feb-12	2	*43.00	41.55
9	23-Apr-12	2	*41.00	37.95
10	25-Jul-12	2	*43.00	39.70

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

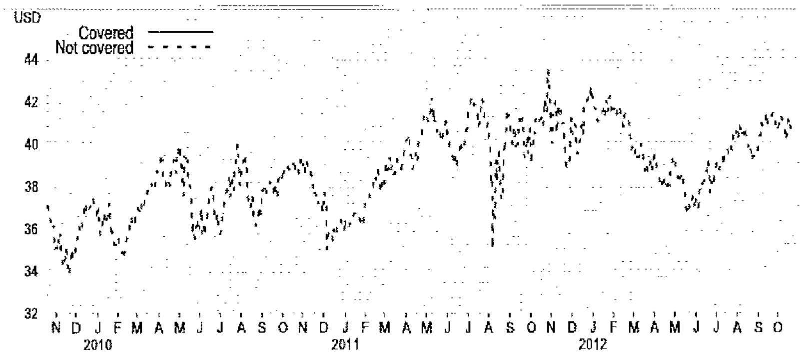
AGL Resources Inc (GAS)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Faisel Khan, CFA



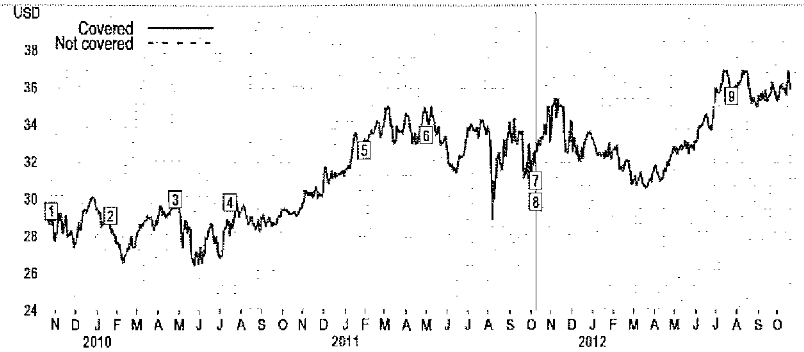
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2L	*28.00	28.84
2	21-Jan-10	2L	*30.00	28.55
3	27-Apr-10	2L	*31.00	29.46
4	16-Jul-10	*2M	*30.00	28.02
5	31-Jan-11	2M	*32.00	32.60
6	2-May-11	*2L	*35.00	34.61
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*2	35.00	31.94
9	25-Jul-12	2	*39.00	35.53

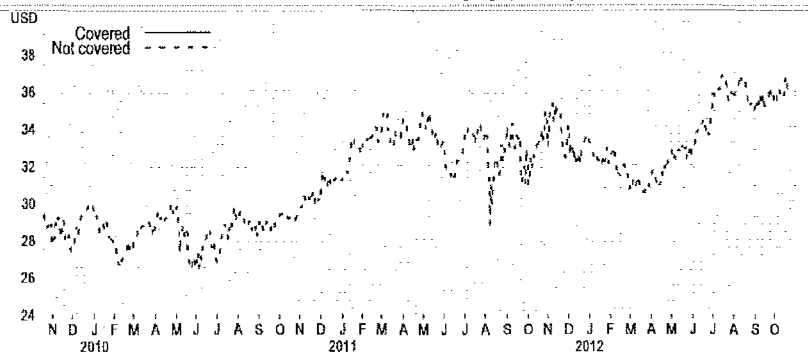
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



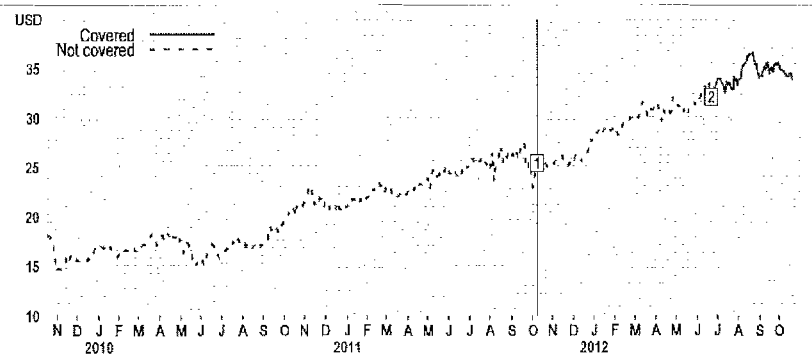
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Brookfield Infrastructure Partners (BIP)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since June 21 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	21-Jun-12	*2	*34.00	32.18

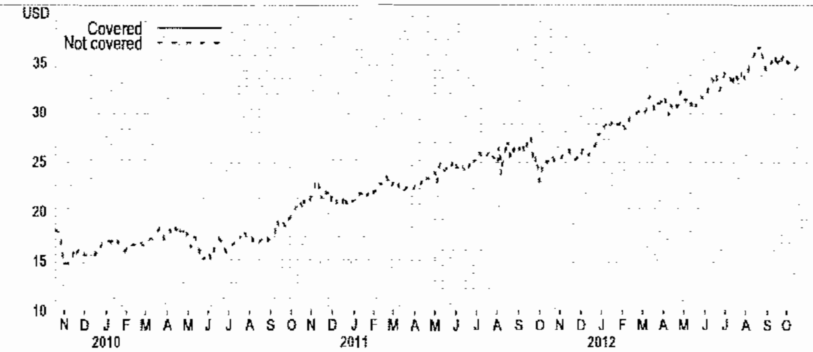
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Brookfield Infrastructure Partners (BIP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since June 21 2012



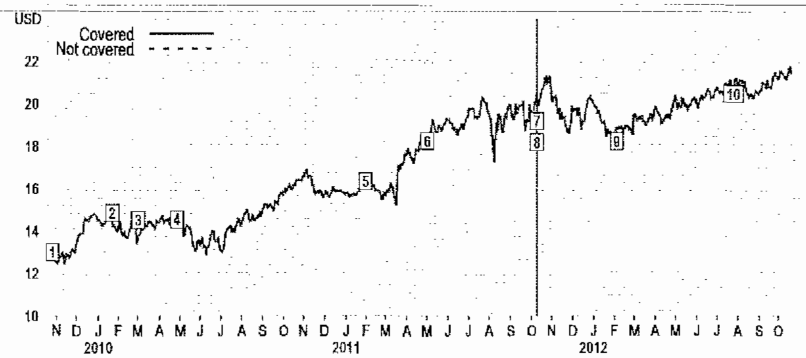
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	26-Oct-09	*1M	*14.00	12.70
2	21-Jan-10	1M	*16.00	14.56
3	1-Mar-10	1M	*15.50	13.60
4	27-Apr-10	1M	*16.00	14.18
5	31-Jan-11	1M	*18.00	16.15
6	2-May-11	1M	*21.00	18.59
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*2	21.00	19.93
9	3-Feb-12	*1	*22.00	18.88
10	25-Jul-12	1	*23.00	20.57

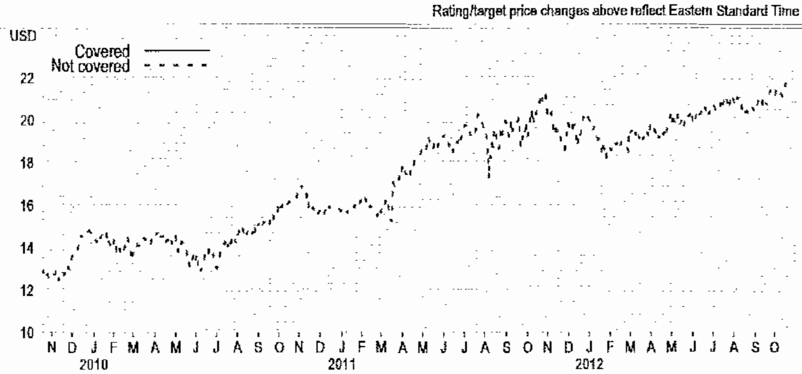
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



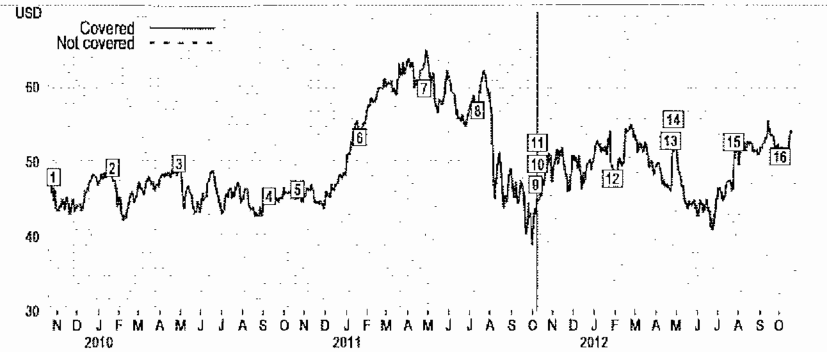
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Energen Corp (EGN)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2M	*46.00	46.55
2	21-Jan-10	2M	*50.00	48.35
3	29-Apr-10	2M	*51.50	48.71
4	9-Sep-10	2M	*49.00	44.96
5	21-Oct-10	2M	*50.00	45.04
6	20-Jan-11	2M	*60.00	53.84

	Date	Rating	Target Price	Closing Price
7	26-Apr-11	2M	*64.00	62.82
8	13-Jul-11	*1M	*69.00	57.12
9	6-Oct-11	1M	*61.00	43.74
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	61.00	42.92
12	27-Jan-12	1	*63.00	49.29

	Date	Rating	Target Price	Closing Price
13	23-Apr-12	1	*60.00	46.01
14	26-Apr-12	1	*65.00	51.30
15	25-Jul-12	1	*63.00	46.41
16	2-Oct-12	1	*65.00	51.82

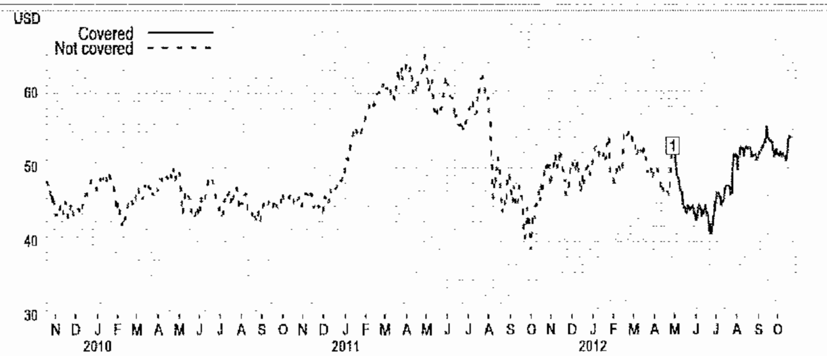
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Energen Corp (EGN)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Apr-12	*ADD MP	-	51.72

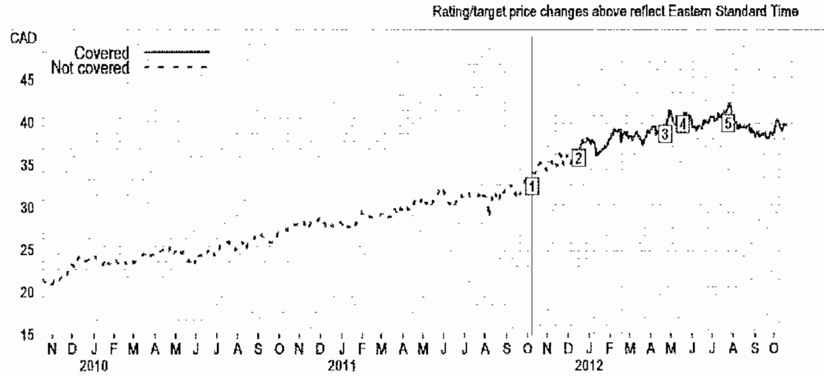
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB.TO)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since December 16 2011



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	16-Dec-11	*2	*37.37	35.85

	Date	Rating	Target Price	Closing Price
3	23-Apr-12	2	*35.68	39.50
4	18-May-12	2	*41.50	40.03

	Date	Rating	Target Price	Closing Price
5	25-Jul-12	2	*44.00	41.59

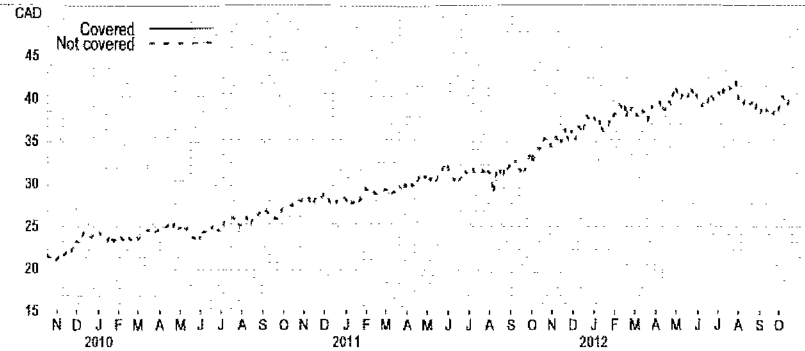
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB.TO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since December 16 2011



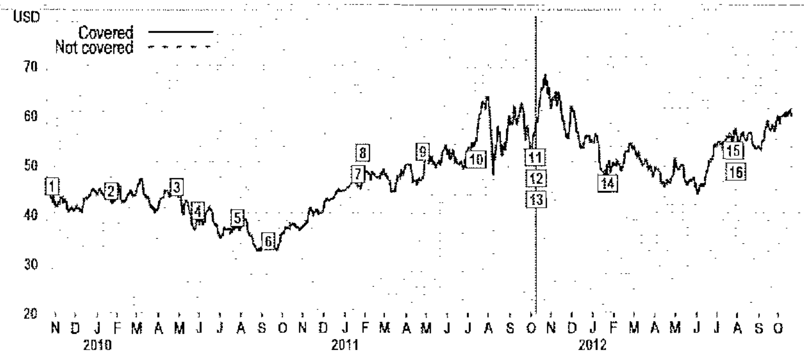
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

EQT Corporation (EQT)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2M	43.00	43.73
2	21-Jan-10	2M	*47.00	43.27
3	28-Apr-10	2M	*50.50	44.46
4	28-May-10	*1M	*50.00	39.19
5	27-Jul-10	1M	*46.50	37.39
6	9-Sep-10	1M	*41.50	34.50
7	20-Jan-11	*2M	*46.50	45.49
8	27-Jan-11	2M	*50.00	46.75
9	26-Apr-11	2M	*48.00	47.28
10	13-Jul-11	2M	*59.00	55.09
11	7-Oct-11	2M	*61.00	55.80
12	8-Oct-11	Stock rating system changed		
13	8-Oct-11	*2	61.00	55.80
14	23-Jan-12	2	*52.00	50.13
15	25-Jul-12	2	*56.00	54.68
16	29-Jul-12	2	*58.00	56.99

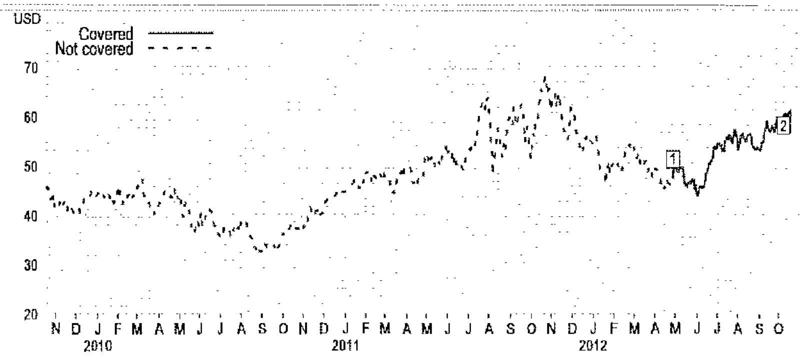
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

EQT Corporation (EQT)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Apr-12	*ADD LP	-	47.83
2	9-Oct-12	*REM LP	-	60.49

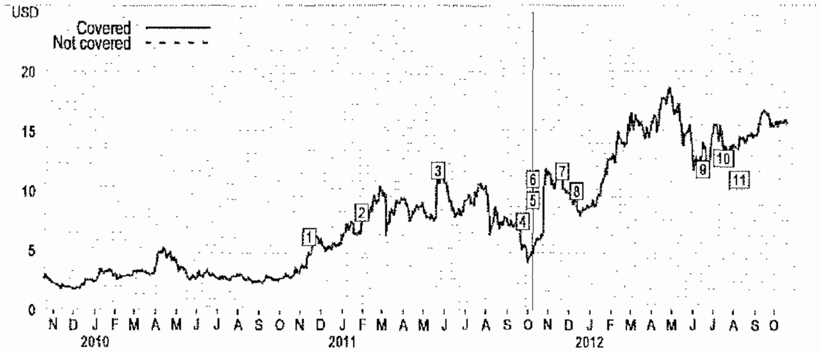
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Cheniere Energy Inc (LNG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	14-Nov-10	2S	*5.00	4.37
2	31-Jan-11	*1S	*10.00	7.31
3	23-May-11	1S	*15.50	11.76
4	23-Sep-11	1S	*14.00	5.07
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*1H	14.00	4.60
7	22-Nov-11	1H	*19.00	11.34
8	13-Dec-11	1H	*16.00	9.34
9	15-Jun-12	1H	*26.00	14.10
10	17-Jul-12	1H	*23.00	13.84
11	9-Aug-12	1H	*25.00	14.06

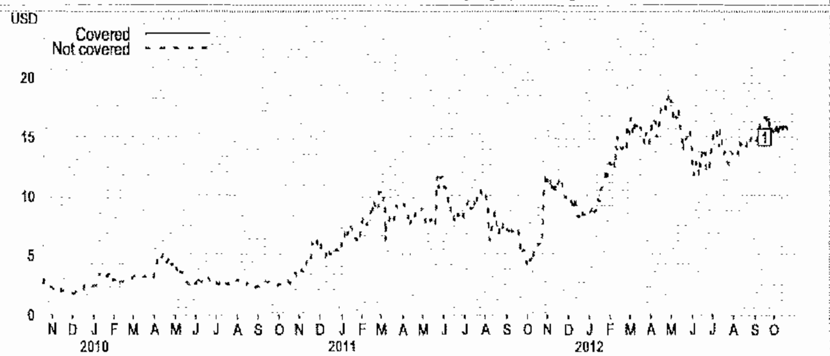
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Cheniere Energy Inc (LNG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	17-Sep-12	*ADD MP	-	16.71

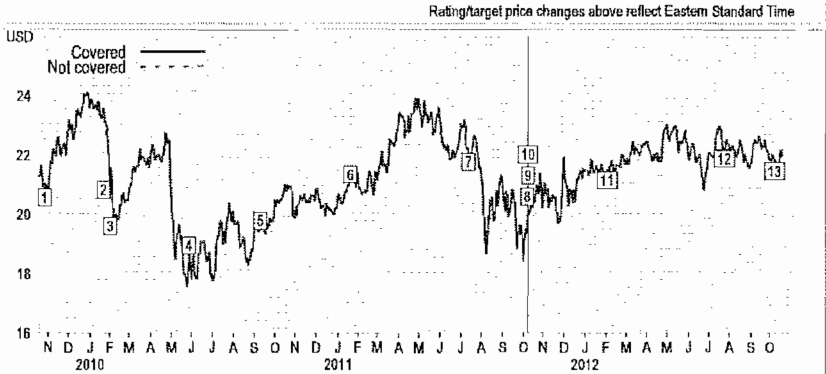
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MDU Resources Group Inc (MDU)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2M	*21.00	21.06
2	21-Jan-10	2M	*26.00	23.59
3	1-Feb-10	2M	*23.00	20.85
4	27-May-10	*1M	*22.50	18.22
5	9-Sep-10	1M	*22.00	19.53
6	20-Jan-11	1M	*23.50	21.32
7	13-Jul-11	*2M	*24.00	22.26
8	7-Oct-11	2M	*21.50	19.34
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*2	21.50	19.34
11	2-Feb-12	2	*21.00	21.31
12	25-Jul-12	2	*23.00	22.04
13	8-Oct-12	2	*22.00	21.90

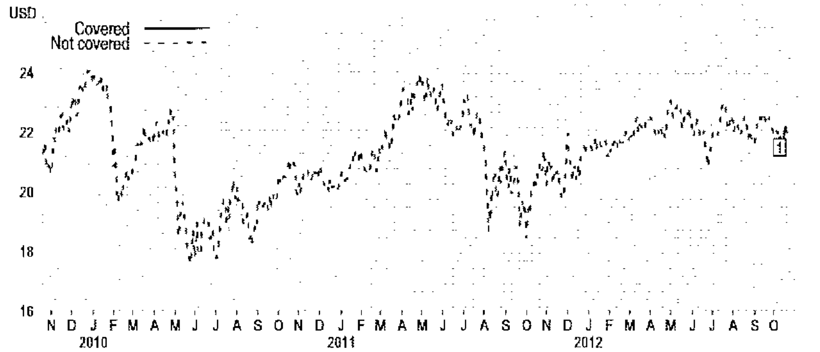
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MDU Resources Group Inc (MDU)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	9-Oct-12	*ADD LP	-	21.82

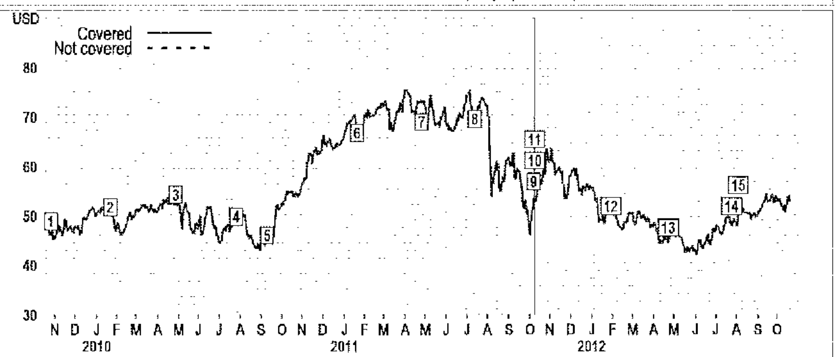
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

National Fuel Gas Co (NFG)

Ratings and Target Price History
Fundamental Research

Analyst: Timm Schneider
Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2M	*47.00	46.42
2	21-Jan-10	2M	*52.00	51.09
3	28-Apr-10	2M	*54.00	52.67
4	27-Jul-10	2M	*52.00	49.20
5	9-Sep-10	2M	*47.50	45.03
6	20-Jan-11	*3S	*67.00	66.81
7	26-Apr-11	3S	*70.00	73.45
8	13-Jul-11	*2H	70.00	70.82
9	7-Oct-11	*1H	*64.00	51.92
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	64.00	51.92
12	29-Jan-12	1	*63.00	50.56
13	23-Apr-12	1	*57.00	44.60
14	25-Jul-12	1	*55.50	48.25
15	3-Aug-12	1	*57.00	49.38

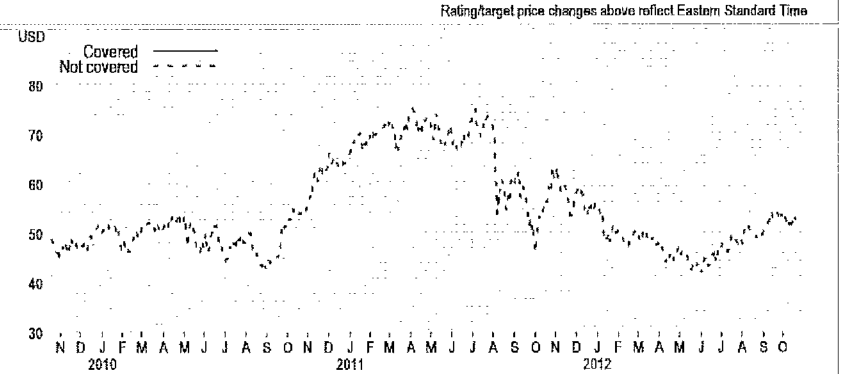
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

National Fuel Gas Co (NFG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



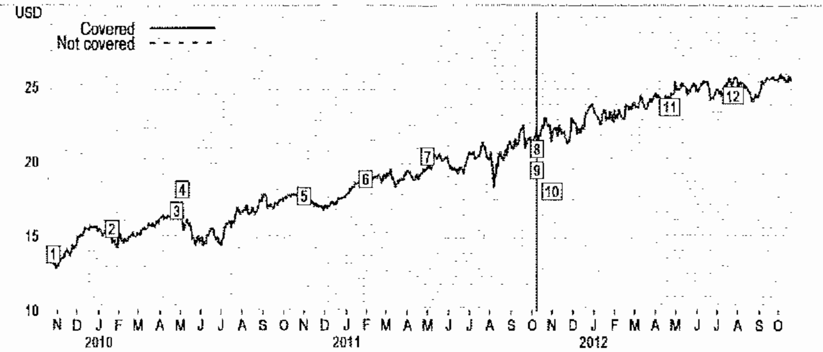
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisal Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	1H	*15.00	13.47
2	21-Jan-10	*2M	*16.00	14.87
3	27-Apr-10	2M	*16.50	16.27
4	5-May-10	2M	*17.00	16.20
5	1-Nov-10	2M	*18.00	17.17
6	31-Jan-11	2M	*20.00	18.62
7	2-May-11	2M	*21.00	19.52
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	21.00	21.55
10	1-Nov-11	2	*22.00	21.32
11	23-Apr-12	2	*24.00	24.30
12	25-Jul-12	2	*26.00	25.12

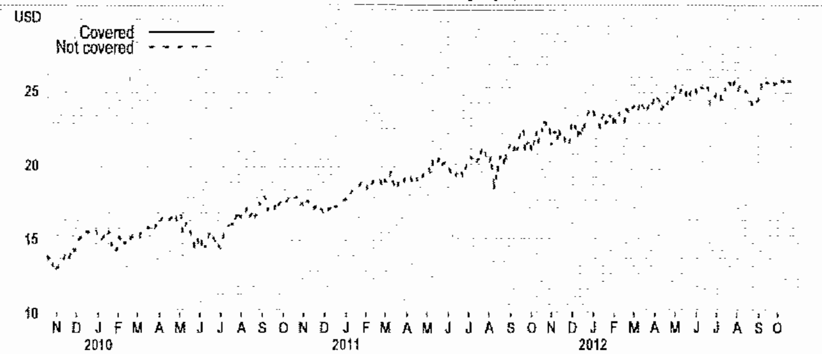
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisal Khan, CFA



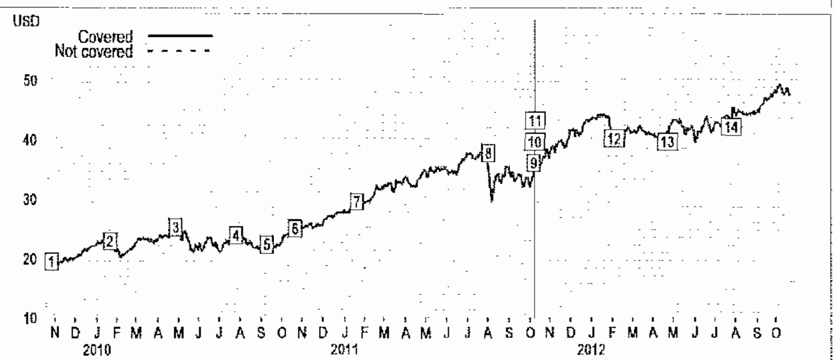
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Oneok Inc (OKE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisal Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2M	*20.00	18.87
2	21-Jan-10	2M	*22.50	22.79
3	28-Apr-10	2M	*25.00	24.43
4	27-Jul-10	2M	*25.50	23.96
5	9-Sep-10	2M	*23.75	22.17
6	21-Oct-10	2M	*26.00	24.61
7	20-Jan-11	2M	*28.75	29.12
8	2-Aug-11	2M	*36.00	35.75
9	7-Oct-11	*1M	*37.50	33.96
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	37.50	33.96
12	3-Feb-12	*2	*43.00	40.85
13	23-Apr-12	2	*45.00	41.09
14	25-Jul-12	2	*46.00	43.12

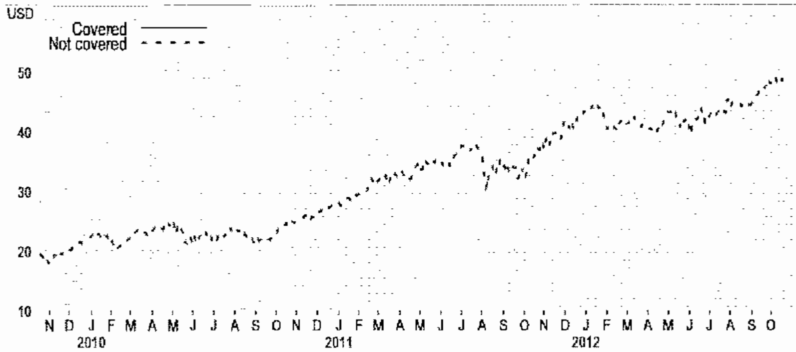
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Oneok Inc (OKE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



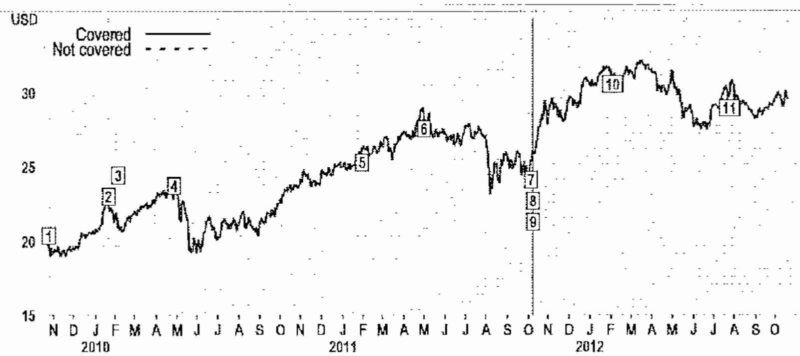
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	26-Oct-09	*3H	*18.00	19.69
2	21-Jan-10	3H	*21.50	22.61
3	4-Feb-10	*2H	21.50	20.93
4	28-Apr-10	2H	*23.00	23.15
5	31-Jan-11	*2M	*25.00	26.23
6	2-May-11	2M	*28.00	28.71
7	6-Oct-11	2M	*26.00	25.51
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	26.00	25.33
10	3-Feb-12	2	*32.00	30.56
11	25-Jul-12	2	*29.00	29.69

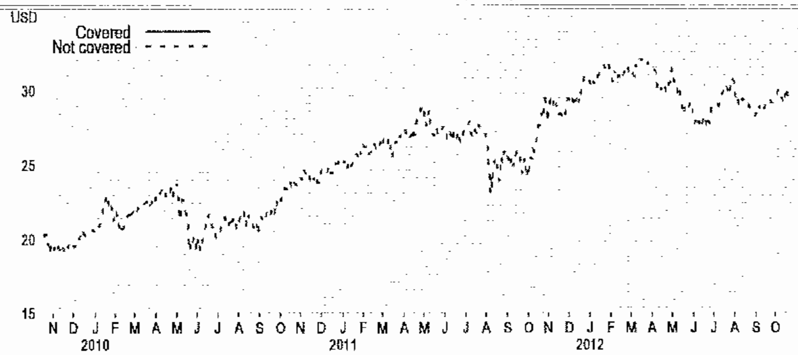
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



* Indicates change

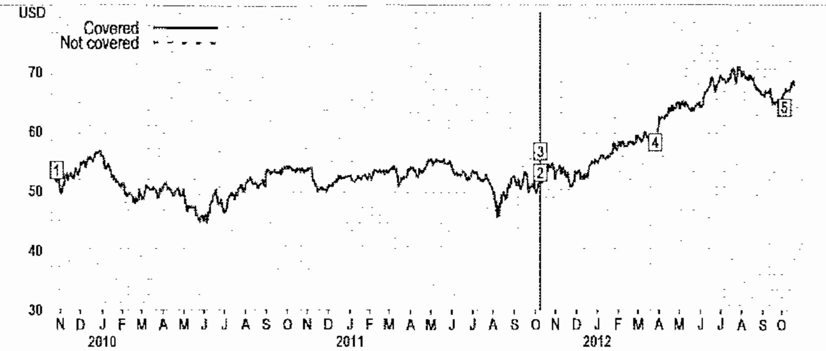
Rating/target price changes above reflect Eastern Standard Time

Sempra Energy (SRE)

Ratings and Target Price History

Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	1M	*60.00	51.75
2	8-Oct-11	Stock rating system changed		
3	8-Oct-11	*1	60.00	50.93
4	27-Mar-12	1	*65.00	59.05
5	4-Oct-12	1	*80.00	66.39

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

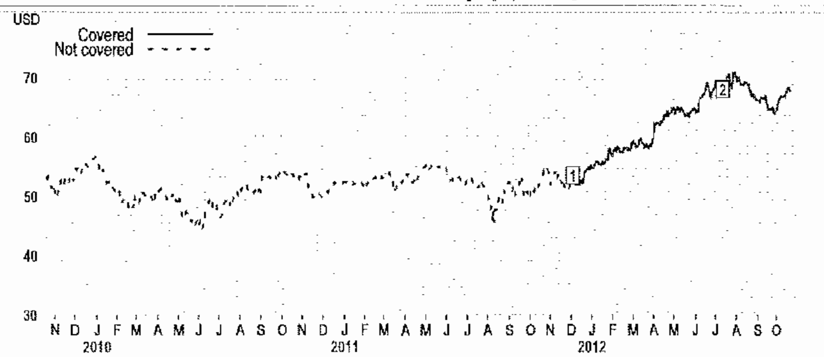
Sempra Energy (SRE)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	2-Dec-11	*ADD MP	-	52.92
2	11-Jul-12	*REM MP	-	68.46

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

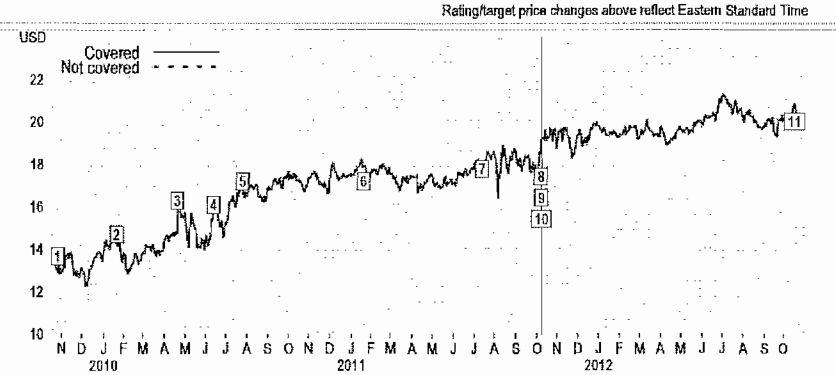
Questar Corp (STR)

Ratings and Target Price History

Fundamental Research

Analyst: Timm Schneider

Covered since July 13 2011



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*1M	*14.82	13.08
2	21-Jan-10	1M	*17.40	14.57
3	21-Apr-10	1M	*17.72	14.78
4	14-Jun-10	1M	*18.05	15.41
5	27-Jul-10	1M	*18.05	17.20
6	20-Jan-11	*1L	*19.00	17.92
7	13-Jul-11	1L	*19.25	17.99
8	7-Oct-11	1L	*20.50	18.55
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*1	20.50	18.55
11	17-Oct-12	*2	*21.75	20.91

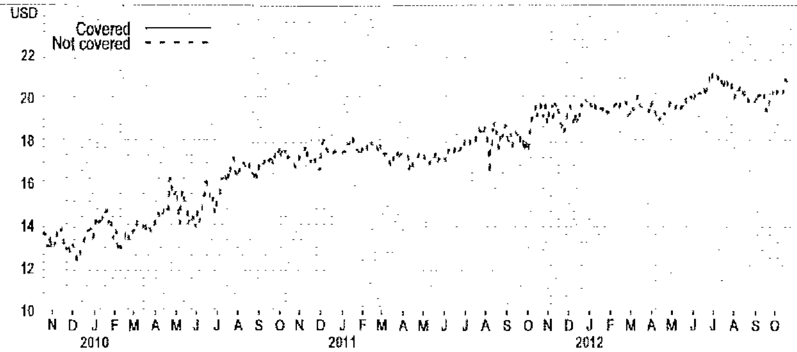
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Timm Schneider
Covered since July 13 2011



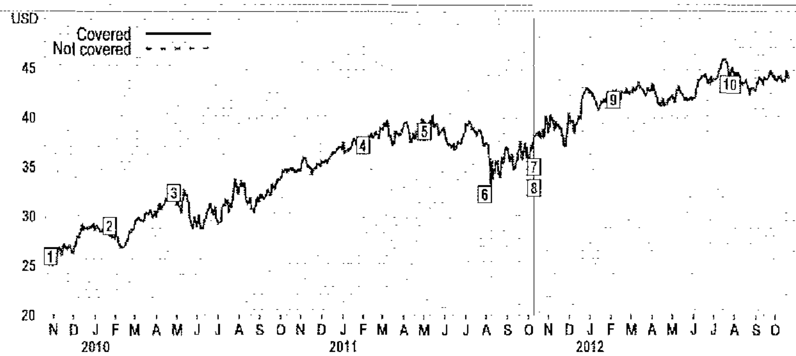
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*1M	30.00	25.21
2	21-Jan-10	1M	*35.00	28.31
3	27-Apr-10	1M	*37.00	31.51
4	31-Jan-11	*2M	*41.00	37.24
5	2-May-11	2M	*43.00	39.59
6	28-Jul-11	*1M	*45.00	37.09
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*1	45.00	36.78
9	3-Feb-12	1	*47.00	42.68
10	25-Jul-12	*2	*50.00	44.12

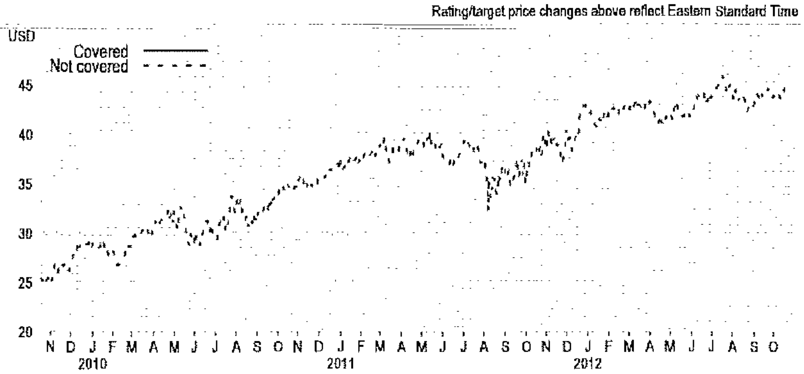
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



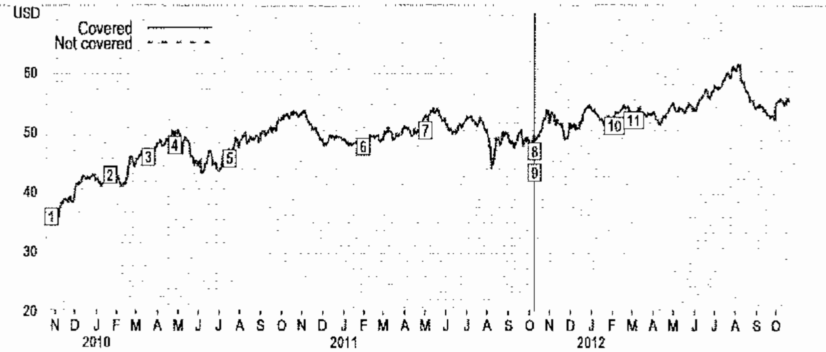
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Integrys Energy Group, Inc. (TEG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2H	*35.00	34.59
2	21-Jan-10	2H	*40.00	42.79
3	18-Mar-10	*3H	*42.00	46.89
4	27-Apr-10	3H	*43.00	49.19
5	16-Jul-10	3H	*44.00	45.60
6	31-Jan-11	*2H	*46.00	47.59
7	2-May-11	*2M	*51.00	52.48
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	51.00	48.42
10	3-Feb-12	2	*56.00	52.72
11	2-Mar-12	2	*55.00	52.07

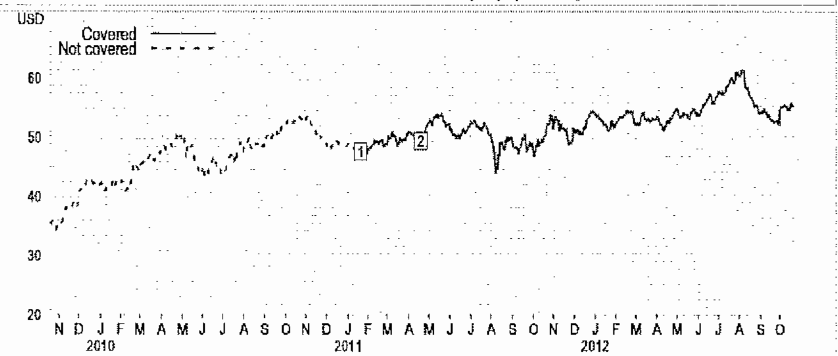
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Integrys Energy Group, Inc. (TEG)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	48.32
2	19-Apr-11	*REM LP	-	49.66

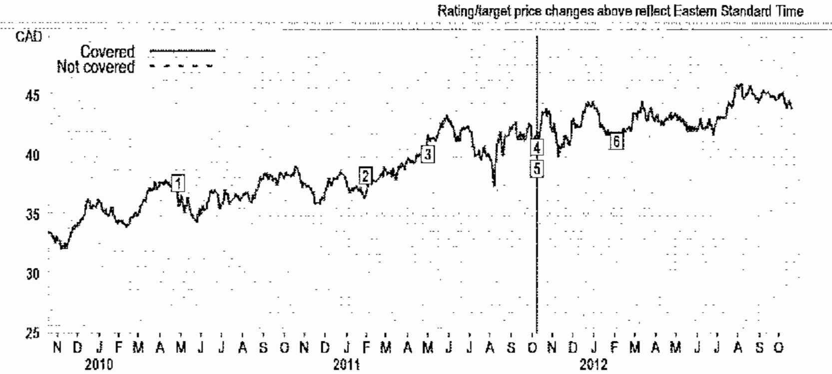
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	28-Apr-10	2H	*37.00	36.31
2	31-Jan-11	2H	*36.00	36.55
3	2-May-11	*2M	*40.00	41.62
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*2	40.00	41.52
6	3-Feb-12	2	*42.00	41.50

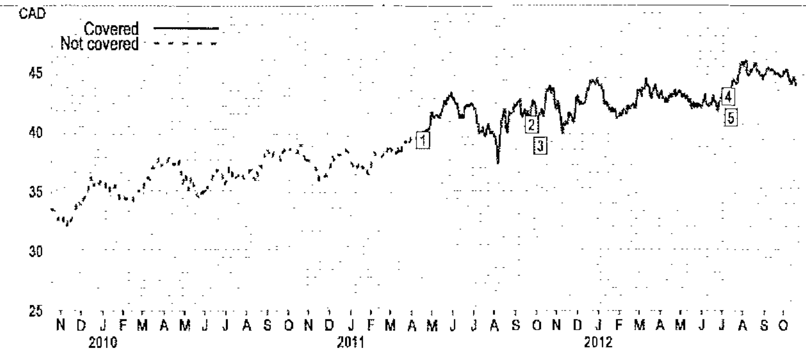
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

TransCanada Corp (TRP.TO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



#	Date	Rating	Target Price	Closing Price
1	19-Apr-11	*ADD LP	-	39.83
2	26-Sep-11	*REM LP	-	42.29
3	7-Oct-11	*ADD LP	-	41.52
4	11-Jul-12	*REM LP	-	43.16
5	16-Jul-12	*ADD LP	-	43.35

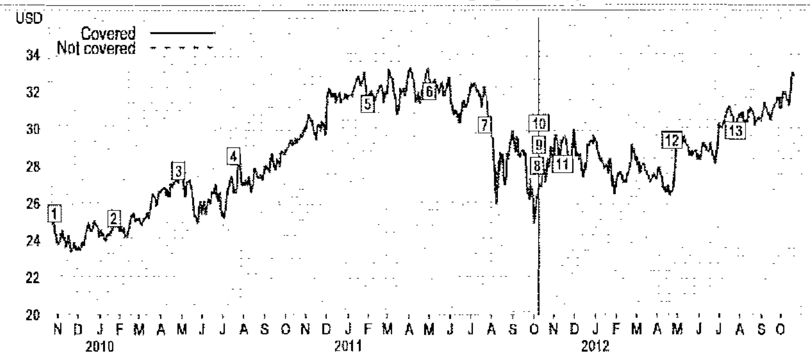
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UGI Corp (UGI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



#	Date	Rating	Target Price	Closing Price
1	27-Oct-09	*2M	26.00	24.79
2	21-Jan-10	*1M	*31.00	25.15
3	27-Apr-10	1M	*32.00	27.09
4	16-Jul-10	1M	*33.00	26.59
5	31-Jan-11	*2M	33.00	31.35
6	2-May-11	2M	*36.00	32.74
7	21-Jul-11	2M	*34.00	32.29
8	6-Oct-11	*1M	*31.00	26.40
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*1	31.00	26.27
11	13-Nov-11	1	*33.00	29.41
12	23-Apr-12	1	*31.00	26.62
13	25-Jul-12	1	*34.00	29.92

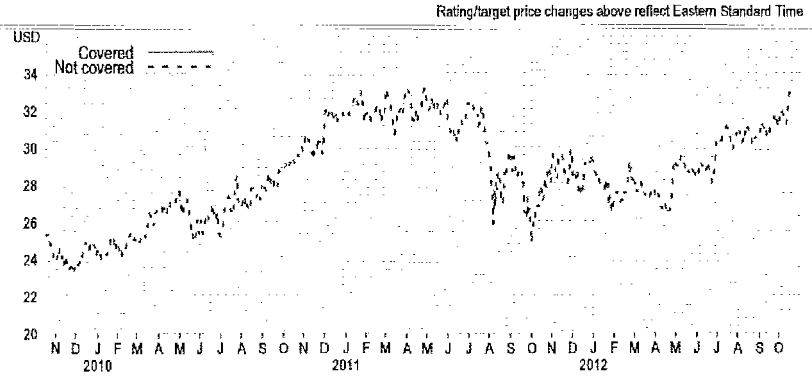
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UGI Corp (UGI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



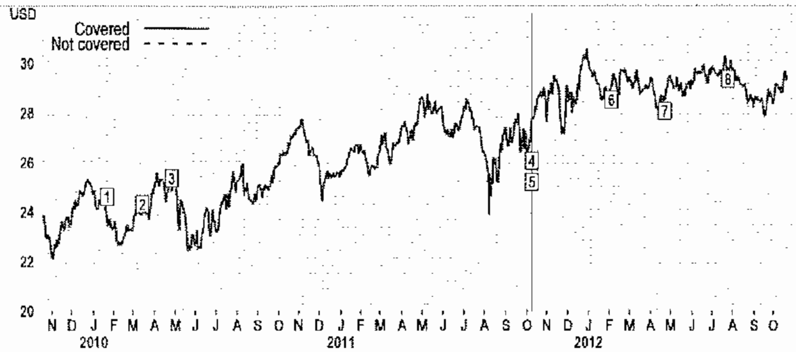
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	21-Jan-10	2M	*26.00	23.80
2	15-Mar-10	2M	*25.00	23.92
3	27-Apr-10	2M	*26.00	24.83
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*2	26.00	26.77
6	3-Feb-12	2	*28.00	29.08
7	23-Apr-12	2	*29.00	28.46
8	25-Jul-12	2	*31.00	29.41

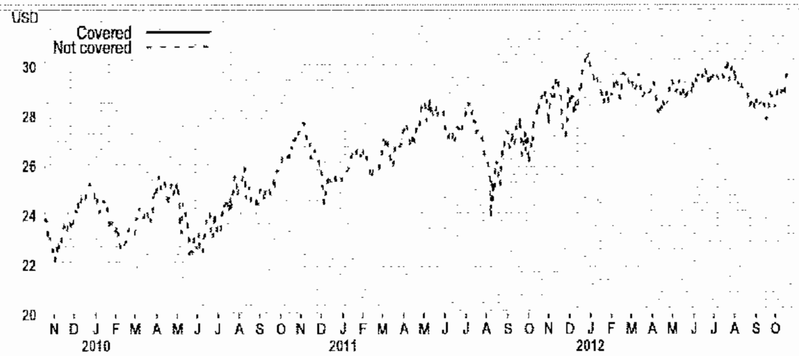
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vectren Corp (VVC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



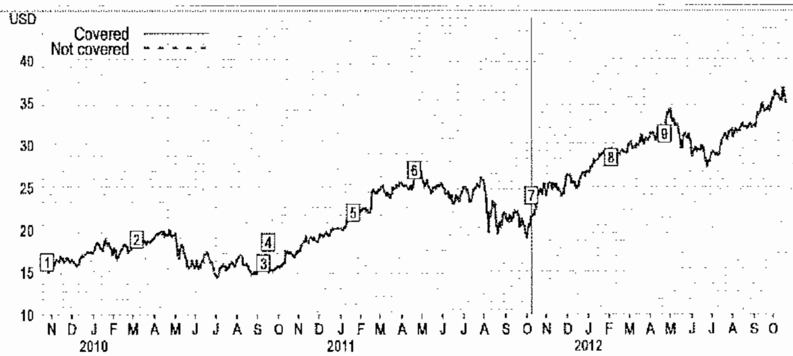
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Williams Companies Inc (WMB)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	21-Oct-09	*1M	*20.41	16.20
2	5-Mar-10	1M	*25.31	18.89
3	9-Sep-10	1M	*24.50	15.74
4	16-Sep-10	1M	*23.27	15.06
5	20-Jan-11	1M	*26.13	21.33
6	20-Apr-11	1M	*31.03	25.95
7	8-Oct-11	Stock rating system changed		
8	3-Feb-12	*1	*32.50	29.70
9	23-Apr-12	1	*36.00	32.31

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

The Williams Companies Inc (WMB)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA

	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	21.33

	Date	Rating	Target Price	Closing Price
2	26-Sep-11	*REM MP	-	21.36

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of AGL Resources Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of CenterPoint Energy Inc

Sioban G Hickie,Associate,holds a long position in the securities of Cheniere Energy Inc. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Cheniere Energy Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of NiSource Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Sempra Energy

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Integrys Energy Group Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Williams Companies Inc

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Brookfield Infrastructure Partners, CenterPoint Energy Inc, EQT Corporation, Cheniere Energy Inc, NiSource Inc, Sempra Energy, TransCanada Corp, The Williams Companies Inc.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Brookfield Infrastructure Partners, CenterPoint Energy Inc, Enbridge Inc., EQT Corporation, Cheniere Energy Inc, NiSource Inc, Oneok Inc, Spectra Energy Corp, Sempra Energy, Integrys Energy Group, Inc., TransCanada Corp, UGI Corp, The Williams Companies Inc.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Brookfield Infrastructure Partners, NiSource Inc, Oneok Inc, Sempra Energy.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from AGL Resources Inc, Atmos Energy Corp, Brookfield Infrastructure Partners, CenterPoint Energy Inc, Energen Corp, Enbridge Inc., EQT Corporation, NiSource Inc, Oneok Inc, Spectra Energy Corp, Sempra Energy, Southwest Gas Corp, Integrys Energy Group, Inc., TransCanada Corp, UGI Corp, Vectren Corp, The Williams Companies Inc in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Brookfield Infrastructure Partners, CenterPoint Energy Inc, Enbridge Inc., EQT Corporation, Cheniere Energy Inc, NiSource Inc, Oneok Inc, Spectra Energy Corp, Sempra Energy, Integrys Energy Group, Inc., TransCanada Corp, UGI Corp, The Williams Companies Inc.

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The Firm is a market maker in the publicly traded equity securities of Integrys Energy Group, Inc..

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Research Ratings Distribution

	12 Month Rating			Relative Rating		
Data current as of 4 Oct 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	51%	38%	11%	7%	85%	7%
% of companies in each rating category that are investment banking clients	50%	47%	45%	59%	47%	50%

Guide to Citi Research Fundamental Research Investment Ratings:

Citi Research stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

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Equities

16 November 2012 | 8 pages

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
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Atmos Energy Corp (ATO)

■ Company Update

Analyst Day Takeaways; Rate Base and EPS Growth Continue

- **Analyst Day Key Takeaways** – Yesterday, ATO provided 2013 earnings guidance. Our key takeaways from the presentation were: 1) 2013 EPS guidance is $2.40-$2.50 per share (ex. Unrealized gain/losses and sale of GA LDC), up ~6% over 2012; 2) Overall rate base growth will be over 8%; 3) 2013 dividend growth is expected to be 4%; 4) Management's efforts to right-size ATO's regional footprint is now complete; 5) 90%+ of earnings are tied to regulated businesses with recovery mechanisms of less that one year; and 6) Marketing fundamentals remain unchanged.

- **Texas State of Mind** – Management believes it is well positioned across the South and Southeast to grow rate base. The Texas LDC and Transmission businesses are the primary growth engines through 2016. ATO has a constructive relationship with regulators and favorable mechanisms in place (i.e. weather, rate recovery mechanisms) which should drive earnings growth across the regulated businesses by ~7% over 2012.

- **Regulated Capex** – ATO expects capital spending across their businesses to be nearly $800 mm in fiscal 2013. 70% of spending in 2013 will be deployed in TX. Nearly two-thirds of total spending is tied to annual recovery mechanisms (i.e. GRIP), one-third affiliated with enhanced infrastructure spending (i.e. Rule 8.209), and the balance to general rate cases. By 2016, total LDC and transmission/storage (APT) rate base will total $5.8 BN. This is in-line with our expectations. Spending tied to the APT projects will be $270 mm in 2013, financed equally using debt and retained earnings. We expect ROEs of 11.8% and average rate base growth of 13% through 2016 for the APT projects.

- **Recommendation** – We maintain our Neutral rating and $39 target price. We expect EPS growth of 6-8% resulting in 2016 EPS of $3.10. The stock appears modestly undervalued given the pull back in the sector. ATO trades at more than a 1.0x multiple discount to it LDC peers. We do not think this discount is warranted.

Neutral	**2**
Price (16 Nov 12)	US$33.13
Target price	US$39.00
Expected share price return	17.7%
Expected dividend yield	4.1%
Expected total return	**21.8%**
Market Cap	US$2,990M

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.76A	1.65A	0.08A	-0.21A	2.28A	2.34A
2012E	**0.72A**	**1.33A**	**0.32A**	**0.01E**	**2.37E**	**2.11E**
Previous	0.72A	1.33A	0.32A	0.01E	2.37E	na
2013E	**0.82E**	**1.39E**	**0.27E**	**0.01E**	**2.48E**	**2.45E**
Previous	0.82E	1.39E	0.27E	0.01E	2.48E	na
2014E	**0.86E**	**1.40E**	**0.28E**	**0.03E**	**2.56E**	**2.58E**
Previous	0.86E	1.40E	0.28E	0.03E	2.56E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

CASE NO. 2013-00148
ATTACHMENT 1
TO OAG DR NO. 1-183

ATO.N: Fiscal year end 30-Sep

Price: US$33.13; TP: US$39.00; Market Cap: US$2,990m; Recomm: Neutral

Profit & Loss (US$m)	2010	2011	2012E	2013E	2014E
Sales revenue	4,789	4,358	3,851	4,388	4,453
Cost of sales	-3,414	-3,015	-2,469	-2,911	-2,936
Gross profit	1,375	1,342	1,382	1,477	1,517
Gross Margin (%)	28.7	30.8	35.9	33.7	34.1
EBITDA (Adj)	**709**	**680**	**726**	**774**	**809**
EBITDA Margin (Adj) (%)	14.8	15.6	18.8	17.6	18.2
Depreciation	-217	-228	-239	-239	-241
Amortisation	0	0	0	0	0
EBIT (Adj)	**492**	**452**	**487**	**535**	**567**
EBIT Margin (Adj) (%)	10.3	10.4	12.6	12.2	12.7
Net interest	-154	-151	-147	-170	-188
Associates	0	0	0	0	0
Non-op/Except	2	21	-3	0	0
Pre-tax profit	**339**	**322**	**337**	**366**	**380**
Tax	-131	-117	-122	-139	-144
Extraord./Min.Int./Pref.div.	0	-9	3	0	0
Reported net profit	**209**	**197**	**218**	**227**	**235**
Net Margin (%)	4.4	4.5	5.7	5.2	5.3
Core NPAT	209	206	215	227	235
Per share data	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Reported EPS ($)	2.26	2.18	2.40	2.48	2.56
Core EPS ($)	2.27	2.28	2.37	2.48	2.56
DPS ($)	1.34	1.36	1.38	1.41	1.45
CFPS ($)	7.92	6.28	4.64	5.03	5.07
FCFPS ($)	2.48	1.39	-1.58	-2.34	-2.11
BVPS ($)	23.73	24.98	25.82	26.94	28.08
Wtd avg ord shares (m)	91.8	90.3	90.2	90.5	90.9
Wtd avg diluted shares (m)	92.1	90.4	90.7	91.4	91.8
Growth rates	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Sales revenue (%)	-3.6	-9.0	-11.6	13.9	1.5
EBIT (Adj) (%)	3.3	-8.2	7.8	9.9	6.0
Core NPAT (%)	5.5	-1.4	4.5	5.4	3.8
Core EPS (%)	4.8	0.4	4.2	4.7	3.3
Balance Sheet (US$m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Cash & cash equiv.	132	131	0	0	0
Accounts receivables	273	272	339	339	344
Inventory	319	290	361	361	366
Net fixed & other tangibles	5,148	5,532	5,956	6,391	6,808
Goodwill & intangibles	740	740	740	740	740
Financial & other assets	151	317	394	394	399
Total assets	**6,764**	**7,283**	**7,790**	**8,225**	**8,657**
Accounts payable	266	291	367	365	366
Short-term debt	486	209	747	1,078	1,392
Long-term debt	1,810	2,206	1,956	1,956	1,956
Provisions & other liab	2,023	2,321	2,391	2,389	2,390
Total liabilities	**4,585**	**5,027**	**5,462**	**5,788**	**6,104**
Shareholders' equity	2,178	2,255	2,328	2,438	2,552
Minority interests	0	0	0	0	0
Total equity	**2,178**	**2,255**	**2,328**	**2,438**	**2,552**
Net debt	**2,164**	**2,284**	**2,704**	**3,034**	**3,348**
Net debt to equity (%)	99.3	101.2	116.2	124.4	131.2

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	14.6	14.6	14.0	13.3	12.9
PB (x)	1.4	1.3	1.3	1.2	1.2
EV/EBITDA (x)	7.2	7.7	7.6	7.6	7.6
FCF yield (%)	7.5	4.2	-4.8	-7.1	-6.4
Dividend yield (%)	4.0	4.1	4.2	4.2	4.4
Payout ratio (%)	59	60	58	57	56
ROE (%)	9.6	8.9	9.5	9.5	9.4
Cashflow (US$m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EBITDA	709	680	726	774	809
Working capital	83	-26	-192	-6	-12
Other	-63	-86	-113	-309	-332
Operating cashflow	**729**	**568**	**421**	**460**	**465**
Capex	-500	-442	-565	-674	-659
Net acq/disposals	0	0	0	0	0
Other	0	-4	-4	0	0
Investing cashflow	**-500**	**-446**	**-569**	**-674**	**-659**
Dividends paid	-124	-124	-126	-128	-133
Financing cashflow	**-163**	**44**	**-149**	**-116**	**-121**
Net change in cash	**66**	**166**	**-297**	**-330**	**-314**
Free cashflow to s/holders	**229**	**126**	**-144**	**-214**	**-193**

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dataCentral

Atmos Energy Corp

Company description

Atmos Energy is an integrated natural gas company headquartered in Texas. The company distributes natural gas to over 3 million customers in 12 states, operates pipeline systems and storage facilities and provides natural gas marketing services through its subsidiary Atmos Energy Marketing.

We estimate ATO will grow utility rate base by over 4% annually over the next five years. 94% of utility margins are weather normalized. Furthermore, 86% of rates are adjusted annually (without the need for rate cases) or are decoupling from demand. Only Colorado, Illinois and Iowa (~5% of rate base) do not have mechanisms in place for either decoupling or weather normalization

Investment strategy

We rate Atmos Energy (ATO) Neutral (2). Our Neutral rating on ATO is premised on the company's limited growth profile and lack of near-term catalysts. Atmos generates stable earnings from a mostly regulated utility asset base with low/mid single-digit EPS growth and a stable dividend over the next five years.

We expect ATO will continue to grow earnings by investing in its regulated asset base, which we estimate will grow by 4% annually over the next five years. 86% of rates are adjusted annually without the need to enter costly and risky rate cases.

Valuation

We average multiple valuation methodologies to derive our $39 target. Our NAV yields a value of $40. We value regulated assets at a multiple of rate base (1.7x for utilities). We value the pipeline assets at 8x '13E EBITDA and the marketing business at 5x '13E EBITDA. These values are partially offset by the company's net debt. Our DDM values the company at $40. We calculate a hypothetical dividend, based on ATO's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16X, 16x and 10x for the company's utility, pipeline/storage and marketing assets. For our EV/EBITDA analysis, we use multiples of 8x, 8x and 6.5x for the company's utility, pipeline/storage and marketing assets. Our P/E and EV/EBITDA analyses (2013E earnings) yield values of $39 and $38.

Risks

The key risks to our investment thesis on AGL are (1) Capital Investment Recovery – ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (2) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably.(3) Capital Markets – ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock. (4) ATO operates a gas marketing business. Our research shows that ATO hedges their physical delivery of gas using its access to storage and pipeline transportation capacity. If the financial hedges and local markets become dislocated, ATO could incur a liability.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Appendix A-1

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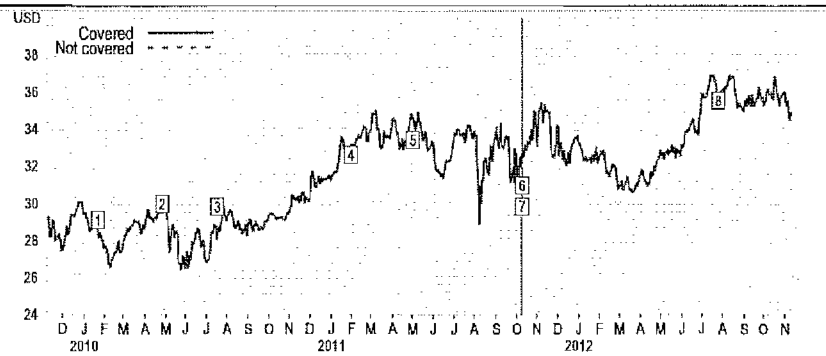
IMPORTANT DISCLOSURES

Atmos Energy Corp (ATO)
Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA

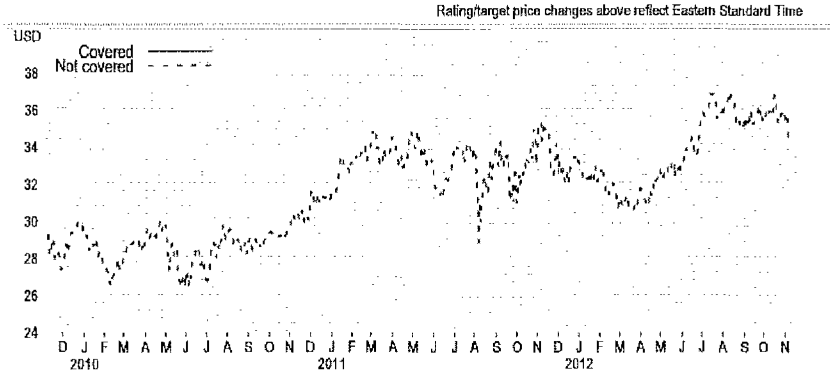


	Date	Rating	Target Price	Closing Price
1	21-Jan-10	2L	*30.00	28.55
2	27-Apr-10	2L	*31.00	29.46
3	16-Jul-10	*2M	*30.00	28.02
4	31-Jan-11	2M	*32.00	32.60
5	2-May-11	*2L	*35.00	34.61
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*2	35.00	31.94
8	25-Jul-12	2	*39.00	35.53

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



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Data current as of 4 Oct 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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% of companies in each rating category that are investment banking clients	50%	47%	45%	59%	47%	50%

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Equities

9 February 2012 | 8 pages

Atmos Energy Corp (ATO)

- Company Update
- Estimate Change

Utility Earnings Continue to Grow; Non-Reg Less of a Headwind

- **EPS** – ATO reported F1Q EPS of $0.75. Adjusted EPS was $0.61, excluding non-cash marketing results. Adjusted EPS was lower than our estimate of $0.85. Higher costs at the LDC caused the miss. ATO's 2012 EPS guidance is $2.30-$2.40. Our estimate was $2.44. Following management's comments during the call, we are lowering our EPS estimate to $2.34 per share on lower non-regulated earnings. Despite the lower guidance we continue to be encouraged by growing gas utility and pipeline earnings driven by rate base growth and expansions on ATO's intrastate system.

- **LDC** – EBIT was $108 mm in F1Q, lower than our $121 mm estimate. Higher operating expenses as result of litigation and general inflation drove the miss. Costs jumped 5% Y-o-Y. ATO expects its LDCs to earn $133 mm in net income for 2012. Our estimate is in-line. ATO filed rate cases at their West TX, Mid-TX, KS and MI utilities. We expect these rate filings to be resolved over the next 9-12 months and have incorporated them into our 2013-2014 estimates.

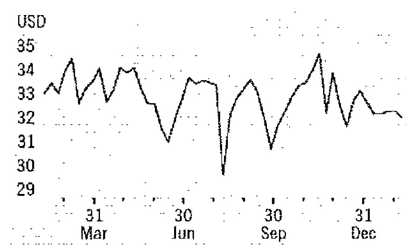
- **Transmission & Storage** – EBIT was $28 mm, marginally ahead of our estimate of $27 mm. A new rate design program resulted in $8mm higher gross margins. Throughput volumes were 5% higher. Higher margins were partially offset by higher pipeline integrity costs. Guidance for 2012 is $62 in net income (mid-point). We are slightly higher than guidance.

- **Non-regulated** – EBIT was $8 mm, higher than our expectations of $5 mm on the quarter. Volumes and per-unit margins continued to trend downwards. 2012 guidance for this segment is $22 mm (mid-point) which is in-line with our estimate. Marketing earnings continue to shrink as a percentage of overall results.

- **Recommendation and Capex** – 2012 capex is expected to be up 11% over 2011. Management estimates rate base will grow 6-6.5% through 2015. We maintain our Neutral rating on the stock. Our target price remains unchanged.

Neutral	**2**
Price (09 Feb 12)	US$32.15
Target price	US$35.00
Expected share price return	8.9%
Expected dividend yield	4.3%
Expected total return	**13.2%**
Market Cap	US$2,894M

Price Performance
(RIC: ATO.N, BB: ATO US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.76A	1.65A	0.08A	-0.21A	2.28A	2.34A
2012E	**0.75A**	**1.41E**	**0.17E**	**0.05E**	**2.34E**	**2.38E**
Previous	0.85E	1.44E	0.15E	0.00E	2.44E	na
2013E	**0.88E**	**1.42E**	**0.19E**	**0.09E**	**2.57E**	**2.51E**
Previous	0.86E	1.46E	0.15E	0.03E	2.50E	na
2014E	**0.89E**	**1.46E**	**0.20E**	**0.10E**	**2.65E**	**2.59E**
Previous	0.86E	1.44E	0.16E	0.06E	2.52E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Fiscal year end 30-Sep	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	14.2	14.1	13.8	12.5	12.1
EV/EBITDA adjusted (x)	7.1	7.5	7.5	7.3	7.2
P/BV (x)	1.4	1.3	1.2	1.2	1.1
Dividend yield (%)	4.2	4.2	4.3	4.3	4.3
Per Share Data (US$)					
EPS adjusted	2.27	2.28	2.34	2.57	2.65
EPS reported	2.26	2.18	2.24	2.57	2.65
BVPS	23.73	24.98	25.77	26.98	28.27
DPS	1.34	1.36	1.38	1.38	1.38
Profit & Loss (US$m)					
Net sales	4,789	4,358	4,576	4,696	4,747
Operating expenses	-4,297	-3,906	-4,102	-4,174	-4,205
EBIT	**492**	**452**	**474**	**522**	**543**
Net interest expense	-154	-151	-137	-144	-151
Non-operating/exceptionals	2	21	-2	0	0
Pre-tax profit	**339**	**322**	**336**	**378**	**392**
Tax	-131	-117	-123	-144	-149
Extraord./Min.Int./Pref.div.	0	-9	-9	0	0
Reported net income	**209**	**197**	**203**	**235**	**243**
Adjusted earnings	209	206	212	235	243
Adjusted EBITDA	709	680	708	753	778
Growth Rates (%)					
Sales	-3.6	-9.0	5.0	2.6	1.1
EBIT adjusted	3.3	-8.2	5.0	10.1	4.0
EBITDA adjusted	2.3	-4.1	4.1	6.3	3.4
EPS adjusted	4.8	0.4	2.7	10.1	3.1
Cash Flow (US$m)					
Operating cash flow	**729**	**568**	**414**	**460**	**470**
Depreciation/amortization	217	228	234	231	236
Net working capital	83	-26	-59	-5	-8
Investing cash flow	**-500**	**-461**	**-482**	**-504**	**-479**
Capital expenditure	-500	-457	-481	-504	-479
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-163**	**44**	**40**	**-114**	**-114**
Borrowings	54	118	172	0	0
Dividends paid	-124	-124	-125	-126	-126
Change in cash	**66**	**151**	**-28**	**-157**	**-123**
Balance Sheet (US$m)					
Total assets	**6,764**	**7,283**	**7,738**	**7,937**	**8,191**
Cash & cash equivalent	132	131	71	0	0
Accounts receivable	273	272	339	338	342
Net fixed assets	4,793	5,148	5,445	5,718	5,961
Total liabilities	**4,585**	**5,027**	**5,408**	**5,486**	**5,612**
Accounts payable	266	291	367	363	364
Total Debt	2,296	2,415	2,596	2,683	2,805
Shareholders' funds	**2,178**	**2,255**	**2,330**	**2,451**	**2,579**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	14.8	15.6	15.5	16.0	16.4
ROE adjusted	9.6	9.3	9.2	9.8	9.7
ROIC adjusted	6.3	5.4	5.3	5.4	5.4
Net debt to equity	99.3	101.2	108.4	109.5	108.8
Total debt to capital	51.3	51.7	52.7	52.3	52.1

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Atmos Energy Corp

Company description

Atmos Energy is an integrated natural gas company headquartered in Texas. The company distributes natural gas to over 3 million customers in 12 states, operates pipeline systems and storage facilities and provides natural gas marketing services through its subsidiary Atmos Energy Marketing.

We estimate ATO will grow utility rate base by over 4% annually over the next five years. 94% of utility margins are weather normalized. Furthermore, 86% of rates are adjusted annually (without the need for rate cases) or are decoupling from demand. Only Colorado, Illinois and Iowa (~5% of rate base) do not have mechanisms in place for either decoupling or weather normalization

Investment strategy

We rate Atmos Energy (ATO) Neutral (2). Our Neutral rating on ATO is premised on the company's limited growth profile and lack of near-term catalysts. Atmos generates stable earnings from a mostly regulated utility asset base with low single-digit EPS growth and a stable dividend over the next five years.

We expect ATO will continue to grow earnings by investing in its regulated asset base, which we estimate will grow by 4% annually over the next five years. 86% of rates are adjusted annually without the need to enter costly and risky rate cases.

Valuation

We average multiple valuation methodologies to derive our $35 target.Our NAV yields a value of $31. We value regulated assets at a multiple of rate base (1.5x for utilities). We value the pipeline assets at 8x '11 EBITDA and the marketing business at 5x '10 EBITDA. These values are partially offset by the company's net debt. Our DDM values the company at $38. We calculate a hypothetical dividend, based on ATO's regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation.Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilizes current ERPs, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5X, 14.5x and 10.0x for the company's utility, pipeline/storage and marketing assets. For our EV/EBITDA analysis, we use multiples of 7.5x, 8.0x and 6.5x for the company's utility, pipeline/storage and marketing assets. Our P/E and EV/EBITDA analyses (2013 earnings) yield values of $35 and $36.

Risks

The key risks to our investment thesis on AGL are (1) Capital Investment Recovery – ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery. (2) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably.(3) Capital Markets – ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock. (4) ATO operates a gas marketing business. Our research shows that ATO hedges their physical delivery of gas using its access to storage and pipeline transportation capacity. If the financial hedges and local markets become dislocated, ATO could incur a liability.

If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

Appendix A-1

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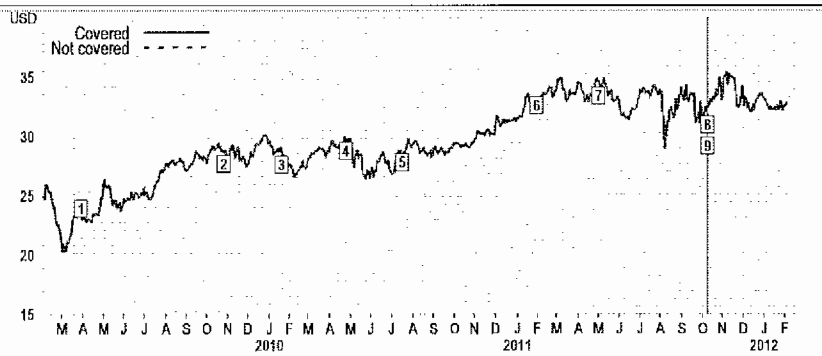
IMPORTANT DISCLOSURES

Atmos Energy Corp (ATO)

Ratings and Target Price History

Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	29-Mar-09	2M	*24.50	23.62
2	27-Oct-09	*2L	*28.00	28.84
3	20-Jan-10	2L	*30.00	28.85
4	26-Apr-10	2L	*31.00	29.91
5	16-Jul-10	*2M	*30.00	28.02
6	30-Jan-11	2M	*32.00	32.62
7	2-May-11	*2L	*35.00	34.61
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	35.00	31.94

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

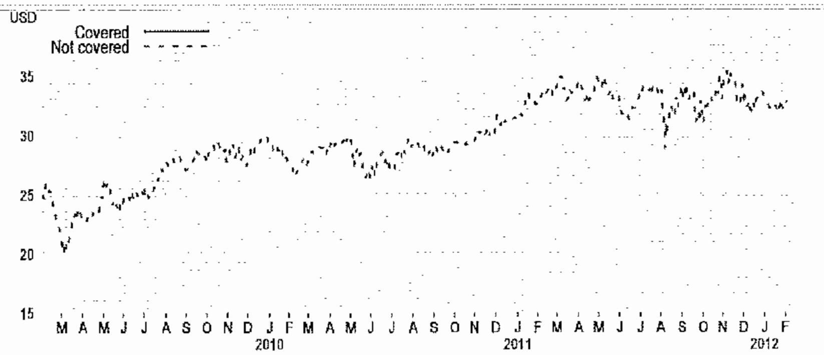
Atmos Energy Corp (ATO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Faisel Khan, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating			Relative Rating		
Data current as of 31 Dec 2011	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	57%	34%	9%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	41%	40%	49%	43%	41%

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UBS

Global Equity Research

Americas

Gas Utilities

UBS Investment Research

Atmos Energy

12-month rating	Neutral *Unchanged*
12m price target	US$35.00 *Unchanged*
Price	US$34.70

RIC: ATO.N BBG: ATO US

9 November 2012

Rate Activity to Aid F'13

■ Below Expectations

ATO reported F4Q EPS of $0.05, below the consensus estimate of $0.08 and our estimate of $0.13. EPS in F4Q'11 were -$0.06. F12 EPS amounted to $2.26, also below the $2.30 consensus estimate and our $2.33 estimate. F'11 EPS were $2.15. Key drivers in the Natural Gas Distribution segment were a $17.7MM net increase in rates, while the Regulated Transmission & Storage segment benefitted from a $28MM increase in gross profit primarily from rate design changes and increases from recent GRIP filings.

■ Rate Activity

Recent rate activity includes: $7.5 MM (10.1% ROE) granted in Tennessee in early November; $6.6MM ("Black Box settlement") in West Texas in October; $2.4MM (10.5% ROE) in Kentucky also in October. On May 31, ATO appealed a Mid-Tex Cities filing to the Railroad Commission, requesting an update increase in annual operating income of $46.5MM. On appeal, ATO is requesting an 11.1% ROE and an 8.85% ROR on 48% debt/52% equity capital structure. The Railroad Commission has 185 days to rule.

■ F'13 Guidance Issued/ Estimates Maintained

ATO issued F13 guidance of $2.40-$2.50, including $0.10-$0.12 per share from Georgia (Georgia asset sale assumed to close in late F13). Guidance includes net income from Natural Gas Distribution of $143-$148MM ($138MM in F12), Regulated Transmission & Storage, $68-$71MM ($61MM in F12); Non-Regulated, $9-$11MM ($13MM in F12) We are maintaining our est at $2.42 in F13 ($2.46 cons) and $2.52 in F14 ($2.61 cons).

■ Valuation: Maintaining Neutral Rating, Target Price

We are maintaining our Neutral rating and our SOP/DCF-derived, 12-month $35 target price.

Highlights (US$m)	09/10	09/11	09/12E	09/13E	09/14E
Revenues	4,797.14	4,351.51	3,652.69	4,071.87	4,149.92
EBIT (UBS)	496.89	467.60	451.09	501.96	525.09
Net Income (UBS)	209.55	195.33	205.23	221.78	232.59
EPS (UBS, US$)	2.27	2.15	2.26	2.42	2.52
Net DPS (UBS, US$)	1.34	1.36	1.38	1.42	1.48

Profitability & Valuation	5-yr hist av.	09/11	09/12E	09/13E	09/14E
EBIT margin %	8.6	10.7	12.3	12.3	12.7
ROIC (EBIT) %	10.3	10.5	9.6	10.0	9.9
EV/EBITDA (core) x	7.4	7.4	7.8	7.2	7.0
PE (UBS) x	14.1	15.0	15.3	14.3	13.7
Net dividend yield %	4.6	4.2	4.0	4.1	4.3

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$34.70 on 09 Nov 2012 12:11 EST

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Trading data

52-wk range	US$36.94-30.60
Market cap.	US$3.13bn
Shares o/s	90.2m (COM)
Free float	98%
Avg. daily volume ('000)	114
Avg. daily value (m)	US$4.1

Balance sheet data 09/12E

Shareholders' equity	US$2.36bn
P/BV (UBS)	1.3x
Net Cash (debt)	(US$2.46bn)

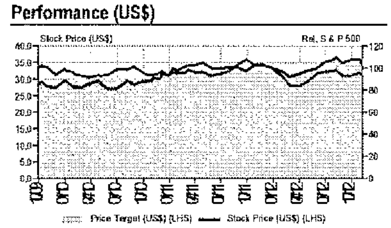
Forecast returns

Forecast price appreciation	+0.9%
Forecast dividend yield	4.0%
Forecast stock return	+4.9%
Market return assumption	5.3%
Forecast excess return	-0.4%

EPS (UBS, US$)

	09/12E			09/11
	From	To	Cons.	Actual
Q1	0.61	0.61	0.61	0.82
Q2E	1.28	1.28	1.28	1.35
Q3E	0.32	0.32	0.31	0.05
Q4E	0.13	0.05	0.08	(0.06)
09/12E	2.33	2.26	2.30	
09/13E	2.42	2.42	2.46	

Performance (US$)



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■ Statement of Risk

Risks to our estimates and price target include mild weather, rising interest rates, unfavorable regulatory decisions, increasing reliance on the Marketing & Trading segment's earnings, increased commodity costs, declines in pipeline throughput volumes related to reduced Barnett Shale drilling activity, and dilutive equity offerings or acquisitions.

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UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	50%	31%
Neutral	Hold/Neutral	41%	31%
Sell	Sell	9%	20%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2012.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Atmos Energy[4, 5, 6, 16, 18]	ATO.N	Neutral	N/A	US$34.48	08 Nov 2012

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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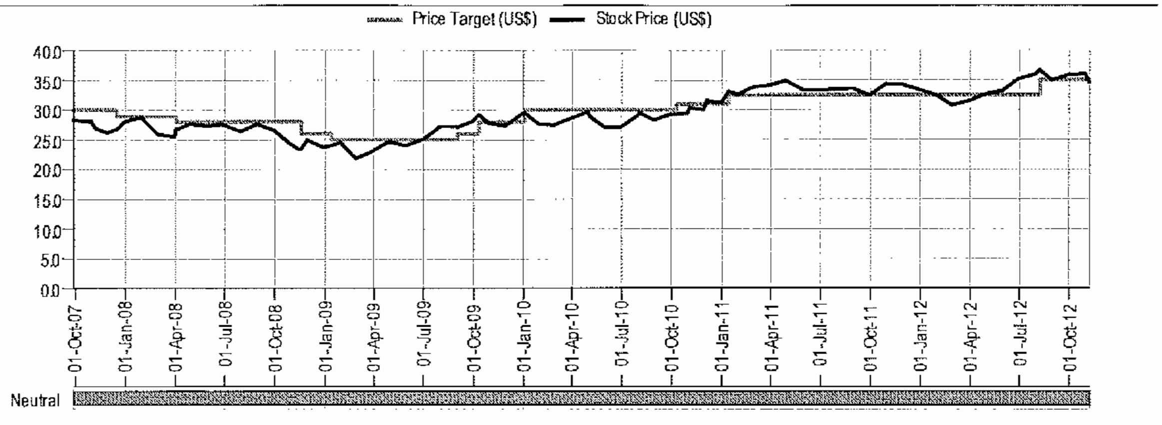
Atmos Energy (US$)



Source: UBS; as of 08 Nov 2012

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Edward Jones
MAKING SENSE OF INVESTING

ATMOS ENERGY
(NYSE: ATO)

July 2, 2012
Update

Rating	**HOLD**
Suitability	Growth & Income
Dividend Outlook	Stable
Price	$35.07
Dividend Yield	3.9%
Sector	Utilities
Subsector	Natural Gas
Recommended Sector Weight	4%

Company Overview

Atmos Energy (ATO) is the largest gas distribution company in America, with more than three million customers across 12 states stretching from Colorado to Virginia. The company was incorporated in Dallas, Texas, in 1906.
Clients of Edward Jones collectively own approximately 5% of Atmos Energy common stock. Given the size of our clients holdings, a change in the opinion by Edward Jones could materially change the share price.

Revenues International	0%

Valuation & Earnings

52-Week Range	$35.55 – $28.51
Market Cap.	$3.1bn.
LT EPS Growth Estimate	4%
Est. Earnings Date	July 26, 2012

	FY2011A	FY2012E	FY2013E
Earnings	2.27	2.30	2.50
P/E	15.4x	15.2x	14.0x
PEGY	1.9x	1.9x	1.8x

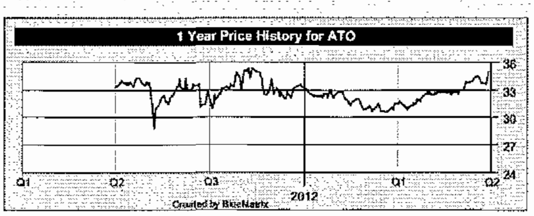
Dividends & Income

Dividend/Yield	$1.38/3.9%
LT Dividend Growth Estimate	2%
5-Yr. Trailing Growth	2%
Last Change	1% / Nov 3, 2010
Paid Since	1984
Consecutive Years Increased	23
Payout Ratio ('12 Est. EPS)	58%
Dividends Paid	Mar, Jun, Sep, Dec

Debt Ratings

Standard & Poor's/Moody's	BBB+ /Baa1

Analyst	Andy Pusateri, CFA



INVESTMENT SUMMARY

We rate shares of Atmos Energy a Hold with Growth & Income suitability. While we believe that Atmos has a good core utility business and geographic diversification, we believe that share price accurately reflects the future growth opportunity for the company. While Atmos shares offer a competitive yield, the expected dividend growth is below peers, and we do not see that changing in the short term.

Strong Yield, but Little Dividend Growth - Atmos has increased its dividend for 23 consecutive years and currently provides an attractive yield. While the current dividend yield is strong, our expectations for dividend growth are below most peers, and we do not expect that to change in the short term.

Average Growth Outlook From Regulated Operations - We expect Atmos' regulated utility operations will continue to provide the majority of earnings for the foreseeable future and cover the dividend. We expect regulated earnings to grow at a higher rate than nonregulated earnings over the short term driven by new infrastructure investments, periodic rate increases, and greater operating efficiencies.

Non-Utility Business Are Relatively Lower Risk - We believe that Atmos' energy marketing and pipeline and storage businesses are relatively low-risk. New pipeline and storage facility projects could help to increase earnings growth; however, the company has stated its preference for focusing on the regulated business.

Geographic Diversification Provides Benefits - Through its broad geographic operations in 12 states, Atmos is able to diversify its regulatory risks and lessen the effect of potential negative outcomes. In addition, the company has weather normalization adjustments in place that help minimize the effect of weather-driven earnings volatility.

Valuation - Atmos is currently trading at a slight discount to its historical average and its peers based on several measures. We believe that given Atmos' exposure to certain nonregulated businesses and its growth outlook, it will continue to trade at a slight discount to the group, and we believe shares are appropriately valued where they trade today.

Risks - The primary risks to the Hold on the downside include warm winter weather, adverse regulatory decisions, rising long-term interest rates, an increase in the dividend tax level, and an economic slowdown. The primary risk to the upside include stronger-than-expected earnings growth and more positive regulatory results.

RECENT NEWS AND ANALYSIS

05/02/12: Atmos Energy reported earnings per share for the second quarter of 2012 of $1.20 per share. After accounting for a noncash, unrealized net loss of approximately $(0.08), we calculate adjusted earnings of $1.28. This is below the consensus estimate of $1.43 per share. The gas distribution business increased earnings slightly primarily reflecting higher rates. The transmission and storage segment also increased earnings due to rate design changes that were favorable. Non-regulated profit decreased from the same quarter of last year due to a decrease in realized asset optimization margins. This area of the business continues to struggle with low volatility in natural gas prices. Atmos still expects 2012 earnings to be in a range of $2.30 to $2.40 per share excluding unrealized margins.

02/08/12: Atmos Energy announced first-quarter 2012 earnings of $0.75 per share. After excluding net unrealized margins, we calculate earnings from continuing operations of $0.61. This is less than the consensus estimate of $0.85 per share. Earnings were down 25% from the same quarter in 2011. The regulated business in the first quarter was approximately in line with expectations. The natural gas distribution gross profit was flat versus the same quarter last year. The positive impact of rate increases was offset by the negative effect of the weather-normalization adjustment. The company saw an increase at the regulated transmission and storage business due to new rates from the recent Atmos Pipeline Texas rate case. The big decline versus the year-ago quarter was at the nonregulated business segment. The decrease primarily reflects a decrease in realized asset optimization margins. Falling and less-volatile natural gas prices have continued to make this a challenging environment for natural gas marketing businesses. The company did a fairly good job in our view at maintaining operating expenses. Overall, when you exclude the net unrealized margins, we believe this was a disappointing quarter for Atmos. Atmos still expects full-year 2012 earnings per share to be in a range of $2.30 and $2.40. We are lowering our 2012 estimate from $2.40 to $2.30, given the lower-than-expected first-quarter earnings.

COMPANY OUTLOOK

Diversified Utility Operations

One of the keys to Atmos' strategy has been to acquire relatively small utilities at a reasonable price and add value by reducing costs through synergies with its existing business. The company has made an effort to acquire utilities in different states in order to diversify in terms of potential impacts from both weather and regulatory risk. The company uses a disciplined approach, and its plan is to only acquire if the acquisition will likely increase profitability and is complementary to Atmos' business model. We would not be surprised to see Atmos continue this strategy in the future.

Atmos has also experienced growth from its nonregulated operations. Atmos Energy Marketing utilizes Atmos' storage facilities and natural gas pipelines to optimize assets and sell gas to other utilities, marketers, power generators and large industrial users. Atmos Energy Marketing does not take speculative positions in its marketing business. Rather, the company's strategy is to deliver gas to customers at a competitive price and capture additional value through low-risk arbitrage opportunities. We expect Atmos Energy Marketing to contribute meaningfully to earnings in the future given the growing demand for natural gas and related services, although nonutility results may be more volatile.

While earnings growth may be lower in the near term due to low commodity price volatility, we believe that new pipeline and storage facility projects will help to increase earnings growth in the longer term as well as provide more stable earnings for the nonregulated segment of the business. This growth could be lower if Atmos continues to focus on its regulated businesses as it has stated is its preference. As a whole, we expect Atmos to grow earnings at an average rate of 4% over the next three to five years.

Regulatory Overview

Atmos' service area covers 12 states in the U.S. Through its broad geographic operations, Atmos is able to diversify its regulatory risks to some degree. Dealing with many regulatory authorities lessens the effect of potential negative outcomes. Given the large number of states in which the company operates, Atmos could be filing a rate case in multiple states each year. Atmos recently settled with 438 of the 439 cities in its Mid-Tex division, excluding Dallas. The company filed for a $9.1 million rate increase in the city of Dallas in November 2008. We would categorize the environment in Texas as challenging for Atmos currently and may contribute to shares trading at a discount. As the company is able to strengthen relationships with regulators, we view this as an opportunity for improvement.

In recent years, the company has won approval for weather normalized rates in Missouri, Kansas, Kentucky, Georgia, Tennessee, Virginia, Mississippi, West Texas, Mid Texas, and Louisiana. Regulatory authorities for over 90% of Atmos' service area have approved weather normalization adjustments as a part of rates. This minimizes the effect of weather that is above or below normal. To the extent the company is successful in gaining approval for weather-normalized rates in additional states, Atmos' future earnings should become more predictable.

In addition, Atmos has been successful in implementing a Gas Reliability Infrastructure Program (GRIP) or other form of accelerated capital recovery in parts of its service area. GRIP allows Atmos to include in its rate base annually approved capital costs incurred in the prior calendar year without having to file for a rate case every year. While Atmos has made some strides in repairing regulatory relationships, we are still cautious of future filings given the economic environment.

INDUSTRY OUTLOOK

Our outlook for the utility sector is quite positive as we see average annual earnings growth of about 5% going forward, much improved from years past. This improved growth outlook primarily reflects our expectations for more spending on utility infrastructure going forward.

It is our view that the utility industry in general has underinvested in infrastructure in recent decades. As a result, much of the utility assets in the U.S. today are old and are in need of maintenance, repair or outright replacement. The various areas needing investment going forward include electric transmission wires, power plants, natural gas pipelines and water utility infrastructure. This investment will be needed to address the effects of aging infrastructure as well as to meet demand related to natural customer growth. Many estimates forecast the potential investment needs to be several hundreds of billions of dollars over the next two or three decades. It is this spending that we believe will accelerate the future earnings growth of many utilities.

Environmental concerns related to the issue of global warming are also helping to drive increased investment in renewable energy and retrofits of many existing power plants with the main goal of reducing emissions.

Gas distribution remains a heavily regulated business. While the price of the natural gas is passed on to consumers without any profit attached, high natural gas prices do pose a risk as they can lower usage, accelerate bad debt expense and increase regulatory oversight. We see continued growth in natural gas use despite today's higher prices.

Natural gas pipelines are regulated primarily by the federal government. Growing natural gas demand is leading to expansions of many pipelines. We see companies selectively expanding pipelines while growing earnings with minimal risk, as there are typically long-term contracts in place prior to construction.

As utilities spend on infrastructure and environmental needs, they can earn a regulated return on the invested capital. As a result, earnings can grow faster than they otherwise would. This is why we believe the growth outlook for the industry is improving.

FINANCIAL POSITION

Atmos is rated BBB+ by Standard & Poor's and Fitch. In May 2009, Moody's upgraded its rating to Baa1. As of March 31, 2011, the company's debt to total capital was 48%. We expect the company to target the debt-to-capital ratio in the 50% to 55% range. Liquidity also appears adequate.

DIVIDEND OUTLOOK

Atmos has increased its dividend for 23 consecutive years and currently provides an attractive yield. The company most recently increased the dividend 1.5% in November 2011. We expect the company to continue to increase the dividend near an average rate of 2% over the next three to five years. This is below the industry average. The payout ratio at the end of fiscal-year 2011 was 58%. While this is slightly higher than the industry average, it has come down from levels near 80% earlier this decade. We continue to expect the dividend to be covered by regulated utility operations.

RECENT STOCK PERFORMANCE

Annualized Total Returns	1Yr	3Yrs	5Yrs
ATMOS ENERGY	9%	15%	7%
S&P 500 Utilities Index	15%	14%	3%
S&P 500 Index	6%	15%	0%

Price ending Jun 25, 2012
Source: FactSet
These are unmanaged indexes and cannot be invested in directly. Past performance does not assure future results.

Shares of Atmos have outperformed both the utility index as well as the S&P 500 over the past one-, three- and five-year time frames. While Atmos shares have performed very well, we believe that the opportunity for growth is now limited, and we expect shares to perform in line with the utility group.

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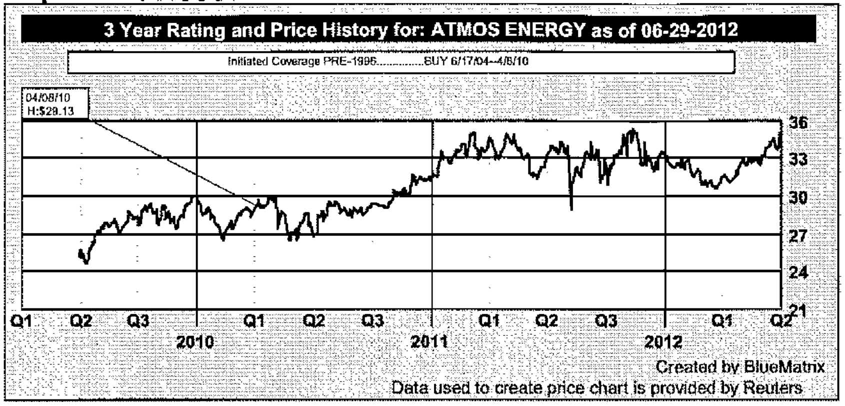

July 2, 2012	BUY	HOLD	SELL
Stocks	58%	40%	2%
Investment Banking Services	4%	5%	14%

The table lists the percent of stocks we follow globally in each of our rating categories. Investment banking services indicate the percentage of those companies that have been investment banking clients within the past 12 months.

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Buy (B)	Hold (H)	Sell (S)	FYI (FI)
Buy - Our opinion is to Buy this stock. We believe the valuation is attractive and total return potential is above average.	Hold - Our opinion is to keep this stock. We believe the stock is fairly valued and total return potential is about average. Or a special situation exists, such as a merger, that warrants no action.	Sell - Our opinion is to Sell this stock. We believe the stock is overvalued and total return potential is below average. In some cases we expect fundamentals to deteriorate considerably and/or a recovery is highly uncertain.	FYI - For informational purposes only; factual, no opinion.

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- Suitability: Growth & Income (G/I) – These stocks provide dividend income and price appreciation potential with historically below-average stock price fluctuation. The current dividend yield is near or above the market average; Growth (G) – These stocks typically exhibit historic stock price fluctuation that is near the market average. Capital appreciation potential tends to be a greater source of expected total return as current dividend income is usually near or less than the market average or no dividend is paid; Aggressive (A) – These stocks carry a higher level of risk with higher historic price fluctuation. These stocks may or may not pay a dividend and capital appreciation potential tends to be a greater source of potential total return.
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MAKING SENSE OF INVESTING

ATMOS ENERGY
(NYSE: ATO)

August 21, 2012
Company Update

Rating	**HOLD**
Suitability	Growth & Income
Dividend Outlook	Stable
Price	$36.71
Dividend Yield	3.8%
Sector	Utilities
Subsector	Natural Gas
Recommended Sector Weight	4%

Company Overview

Atmos Energy (ATO) is the largest gas distribution company in America, with more than three million customers across nine states stretching from Colorado to Virginia. The company was incorporated in Dallas, Texas, in 1906.
Clients of Edward Jones collectively own approximately 5% of Atmos Energy common stock. Given the size of our clients holdings, a change in the opinion by Edward Jones could materially change the share price.

Revenues International	0%

Valuation & Earnings

52-Week Range	$37.33 – $30.00
Market Cap.	$3.1bn.
LT EPS Growth Estimate	4%
Est. Earnings Date	October 24, 2012

	FY2011A	FY2012E	FY2013E
Earnings	2.27	2.30	2.50
P/E	16.2x	16.0x	14.7x
PEGY	2.1x	2.1x	1.9x

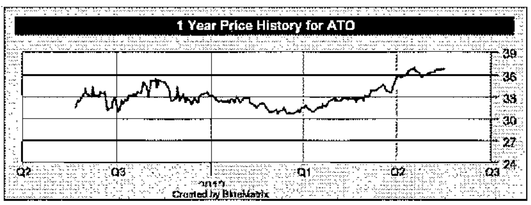
Dividends & Income

Dividend/Yield	$1.38/3.8%
LT Dividend Growth Estimate	2%
5-Yr. Trailing Growth	2%
Last Change	2% / Nov 3, 2011
Paid Since	1984
Consecutive Years Increased	23
Payout Ratio ('12 Est. EPS)	58%
Dividends Paid	Mar, Jun, Sep, Dec

Debt Ratings

Standard & Poor's/Moody's	BBB+ /Baa1

Analyst	Andy Pusateri, CFA



INVESTMENT SUMMARY

We rate shares of Atmos Energy a Hold with Growth & Income suitability. While we believe that Atmos has a good core utility business and geographic diversification, we believe that share price accurately reflects the future growth opportunity for the company. While Atmos shares offer a competitive yield, the expected dividend growth is below peers, and we do not see that changing in the short term.

Strong Yield, but Little Dividend Growth - Atmos has increased its dividend for 23 consecutive years and currently provides an attractive yield. While the current dividend yield is strong, our expectations for dividend growth are below most peers, and we do not expect that to change in the short term.

Average Growth Outlook From Regulated Operations - We expect Atmos' regulated utility operations will continue to provide the majority of earnings for the foreseeable future and cover the dividend. We expect regulated earnings to grow at a higher rate than nonregulated earnings over the short term driven by new infrastructure investments, periodic rate increases, and greater operating efficiencies.

Non-Utility Business Are Relatively Lower Risk - We believe that Atmos' energy marketing and pipeline and storage businesses are relatively low-risk. New pipeline projects could help to increase earnings growth; however, the company has stated its preference for focusing on the regulated business as well as the gas delivery business segment.

Geographic Diversification Provides Benefits - Through its broad geographic operations in 9 states, Atmos is able to diversify its regulatory risks and lessen the effect of potential negative outcomes. In addition, the company has weather normalization adjustments in place that help minimize the effect of weather-driven earnings volatility.

Valuation - Atmos is currently trading at a slight discount to its peers based on several measures. Shares are trading at a premium to historical averages. We believe that given Atmos' exposure to certain nonregulated businesses and its growth outlook, it will continue to trade at a slight discount to the group, and we believe shares are appropriately valued where they trade today.

Risks - The primary risks to the Hold on the downside include warm winter weather, adverse regulatory decisions, rising long-term interest rates, an increase in the dividend tax level, and an economic slowdown. The primary risk to the upside include stronger-than-expected earnings growth and more positive regulatory results.

RECENT NEWS AND ANALYSIS

08/09/12: Atmos Energy reported third-quarter earnings for 2012 of $0.32 per share. This number excludes net unrealized gains. The company had increased earnings at the natural gas distribution segment due to higher rates. Regulated transmission and storage gross profit increased substantially due to recovery related to the gas reliability infrastructure program. The nonregulated portion of the business also performed well versus the year-ago quarter, reflecting increased asset optimization margins due to realized gains earned from the trading strategy executed earlier in the year. The company injected gas into storage while gas prices were falling and rolled financial positions forward for settlement in the third and fourth quarters of this year. Overall, we view this as a positive quarter for the company.

05/02/12: Atmos Energy reported earnings per share for the second quarter of 2012 of $1.20 per share. After accounting for a noncash, unrealized net loss of approximately $(0.08), we calculate adjusted earnings of $1.28. This is below the consensus estimate of $1.43 per share. The gas distribution business increased earnings slightly primarily reflecting higher rates. The transmission and storage segment also increased earnings due to rate design changes that were favorable. Non-regulated profit decreased from the same quarter of last year due to a decrease in realized asset optimization margins. This area of the business continues to struggle with low volatility in natural gas prices. Atmos still expects 2012 earnings to be in a range of $2.30 to $2.40 per share excluding unrealized margins.

COMPANY OUTLOOK

Atmos is one of the nation's largest pure-gas distribution companies. In the past, some of the keys to Atmos' strategy has been to acquire relatively small utilities at a reasonable price and add value by reducing costs through synergies with its existing business. The company has made an effort to acquire utilities in different states in order to diversify in terms of potential impacts from both weather and regulatory risk. The company uses a disciplined approach, and its plan is to only acquire if the acquisition will likely increase profitability and is complementary to Atmos' business model. In August of 2012, Atmos completed the sale of distribution assets in Missouri, Illinois and Iowa to Liberty Energy. The proceeds were used to pay down commercial paper. We expect the company to continue to focus on the core natural gas business. The regulated utility can do this by taking advantage of infrastructure mechanisms that allow them to earn returns on investments.

Atmos has stated that they are looking to complement regulated businesses through select lower-risk nonregulated operations. the nonregulated segment has storage and transportation, and delivered gas segments as well as asset optimization. We view the asset optimization portion as the most unpredictable segment in the business. This segment is impacted by gas price spread values. Earnings in this segment could be less meaningful due to low commodity price volatility. The non-regulated group will focus on the delivered gas business. The strategy here is to increase annual sales and improve margins. As a whole, we expect Atmos to grow earnings at an average rate of 4% over the next three to five years. We would expect non-regulated earnings in total to be less than 10% of the total.

Regulatory Overview

Atmos' service area covers 9 states in the U.S. Through its broad geographic operations, Atmos is able to diversify its regulatory risks to some degree. Dealing with many regulatory authorities lessens the effect of potential negative outcomes. Given the large number of states in which the company operates, Atmos could be filing a rate case in multiple states each year.

In addition, Atmos has been successful in implementing a Gas Reliability Infrastructure Program (GRIP) or other form of accelerated capital recovery in parts of its service area. GRIP allows Atmos to include in its rate base annually approved capital costs incurred in the prior calendar year without having to file for a rate case every year. We believe Atmos has done a decent job at maintaining regulatory relationships with a lot going on.

INDUSTRY OUTLOOK

Our outlook for the utility sector is quite positive as we see average annual earnings growth of about 5% going forward, much improved from years past. This improved growth outlook primarily reflects our expectations for more spending on utility infrastructure going forward.

It is our view that the utility industry in general has underinvested in infrastructure in recent decades. As a result, much of the utility assets in the U.S. today are old and are in need of maintenance, repair or outright replacement. The various areas needing investment going forward include electric transmission wires, power plants, natural gas pipelines and water utility infrastructure. This investment will be needed to address the effects of aging infrastructure as well as to meet demand related to natural customer growth. Many estimates forecast the potential investment needs to be several hundreds of billions of dollars over the next two or three decades. It is this spending that we believe will accelerate the future earnings growth of many utilities.

Environmental concerns related to the issue of global warming are also helping to drive increased investment in renewable energy and retrofits of many existing power plants with the main goal of reducing emissions.

Gas distribution remains a heavily regulated business. While the price of the natural gas is passed on to consumers without any profit attached, high natural gas prices do pose a risk as they can lower usage, accelerate bad debt expense and increase regulatory oversight. We see continued growth in natural gas use despite today's higher prices.

Natural gas pipelines are regulated primarily by the federal government. Growing natural gas demand is leading to expansions of many pipelines. We see companies selectively expanding pipelines while growing earnings with minimal risk, as there are typically long-term contracts in place prior to construction.

As utilities spend on infrastructure and environmental needs, they can earn a regulated return on the invested capital. As a result, earnings can grow faster than they otherwise would. This is why we believe the growth outlook for the industry is improving.

FINANCIAL POSITION

Atmos is rated BBB+ by Standard & Poor's and Fitch. Moody's rating is Baa1. The company's debt to total capital is in line with the peer average. We expect the company to target the debt-to-capital ratio in the 50% to 55% range. Liquidity also appears adequate.

DIVIDEND OUTLOOK

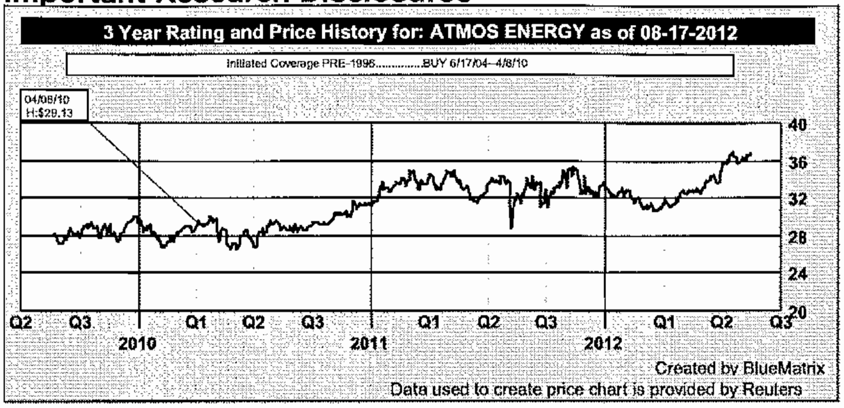
Atmos has increased its dividend for 23 consecutive years and currently provides an attractive yield. The company most recently increased the dividend 1.5% in November 2011. We expect the company to continue to increase the dividend near an average rate of 2% over the next three to five years. This is below the industry average. The payout ratio is 58% based on our 2012 estimate. This is in line with the industry average. We continue to expect the dividend to be covered by regulated utility operations.

RECENT STOCK PERFORMANCE

Annualized Total Returns	1Yr	3Yrs	5Yrs
ATMOS ENERGY	18%	14%	11%
S&P 500 Utilities Index	20%	13%	3%
S&P 500 Index	29%	14%	2%

Price ending Aug 20, 2012
Source: FactSet
These are unmanaged indexes and cannot be invested in directly. Past performance does not assure future results.

Important Research Disclosures



August 21, 2012	BUY	HOLD	SELL
Stocks	57%	38%	5%
Investment Banking Services	0%	0%	0%

The table lists the percent of stocks we follow globally in each of our rating categories. Investment banking services indicate the percentage of those companies that have been investment banking clients within the past 12 months.

Analyst Certification

I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Andy Pusateri, CFA

Buy (B)	Hold (H)	Sell (S)	FYI (FI)
Buy - Our opinion is to Buy this stock. We believe the valuation is attractive and total return potential is above average.	Hold - Our opinion is to keep this stock. We believe the stock is fairly valued and total return potential is about average. Or a special situation exists, such as a merger, that warrants no action.	Sell - Our opinion is to Sell this stock. We believe the stock is overvalued and total return potential is below average. In some cases we expect fundamentals to deteriorate considerably and/or a recovery is highly uncertain.	FYI - For informational purposes only; factual, no opinion.

Important Disclosures

- Initiated Coverage PRE-1996...............BUY 6/17/04–4/8/10
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- Suitability: Growth & Income (G/I) – These stocks provide dividend income and price appreciation potential with historically below-average stock price fluctuation. The current dividend yield is near or above the market average; Growth (G) – These stocks typically exhibit historic stock price fluctuation that is near the market average. Capital appreciation potential tends to be a greater source of expected total return as current dividend income is usually near or less than the market average or no dividend is paid; Aggressive (A) – These stocks carry a higher level of risk with higher historic price fluctuation. These stocks may or may not pay a dividend and capital appreciation potential tends to be a greater source of potential total return.
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- Dividend Outlook: Rising – We believe the dividend is stable at the current level and is likely to increase based on historical trends, the current payout ratio, and expected future earnings and cash flow; Stable – We believe the dividend is stable at the current level but is unlikely to increase at a rate greater than or equal to 3% on a regular basis; At Risk – We believe the dividend is at risk of being reduced or eliminated; No Dividend – This company does not pay a dividend.
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- Dividends can be increased, decreased or totally eliminated at any point without notice.
- This opinion is based on information believed reliable but not guaranteed. The foregoing is for INFORMATION ONLY. Additional information is available on request. Past performance is no guarantee of future results.
- Our long-term earnings growth estimate is our expectation for growth over the course of a full economic cycle. This "normalized" figure avoids distortions which can occur if beginning- or ending-year results are impacted by one-time items or extreme peaks or troughs within the cycle.
- The S&P 500 Index is based on the average performance of 500 widely held common stocks. The S&P 500 Sector Indexes are subsets of the S&P 500 Index. These are unmanaged indexes and cannot be invested in directly. Past performance does not assure future results.

August 27, 2012

Americas: Pipelines and MLPs

Equity Research

Pipeline/MLP Essentials: Signs of life for gas LDCs?

Industry context

We remain Cautious on gas Local Distribution Companies (LDCs), but see some signs that could make us more positive on the group.

Positives for the group include:

- **Low natural gas prices.** Residential natural gas demand has remained weak, in part due to conservation. Our E&P team recently lowered their normalized outlook for natural gas prices to $4/MMBtu from $5.50, which could provide a modest long-term price-induced boost to residential consumption. Lower prices also make rate increases more palatable, given a lower overall customer bill.
- **Pipeline replacement and recovery via trackers.** Atmos in Texas, AGL in New Jersey, and WGL in Virginia have all implemented extensive pipeline replacement programs, and have received "trackers" that improve cost recovery and reduce regulatory "lag."

However, several negatives remain, including:

- **Weak customer growth.** LDCs continue to post anemic customer growth rates. The housing market has started to improve, but the trend has not shown up in better LDC customer growth rates thus far.
- **Weak economy.** High unemployment rates and a weak economy contribute to pushback from regulators on rate increases.
- **Weak non-regulated markets.** Abundant natural gas supply and lower gas prices have rebased non-regulated wholesale earnings power down, and we do not expect an improvement soon.

From a valuation perspective, gas LDCs still screen unattractively, with the group trading at 15.1X/13.9X on 2013/2014E P/E versus small-cap regulated electric utilities, their closest comparables, at 14.5X/13.6X. However, from a trading perspective, we acknowledge potential positives in the short-term outlook, given (1) YTD underperformance, with names like WGL -7.4% and GAS -3.7%, and (2) a potential market pullback to our portfolio strategists' yearend 1250 target for the S&P500, as we believe the defensive LDCs could outperform in such a down tape.

We update estimates for ACMP, ATO, CHKR, GAS, NDRO, and WGL.

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RELATED RESEARCH

Plains All American Pipelines (PAA) – *Remains our top oil infrastructure pick, raise target, reiterate CL Buy* (Aug 8, 2012)

The Williams Companies, Inc. (WMB) – *Tough 2Q, but 20% dividend growth, fundamental strengths remain* (Aug 3, 2012)

Buckeye Partners L.P. (BPL) – *Positive on trajectory, Buy for upfront income, long-term growth* (Aug 7, 2012)

Magellan Midstream Partners (MMP) – *Step-change distribution growth with more to come; reiterate Buy* (Aug 2, 2012)

Enterprise Product Partners (EPD) – *Nice 2Q12 beat, new PDH plant raises long-term estimates; Buy* (Aug 2, 2012)

Kinder Morgan Inc. (KMI), Kinder Morgan Energy Partners (KMP), Kinder Morgan Management (KMR), El Paso Pipeline Partners (EPB) – *Reinstate KMI at Buy on high, stable growth; Neutral KMP/KMR/EPB* (June 14, 2012)

Plains All American Pipelines (PAA) – *Oil infrastructure/logistics growth, strong financials drive CL-Buy* (May 10, 2012)

Leaping into liquids infrastructure and capital allocation; WMB CL-Buy (Feb 28, 2012)

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Earnings summary

Remain Neutral on Atmos, raise target by $1 to $36 on lower financing costs.

Atmos Energy (ATO, Neutral) reported 3QFY12 adjusted EPS of $0.31 ahead of our estimate of $0.13 and consensus of $0.16. Variance to our estimate was driven by (1) better gross margins at its regulated pipeline and non-regulated segments and (2) lower costs, partially offset by (3) lower gross margins at its gas distribution utility segment. We raise our 2012 EPS estimate by $0.05 on the 3Q beat, maintain our 2013 estimate, and raise our 2014/2015 estimates by $0.10 on higher regulated pipeline earnings and the removal of a previously assumed equity offering, partially offset by lower non-regulated margins.

We maintain our Neutral rating and raise our DDM- and P/E-based 12-month target price by $1 to $36 on our higher estimates. ATO trades at 14.1X/12.8X our 2013/2014 EPS estimates, a slight discount to peers at 15.1X/13.9X.

During the quarter, Atmos closed on the sale of its distribution businesses in Missouri, Illinois and Iowa to Liberty Energy for $129mn, and announced plans to sell its Georgia distribution assets to Liberty for $141mn in cash or 8.6X TTM EBITDA. Atmos has stated it will use proceeds from the sale of these assets to fund growth opportunities. It should thus be able to avoid an equity issuance in the future.

We are increasingly positive on ATO's rate base growth strategy, with average annual spending of over $700 mn in regulated capital over the next five years, with a significant portion of it allocated to the regulated pipeline segment where it enjoys an authorized ROE of 11.8% compared to most of its utility jurisdictions where ROEs average closer to 10.0%. We are also positive on management de-emphasizing the wholesale marketing business and dampening expectations on corporate M&A.

Despite these positive trends, several hurdles keep us Neutral, most notably the ultimate outcome of its Mid-Tex rate filing, which will determine not just its revenue uplift in 2013, but will potentially set the return parameter and recovery mechanism for multiple years of spending. ATO has requested a $46.5mn rate increase premised on an 11.1% ROE and a continuation of its formulaic rate plan. ATO's non-regulated business also continues to weigh down the higher earnings from its regulated businesses as natural gas storage and basis differentials remain at historical low levels, a trend we expect to continue into 2013. Finally, we missed a strong run in the stock since its bottom in late March, with ATO's 20% appreciation far outpacing an essentially flat S&P500.

Key upside risks include higher utility rate case revenues, higher pipeline and marketing margins, and accretive acquisitions; downside risks include less favorable rate case decisions, decreased natural gas time and location spreads, and dilutive acquisitions.

Exhibit 1: Atmos Energy (ATO) estimate revision table
EPS in $ per share, EBITDA in $ mn

	EPS			EBITDA ($mn)	
	New	Old	%	New	Old
2012E	$2.35	$2.30	2.2%	735	735
2013E	$2.50	$2.50	0.2%	792	794
2014E	$2.75	$2.65	3.7%	871	878
2015E	$2.95	$2.85	3.5%	943	946
2016E	$3.15	$3.05	3.3%	1,011	1,019

Source: Goldman Sachs Research estimates.

Remain Neutral on GAS, inexpensive valuation offset by cyclical headwinds

AGL Resources (GAS, Neutral) reported 2Q12 EPS of $0.31, ahead of our estimate of $$0.19 and consensus of $0.28 on outperformance at its regulated utility and to a lesser extent wholesale segment. We increase our 2012/2013/2014 EPS estimates by $0.05 or 2% on better utility segment earnings and lower interest expense.

We maintain our Neutral rating and P/E- and DDM-based 12-month target price of $42. GAS screens inexpensively relative to its LDC peer group, trading at 12.7X/11.8X our 2013/2014 EPS estimates versus peers at 15.1X/13.9X. We expect management will continue to drive back office cost synergies out of the recently acquired Nicor utility business, particularly given Nicor's 3-year rate case stayout agreement. AGL also booked a favorable backlog of Wholesale margins over the last few quarters. And we remain positive on its push to recover capital spending via "trackers" which reduce regulatory lag.

Nonetheless, key trends in several businesses remain depressed, including the Midstream (gas storage) segment that is re-contracting at lower rates, and the shipping business that struggles to break even due to the weak economy. We also believe the Wholesale business will remain challenged given our expectation for lower natural gas prices and volatility. Finally, despite an effort to add trackers, AGL could suffer from regulatory lag given its lack of pending rate case filings.

Key upside risks include higher utility rate case revenues, higher wholesale marketing margins, and accretive acquisitions; downside risks include less favorable rate case decisions, decreased natural gas time and location spreads, and dilutive acquisitions.

Exhibit 2: AGL Resources (GAS) estimate revision table
EPS in $ per share, EBITDA in $ mn

	EPS			EBITDA ($mn)	
	New	Old	%	New	Old
2012E	$2.70	$2.65	2.0%	1,100	1,114
2013E	$3.10	$3.05	1.6%	1,202	1,216
2014E	$3.35	$3.30	1.5%	1,266	1,281
2015E	$3.60	$3.55	1.4%	1,315	1,320

Source: Goldman Sachs Research estimates.

Maintain Sell rating on WGL on regulatory lag, valuation

WGL Holdings (WGL, Sell) reported adjusted 3QFY12 EPS of $0.08, ahead of our estimate of -$0.03 and consensus of $0.01 owing to better-than-expected performance at its regulated utility and retail energy marketing segments. We increase our 2012/2013/2014 EPS estimates by 3%/2%/4% to $2.52/$2.40/$2.75 on 3Q carryover and better utility segment earnings on lower cost assumptions.

We maintain our Sell rating and raise our P/E- and DDM-based 12-month target price by $1 to $36 on our higher estimates. In our view, WGL remains overvalued as it trades at 16.6X/14.5X our 2013/2014 EPS estimates versus its LDC peer group at 15.1X/13.9X. WGL continues to deliver solid results in its core Utility and Retail segments, underpinned by solid customer growth and prudent market expansion. However, we continue to expect "regulatory lag" will weigh on 2013 Utility segment results, as WGL has no imminent rate cases underway, and we expect more normalized Retail segment unit margins. We also remain skeptical about its expansion into the non-regulated wholesale natural gas marketing business given current depressed storage and basis spreads and the higher inherent cash flow volatility. Our estimates do not include the proposed "Commonwealth" pipeline given contracting, cost and permitting uncertainty, although management indicated favorable shipper interest from its recently concluded open season.

Key upside risks include higher rate case revenues, higher Retail segment margins, an accretive Commonwealth project, and higher natural gas time and location volatility.

Exhibit 3: WGL Holdings (WGL) estimate revision table
EPS in $ per share, EBITDA in $ mn

	EPS			EBITDA ($mn)	
	New	Old	% change	New	Old
2012E	$2.52	$2.45	2.7%	343	337
2013E	$2.40	$2.35	2.1%	368	377
2014E	$2.75	$2.65	3.8%	415	419
2015E	$2.75	$2.65	3.8%	427	432
2016E	$2.85	$2.95	-3.4%	446	470

Source: Goldman Sachs Research estimates.

Independence and new opportunities add to AMCP's strengths

Access Midstream Partners (ACMP, Not Rated) reported 2Q2012 EPU of $0.34, in line with our estimate at $0.33 and consensus of $0.35. Higher total volumes (+2%) offset slightly lower realized margins (-1%). We lower our 2012/2013 EPU estimates by $0.05 in each year on higher D&A, but highlight the more important distributable cash flow per unit increases each year on higher volumes/margins and a +$0.05/mcf rate re-determination increase on ACMP's Barnett assets, effective July 1, 2013.

We are Not Rated on ACMP. ACMP units currently trade at a 5.5% yield, representing a 70 bp premium to the group average. Key risks include slower or higher cost of asset drops, lower volumes and higher costs.

Exhibit 4: Access Midstream Partners (ACMP) estimate revision table
EPU/DCF/Distribution in $ per unit, Adj. EBITDA in $ mn

			2012E		2013E		2014E		2015E	
ACMP	3Q12E	4Q12E	New	Old	New	Old	New	Old	New	Old
EPU	$0.28	$0.24	$1.20	$1.25	$1.50	$1.55	$1.60	$1.60	$1.65	$1.70
DCF	0.49	0.46	1.90	1.90	2.45	2.30	2.60	2.40	2.65	2.50
Distribution	0.44	0.45	1.71	1.71	1.95	1.97	2.15	2.16	2.31	2.27
Coverage	--	--	1.11x	1.11x	1.26x	1.17x	1.21x	1.11x	1.15x	1.10x
Adj. EBITDA*	152	154	545	457	786	613	889	715	1010	825

* as calculated by CHKM

Source: Goldman Sachs Research estimates.

Reiterate Buy rating on NDRO and lower target price by $2 to $22

Enduro Royalty Trust (NDRO, Buy) reported 2Q2012 EPU of $0.45, missing our estimate of $0.52 driven by lower oil volumes (-3%), lower realized oil prices (-6%), lower realized natural gas prices (-6%), and higher costs, partially offset by higher natural gas volumes (+11%). We lower our 2012/2013/2014E EPU by 4%/4%/22% (to $1.92, $2.32, $1.31) on lower expected natural gas prices and higher costs.

We reiterate our Buy rating and lower our yield-based 12-month target price by $2 to $22 on our lower estimates. NDRO's production continues to outpace expectations relative to its initial IPO projections, particularly in natural gas where volumes have remained resilient despite the much weaker price environment. Oil volumes in 2Q12 disappointed slightly relative to our expectations, but we expect a robust price environment and continued producer activity on NDRO's Permian acreage will keep volumes steady. Our long-term 2014 estimates fall more dramatically due to a lower normalized natural gas price of

$4.00/MMBtu versus $5.50 previously, although NDRO remains 53% hedged on natural gas in 2013. NDRO remains a favorite higher yield commodity-oriented investment for (1) leverage to strong expected oil prices, (2) exposure to bullish production trends in its low-risk Permian basin acreage, (3) resource upside via secondary and tertiary activity, and (4) long-term, a natural gas price recovery via its position in the core of the Haynesville shale. Key risks to our estimates include sustained lower oil and natural gas prices, reduced third-party drilling.

Exhibit 5: Enduro Royalty Trust (NDRO) estimate revision table
Revenue/Net Profit in $ mn, DPU in $ per unit

			2012E		2013E		2014E		2015E	
NDRO	3Q12E	4Q12E	New	Old	New	Old	New	Old	New	Old
Net Profits	$16	$18	$63	$66	$76	$79	$43	$55	$43	$55
Distribution	0.49	0.55	1.92	2.01	2.32	2.41	1.30	1.67	1.30	1.67
Sales Volume ('000s boe/d)	7.0	6.9	7.2	6.7	6.6	6.5	6.6	6.5	6.6	6.5
Revenue by Commodity										
Oil	$27	$29	$103	$108	$118	$118	$79	$80	$79	$80
Natural Gas	9	9	37	33	38	38	34	46	34	46

Source: Goldman Sachs Research estimates.

Remain Neutral on CHKR and lower target price by $2 to $22

Chesapeake Granite Wash Trust (CHKR, Neutral) reported 2Q2012 EPU of $0.68 missing our estimate of $0.72 and guidance of $0.76, driven by lower prices (-13%) offset by slightly higher total volumes (+4%). We lower our 2012/2013/2014E EPU by 5%/9%/10% (to $2.93, $3.52, $3.25) on lower prices and higher costs.

We maintain our Neutral rating and decrease our yield-based 12-month target price by $2 to $22 on our lower estimates. CHKR's overall production volumes have slightly outpaced our expectations; however, the mix has been much more gassy than oily, with oil volumes falling to 16% in 2Q12 versus 18% previously. While seemingly small in magnitude, these oil shortfalls have a much larger impact on revenues given current wide oil-to-gas ratios. We expect volumes will rebalance over time as new wells come online, consistent with the trust's original promise to investors. We continue to expect CHKR will deliver strong volumes and distributions in the early years of its life, tempered by lower natural gas prices and its terminating structure which limits long-term income. We continue to prefer NDRO (Buy), whose perpetual structure and higher oil (Permian) leverage provides superior long-term income and growth potential. Key risks include higher/lower commodity prices, better/worse than anticipated well results and asset/operator concentration risk.

Exhibit 6: Chesapeake Granite Wash Trust (CHKR) estimate revision table
Revenue/Net Profit in $ mn, DPU in $ per unit

			2012E		2013E		2014E		2015E	
CHKR	3Q12E	4Q12E	New	Old	New	Old	New	Old	New	Old
Net Profits	$37	$40	$137	$145	$165	$181	$152	$168	$127	$143
Distribution	0.78	0.86	2.91	3.10	3.52	3.88	3.25	3.59	2.71	3.05
Sales Volume ('000s boe/d)	11.2	11.4	11.2	11.0	11.5	11.5	11.2	11.2	9.3	9.3
Revenue by Commodity										
Oil	$16	$17	$68	$76	$71	$86	$69	$67	$56	$56
Natural Gas Liquids	15	16	54	59	65	64	54	54	46	46
Natural Gas	7	8	25	16	36	39	35	53	30	46

Source: Goldman Sachs Research estimates.

Important sector news and developments

- **Kinder Morgan Partners (KMP, Neutral, 12-month price target $86, last close $81.84)** has agreed to sell its interest in a set of Rockies natural gas pipeline assets to a private equity consortium for $1.8bn in cash, or $3.3bn including proportionate debt.

  Separately, KMP agreed to build a lateral pipeline extending its existing KMCC pipeline to deliver Eagle Ford crude to Philips 66's Sweeny Refinery. KMP will invest $90mn in the project which will have an initial capacity of 30k bpd, expandable to 100k bpd.

- **Sunoco Logistics (SXL, Sell, 12-month price target $40, last close $43.78)** announced plans to move forward with the Permian Express Phase I to increase crude oil flow from West Texas to the Gulf Coast markets. SXL expects the pipeline to begin operations in 1Q2013, moving 90k bpd.

Plains All American (PAA) is our favorite Energy MLP

The Williams Companies (WMB) is our favorite Diversified Pipeline

Exhibit 7: Total return and yield-focused recommendations

Total Return-Focused Recommendations

For investors focused on a combination of yield and unit/stock price upside through distribution/dividend growth and attractive relative valuation. These names constitute our top picks, and are most closely aligned with our ratings.

Ticker	Rating	12-month Target Price	Unit/Stock Upside	Yield	Total Return
BPL	Buy	$62	28%	8.6%	**37%**
WPZ	Neutral	$61	20%	6.2%	**26%**
NDRO	Buy	$22	16%	9.5%	**26%**
PAA**	Buy	$104	21%	4.9%	**26%**
ETP	Neutral	$49	16%	8.5%	**25%**
Group average			**20%**	**8%**	**28%**
Universe avg			**8%**	**6%**	**14%**

Yield-Focused Recommendations

For investors focused primarily on yield and return through cash distributions. We believe these names offer the lowest risk among MLPs with an above-average yield.

MLP	Rating	Yield	12-month Target Price	Unit Upside	Total Return
CHKR	Neutral	**13.3%**	$22	8%	21%
NDRO	Buy	**9.5%**	$22	16%	26%
SPH	Neutral	**9.0%**	$43	14%	23%
BPL	Buy	**8.6%**	$62	28%	37%
NS	Neutral	**8.5%**	$57	11%	19%
Group average		**9.8%**		**15.3%**	**25%**
Energy MLPs avg (ex-GPs)		**7.0%**		**9.2%**	**16%**

** - denotes a Conviction List stock

Target Prices

– Energy MLP Methodology: Based on our 12-month distribution growth estimate and MLP-specific normalized yield

– Diversified Pipelines Methodology: EV-to-EBITDA cash flow analysis

Risks

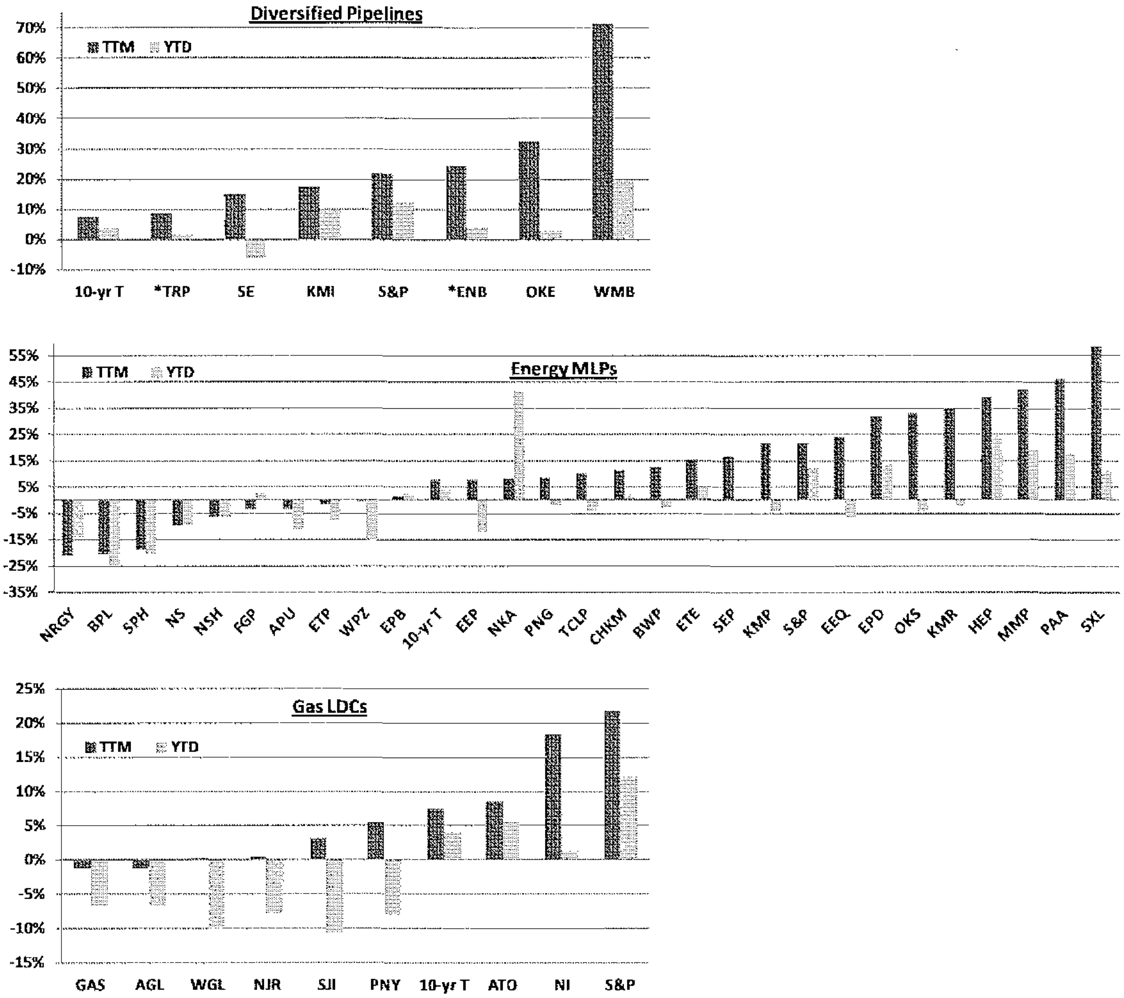
– Energy MLPs: Access to capital markets and interest rate changes

– GP-focused MLPs: higher/lower-than-expected distribution growth at the underlying MLP would positively/negatively impact GP distribution growth and its valuation

Source: FactSet, Goldman Sachs Research estimates.

Sector price performance

Exhibit 8: Stock price performance, by sector



*Note: Prices in Canadian dollars.

Source: FactSet.

Exhibit 9: Alerian MLP Index returns, by month

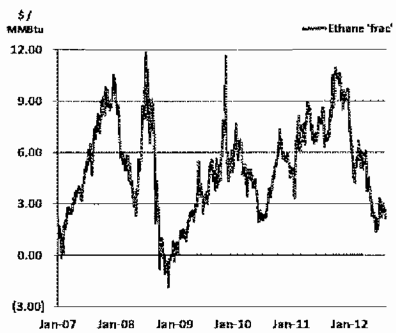
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
1996	3.9%	-1.0%	-0.2%	-0.4%	-2.2%	0.3%	2.1%	3.0%	1.0%	-0.2%	1.4%	0.3%
1997	4.2%	0.4%	-2.4%	-1.8%	2.1%	3.0%	6.9%	1.8%	1.2%	2.4%	-0.3%	-1.1%
1998	2.7%	0.4%	-1.2%	0.6%	-1.2%	-2.0%	-0.3%	-9.7%	7.3%	2.5%	-3.4%	-4.7%
1999	3.2%	-5.2%	-0.5%	6.2%	-2.9%	1.6%	1.5%	1.1%	-4.7%	-2.9%	-8.3%	-3.0%
2000	9.0%	-3.1%	-0.7%	1.0%	0.5%	5.4%	2.7%	2.4%	9.0%	-5.2%	-1.9%	11.1%
2001	8.7%	1.7%	2.6%	9.7%	0.8%	-1.7%	4.4%	3.8%	-2.9%	4.7%	-3.0%	2.1%
2002	-1.9%	-8.3%	7.3%	1.3%	-3.4%	-7.5%	-0.1%	5.7%	-4.2%	-1.2%	-0.1%	3.3%
2003	3.0%	0.9%	1.3%	6.9%	2.7%	3.6%	0.7%	0.2%	1.6%	1.1%	3.7%	5.1%
2004	-2.4%	0.7%	2.8%	-9.4%	-0.8%	2.2%	2.7%	2.8%	5.3%	-1.2%	4.8%	2.4%
2005	4.1%	0.4%	-3.8%	2.3%	0.5%	4.0%	4.5%	-2.8%	1.2%	-2.2%	-4.3%	-2.1%
2006	4.9%	-1.4%	1.0%	1.0%	0.8%	-1.7%	3.4%	1.8%	-1.4%	4.2%	3.6%	1.6%
2007	3.9%	2.2%	4.7%	5.5%	-0.9%	0.7%	-1.7%	-6.4%	-3.1%	5.8%	-4.6%	0.8%
2008	-1.5%	-1.1%	-6.3%	6.7%	0.0%	-4.9%	-2.6%	0.8%	-17.2%	-1.3%	-18.0%	-3.7%
2009	14.0%	-5.4%	0.6%	9.9%	8.0%	-1.7%	11.3%	-4.1%	4.8%	1.8%	5.4%	6.6%
2010	-0.2%	3.7%	2.9%	2.5%	-6.2%	5.6%	6.7%	-3.3%	6.1%	4.5%	1.2%	1.7%
2011	2.5%	2.6%	0.2%	2.6%	-5.7%	1.1%	-2.6%	-1.9%	-4.2%	9.6%	-1.1%	5.7%
2012	1.3%	3.3%	-4.0%	1.7%	-8.3%	3.3%	4.5%	-0.7%				
Avg	3.5%	-0.6%	0.2%	2.7%	-0.9%	0.7%	2.6%	-0.3%	0.0%	1.4%	-1.6%	1.0%

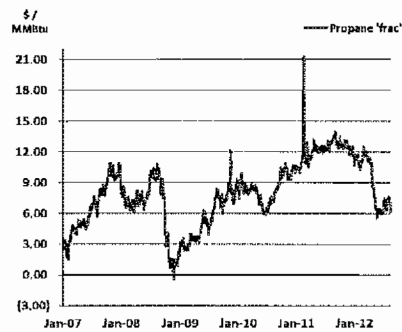
Source: FactSet.

Natural gas liquids (NGLs) data points

Exhibit 10: Natural gas liquids (NGLs) fractionation margins

	Fractionation Margins ($ / MMBtu)				
	Ethane	Propane	Iso-But.	N. But.	Pentanes
2012TD	4.37	9.18	15.80	13.78	17.35
Current	2.17	6.21	14.30	11.79	16.94
2011	7.69	12.18	16.83	13.98	17.52
2010	4.70	8.43	11.61	10.17	12.50
2009	3.40	5.35	8.12	6.55	8.14
2008	4.74	6.68	8.55	7.47	10.36
2007	5.19	6.40	8.16	6.93	8.56
2006	3.25	4.44	5.78	4.95	6.48
2005	0.58	1.13	2.73	1.69	2.68
2004	1.75	2.28	2.99	2.62	3.29
2003	0.59	0.89	1.51	1.03	1.24
2002	0.62	1.15	2.11	1.50	1.97
2001	1.15	1.24	1.80	1.28	1.50
2000	1.80	2.10	2.58	2.21	2.44



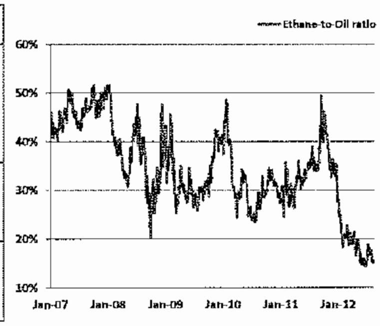


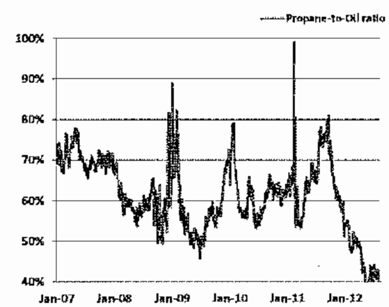
Source: Goldman Sachs Research estimates, Bloomberg.

Exhibit 11: Natural gas liquids (NGLs)-to-Oil ratio

	NGL-to-Oil ratio					
	Ethane	Propane	Iso-But.	N. But.	Pentanes	NGLs*
2012TD	20%	46%	79%	73%	94%	46%
Current	15%	38%	75%	67%	95%	41%
2011	19%	45%	77%	75%	96%	46%
2010	32%	61%	84%	79%	97%	57%
2009	33%	58%	82%	74%	90%	55%
2008	37%	60%	73%	71%	87%	56%
2007	46%	70%	87%	83%	98%	66%
2006	42%	65%	79%	77%	91%	61%
2005	46%	68%	86%	81%	94%	65%
2004	51%	75%	89%	89%	101%	71%
2003	54%	78%	93%	90%	98%	73%
2002	42%	66%	87%	80%	93%	63%
2001	53%	76%	91%	86%	95%	71%
2000	56%	81%	95%	93%	102%	76%

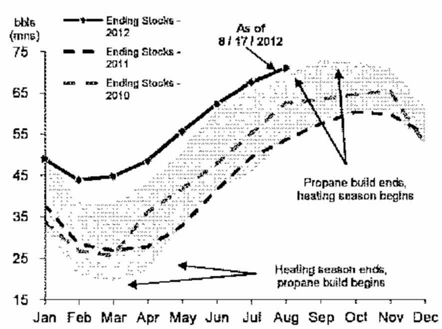
* - ethane: 40%, propane: 30%, iso-butane: 10%, normal butane: 10%, pentanes: 10%

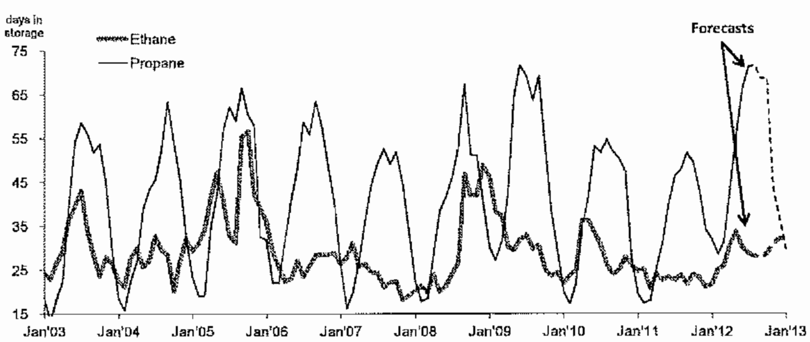




Source: Goldman Sachs Research estimates, Bloomberg.

Exhibit 12: Propane inventories, and Ethane-Propane days in storage





Source: Energy Information Administration (EIA), Goldman Sachs Research estimates.

Exhibit 13: Diversified Pipelines valuation overview

Company	Ticker	Rating	Close 8/24/2012	12-mth Target Price	Total Return Potential	Annual Dividend	Current Yield	Market Cap ($mn)	Ent. Value ($mn)	EPS 2011A	EPS 2012E	EPS 2013E	EPS 2014E	EPS 2015E	EPS 2016E	5-yr CAGR	P/E 2011A	P/E 2012E	P/E 2013E	P/E 2014E	P/E 2015E	P/E 2016E
Enbridge Inc.	*ENB	Neutral	$39.61	$40	3.8%	$1.13	2.9%	$31,015	$50,078	$1.46	$1.60	$1.85	$2.10	$2.45	$2.60	12.3%	27.2	24.8	21.4	18.9	16.2	15.2
Kinder Morgan Inc.	KMI	Buy	35.29	$39	14.5%	1.40	4.0%	36,631	53,038	0.91	1.41	1.77	1.80	1.72	1.63	12.3%	38.8	25.0	19.9	19.6	20.6	21.7
ONEOK, Inc.	OKE	Neutral	44.59	$46	10.6%	1.32	3.0%	9,443	11,709	1.67	1.60	1.90	2.05	2.55	2.90	11.7%	26.7	27.9	23.5	21.8	17.5	15.4
Spectra Energy Corp.	SE	Neutral	28.86	$32	14.6%	1.12	3.9%	18,903	30,122	1.78	1.70	2.05	1.90	2.05	2.20	4.3%	16.2	17.0	14.1	15.2	14.1	13.1
Targa Resources Corp.	TRGP	NC	44.79	–	–	1.58	3.5%	1,894	1,956	0.74	0.97	1.46	1.71	–	–	–	60.5	46.2	30.7	26.2	–	–
TransCanada Corp.	*TRP	Neutral	45.17	$42	-3.1%	1.76	3.9%	31,845	53,445	2.23	2.10	2.55	3.10	3.15	3.25	7.8%	20.3	21.5	17.7	14.6	14.3	13.9
The Williams Companies	WMB**	Buy	32.11	$38	22.1%	1.20	3.7%	20,121	20,930	1.49	1.25	1.50	1.80	2.05	2.20	8.1%	21.5	25.7	21.4	17.8	15.7	14.6
Pipelines - Average					*10.4%*		*3.5%*									*9.4%*	*30.2*	*26.9*	*21.2*	*19.1*	*16.4*	*15.6*

Company	Ticker	Total Return YTD	Total Return Trailing 12-mths	Last Q Debt/ Cap	2011A EBITDA/ Int exp	2011A Debt/ EBITDA	Debt Rating S&P	Debt Rating Moodys	EBITDA 2011A	EBITDA 2012E	EBITDA 2013E	EBITDA 2014E	EBITDA 2015E	EBITDA 2016E	5-yr CAGR	EV/EBITDA 2011A	EV/EBITDA 2012E	EV/EBITDA 2013E	EV/EBITDA 2014E	EV/EBITDA 2015E	EV/EBITDA 2016E
Enbridge Inc.	*ENB	6.2%	27.6%	67.7%	4.0	5.5	A-	Baa1	$3,326	$3,623	$4,387	$4,857	$5,306	$5,483	10.5%	15.1	13.8	11.4	10.3	9.4	9.1
Kinder Morgan Inc.	KMI	12.7%	49.6%	53.9%	4.8	5.1	BB	--	1,313	2,732	3,829	3,639	3,351	3,061	18.4%	40.4	19.4	13.9	14.6	15.8	17.3
ONEOK, Inc.	OKE	5.0%	36.0%	52.3%	10.2	2.6	BBB	Baa2	1,022	1,025	1,196	1,384	1,568	1,654	10.1%	11.5	11.4	9.8	8.5	7.5	7.1
Spectra Energy Corp.	SE	-3.4%	19.5%	57.4%	4.6	4.1	BBB+	--	2,937	2,925	3,403	3,387	3,539	3,704	4.7%	10.3	10.3	8.9	8.9	8.5	8.1
TransCanada Corp.	*TRP	3.4%	12.6%	58.5%	4.5	4.9	A-	Baa1	4,960	4,634	5,224	5,884	5,924	5,945	3.7%	10.8	11.5	10.2	9.1	9.0	9.0
The Williams Companies	WMB**	22.3%	64.2%	83.1%	13.5	0.8	BBB-	Baa3	2,985	1,639	2,106	2,462	2,686	2,858	-0.9%	7.0	12.8	9.9	8.5	7.8	7.3
Pipelines - Average		*7.7%*	*34.9%*	*62.2%*	*6.9*	*3.8*									*7.8%*	*15.8*	*13.2*	*10.7*	*10.0*	*9.7*	*9.7*

Notes:
* - all figures for TRP and ENB are in Canadian Dollars
** - denotes Conviction List stock
EV = Equity Market Cap + Net Debt + Minority Interest + Preferred + [Other]
NR - Not rated; NC - Not covered
Not covered (NC) company estimates are based on Thomson One Analytics' consensus

Source: Goldman Sachs Research estimates, FactSet, Thomson One Analytics.

Exhibit 14: LDC valuation overview

Company	Ticker	Rating	Close 8/24/2012	12-mth Target Price	Total Return Potential	Annual Dividend	Current Yield	Market Cap ($mn)	Ent. Value ($mn)	EPS 2011A	EPS 2012E	EPS 2013E	EPS 2014E	EPS 2015E	EPS 2016E	5-year CAGR	P/E 2011A	P/E 2012E	P/E 2013E	P/E 2014E	P/E 2015E	P/E 2016E
AGL Resources	GAS	Neutral	$39.43	$42	11.2%	1.84	4.7%	$4,621	$8,512	$2.64	$2.70	$3.10	$3.35	$3.60	$3.75	5.7%	13.9x	14.6x	12.7x	11.8x	10.9x	10.5x
Atmos Energy	ATO	Neutral	35.23	$36	6.1%	1.38	3.9%	3,206	5,570	2.19	2.35	2.50	2.75	2.95	3.15	7.5%	16.1x	15.0x	14.1x	12.8x	11.9x	11.2x
Nisource, Inc.	NI	NC	24.14	–	–	0.96	4.0%	6,874	14,638	1.46	1.56	1.67	1.65	–	–	NA	16.5x	15.5x	14.5x	14.6x	NA	NA
New Jersey Resources	NJR	NC	45.37	–	–	1.52	3.4%	1,887	2,616	2.72	2.81	2.75	–	–	–	NA	16.7x	16.1x	16.5x	–	NA	NA
Piedmont Natural Gas Co.	PNY	NC	31.31	–	–	1.20	3.8%	2,251	3,295	1.58	1.79	1.94	1.98	–	–	NA	19.8x	17.5x	16.1x	15.8x	NA	NA
South Jersey Industries	SJI	NC	50.69	–	–	1.61	3.2%	1,543	2,428	3.07	3.36	–	–	–	–	NA	16.5x	15.1x	–	–	NA	NA
WGL Holdings	WGL	Sell	39.77	$36	-5.5%	1.60	4.0%	2,053	2,681	2.25	2.52	2.40	2.75	2.75	2.85	4.6%	17.7x	15.8x	16.6x	14.5x	14.5x	14.0x
LDCs - Average					*3.9%*		*3.8%*									*6.0%*	*16.7x*	*15.7x*	*15.1x*	*13.9x*	*12.4x*	*11.9x*

Company	Ticker	Total Return YTD	Total Return Trailing 12-mths	Last Q Debt/ Cap	2012E EBITDA/ Int exp	2012E Debt/ EBITDA	Debt Rating S&P	Debt Rating Moodys	EBITDA 2011A	EBITDA 2012E	EBITDA 2013E	EBITDA 2014E	EBITDA 2015E	EBITDA 2016E	5-year CAGR	EV / EBITDA 2011A	EV / EBITDA 2012E	EV / EBITDA 2013E	EV / EBITDA 2014E	EV / EBITDA 2015E	EV / EBITDA 2016E
AGL Resources	GAS	-3.7%	3.5%	53.8%	6.0x	3.8x	BBB+	–	$626	$1,100	$1,202	$1,266	$1,315	$1,344	16.5%	13.6x	7.7x	7.1x	6.7x	6.5x	6.3x
Atmos Energy	ATO	8.7%	12.9%	50.4%	5.1x	3.4x	BBB+	Baa1	669	735	792	871	943	1,011	8.6%	8.3x	7.6x	7.0x	6.4x	5.9x	5.5x
WGL Holdings	WGL	-7.4%	4.3%	32.4%	8.4x	2.2x	A+	--	335	343	368	415	427	446	5.9%	8.0x	7.8x	7.3x	6.5x	6.3x	6.0x
LDCs - Average		*-0.8%*	*6.9%*	*45.5%*	*6.5x*	*3.1x*									*10.3%*	*10.0x*	*7.7x*	*7.1x*	*6.5x*	*6.2x*	*6.0x*

Not covered (NC) company estimates are based on Thomson One Analytics' consensus

Source: Goldman Sachs Research estimates, FactSet, Thomson One Analytics.

Exhibit 15: Energy MLPs valuation overview

Partnership	Ticker	Rating	Close 08/24/12	12-mth Target Price	Total Return Potential	Annual Distrib	Current Yield	1-yr Distrib Growth Forecast	Market Cap ($mn)	Ent. Value ($mn)	Earnings Per Unit (EPU)							Distributions Per Unit						
											2011A	2012E	2013E	2014E	2015E	2016E	5-year CAGR	2011A	2012E	2013E	2014E	2015E	2016E	5-year CAGR
Diversified MLPs																								
Enbridge Energy Partners	EEP	Neutral	$29.21	$33	20%	$2.17	7.4%	3.8%	$7,164	$13,871	$1.36	$1.05	$1.50	$1.75	$1.90	$2.05	8.7%	$2.11	$2.17	$2.24	$2.31	$2.38	$2.45	3.0%
Enbridge Energy Management	EEQ	Neutral	30.92	$34	17%	2.17	7.0%	3.8%	1,231	13,871	1.36	1.05	1.50	1.75	1.90	2.05	8.7%	2.11	2.17	2.24	2.31	2.38	2.45	3.0%
Enterprise Products Partners	EPD	Buy	52.79	$60	18%	2.54	4.8%	5.9%	46,978	61,876	2.21	2.50	2.70	2.70	3.05	3.35	8.7%	2.44	2.56	2.73	2.92	3.12	3.34	6.5%
Kinder Morgan Energy Partners	KMP	Neutral	81.64	$86	11%	4.92	6.0%	5.7%	19,615	40,578	1.75	2.30	2.95	2.20	2.40	2.65	8.7%	4.61	4.98	5.21	5.37	5.50	5.61	4.0%
Kinder Morgan Management	KMR	Neutral	73.30	$83	20%	4.92	6.7%	5.7%	7,452	40,578	1.75	2.30	2.95	2.20	2.40	2.65	8.7%	4.61	4.98	5.21	5.37	5.50	5.61	4.0%
Diversified MLPs - Avg					*17%*		*6.4%*	*5.0%*									*8.7%*							4.1%
Liquids MLPs																								
Buckeye Partners	BPL	Buy	$48.36	$62	37%	$4.15	8.6%	2.4%	$4,745	$7,131	$2.89	$2.85	$3.85	$4.40	$4.75	$5.00	11.6%	$4.08	$4.15	$4.28	$4.60	$4.94	$5.31	5.4%
Holly Energy Partners	HEP	Neutral	66.91	$65	3%	3.64	5.4%	4.4%	1,900	2,509	2.59	2.85	3.05	3.15	3.30	3.30	4.9%	3.48	3.66	3.82	3.99	4.17	4.36	4.6%
Magellan Midstream Partners	MMP	Buy	82.05	$92	17%	3.77	4.6%	9.5%	9,269	11,204	3.80	4.00	4.85	4.95	5.30	5.70	8.4%	3.17	3.74	4.20	4.75	5.27	5.85	13.0%
NuStar Energy, LP	NS	Neutral	51.46	$57	19%	4.38	8.5%	0.0%	3,641	6,125	2.92	1.75	3.25	3.40	3.60	3.80	5.4%	4.36	4.38	4.41	4.48	4.54	4.61	1.1%
NuStar GP Holdings	NSH	Neutral	31.24	$36	22%	2.04	6.5%	2.9%	1,330	1,329	1.64	0.37	1.83	2.00	2.11	2.20	6.1%	1.98	2.04	2.15	2.27	2.39	2.48	4.6%
Plains All American Pipeline	PAA**	Buy	86.25	$104	26%	4.26	4.9%	9.9%	14,059	19,006	5.25	5.60	5.20	4.55	4.75	5.05	-0.8%	3.97	4.31	4.74	5.07	5.37	5.69	7.5%
Sunoco Logistics Partners	SXL	Sell	43.78	$40	-4%	1.88	4.3%	7.4%	4,549	6,106	2.95	3.55	2.40	2.35	2.40	2.45	-3.6%	1.64	1.86	2.04	2.22	2.42	2.64	10.0%
Liquids MLPs - Avg (ex-NSH)					*17%*		*6.1%*	*5.2%*									*4.6%*							6.6%
Natural Gas MLPs																								
Access Midstream Partners LP	ACMP	NR	$29.59	--	--	$1.62	5.5%	14.8%	$4,390	$5,623	$1.37	$1.20	$1.50	$1.60	$1.65	$1.75	5.1%	$1.48	$1.71	$1.95	$2.15	$2.31	$2.42	10.4%
Boardwalk Pipeline Partners	BWP	NC	26.88	NA	NA	0.53	2.0%	NA	5,586	8,773	1.41	1.40	1.47	1.56	1.61	–	NA	2.11	2.14	2.17	2.20	2.30	2.41	NA
El Paso Pipeline Partners	EPB	Neutral	35.56	$42	24%	2.20	6.2%	11.8%	7,361	11,069	2.03	1.95	1.95	2.20	2.20	2.20	1.6%	1.93	2.25	2.47	2.64	2.77	2.91	8.5%
Energy Transfer Equity[1]	ETE	NC	42.56	NA	NA	2.50	5.9%	NA	11,915	NA	1.41	1.84	2.39	2.88	--	--	NA	2.44	2.53	2.74	3.14	3.80	4.37	NA
Energy Transfer Partners	ETP	Neutral	42.20	$49	25%	3.58	8.5%	0.0%	9,735	18,699	1.58	1.15	2.45	3.10	3.40	3.50	17.2%	3.58	3.58	3.62	3.71	3.90	4.09	2.7%
Niska Gas Storage Partners[2]	NKA	Neutral	12.59	$11	-2%	1.40	11.1%	0.0%	860	1,522	0.56	0.25	0.35	0.65	0.90	--	NA	1.40	1.40	1.40	1.40	1.40	–	NA
ONEOK Partners	OKS	Sell	55.29	$54	2%	2.64	4.8%	9.5%	12,153	15,606	3.35	3.00	2.25	1.95	2.80	3.00	-2.2%	2.37	2.69	2.90	3.05	3.20	3.36	7.3%
PAA Natural Gas Storage	PNG	NC	18.40	NA	NA	1.43	7.8%	NA	1,049	NA	0.89	0.99	1.03	1.19	0.92	--	NA	1.41	1.43	1.47	1.51	1.45	1.52	1.6%
Spectra Energy Partners	SEP	Neutral	32.25	$35	15%	1.94	6.0%	4.1%	3,106	3,645	1.65	1.62	1.65	1.70	1.70	1.75	1.2%	1.87	1.95	2.03	2.11	2.20	2.28	4.1%
TC Pipelines, LP	TCP	Sell	45.50	$43	1%	3.12	6.9%	2.6%	2,434	3,128	3.03	2.70	3.10	3.15	3.20	3.25	1.4%	3.06	3.11	3.24	3.40	3.57	3.75	4.2%
Williams Partners	WPZ	Neutral	50.99	$61	26%	3.17	6.2%	8.8%	17,129	24,678	3.72	2.80	3.40	3.45	3.60	3.70	-0.1%	2.96	3.20	3.49	3.75	3.94	4.14	6.9%
Gas MLPs - Avg (ex-ETE/NKA)					*16%*		*6.0%*	*6.1%*									*3.2%*							5.0%
Propane MLPs																								
AmeriGas Partners	APU	NC	$40.80	NA	NA	$3.06	7.5%	NA	$3,786	$4,692	$2.73	$0.18	$2.46	$2.65	$2.54	–	NA	$2.93	$3.13	$3.28	$3.40	$3.66	$3.77	5.2%
Ferrellgas Partners	FGP	NC	19.45	NA	NA	2.00	10.3%	NA	1,536	2,703	(0.51)	(0.16)	0.35	0.50	0.51	--	NA	2.00	2.00	1.82	1.60	1.40	1.40	NA
Inergy, LP	NRGY	NC	21.00	NA	NA	1.50	7.1%	NA	2,766	4,614	0.40	0.02	0.34	1.06	0.98	--	NA	2.82	1.76	1.26	1.26	1.26	1.34	-13.8%
Suburban Propane Partners	SPH	Neutral	37.77	$43	23%	3.41	9.0%	2.6%	2,121	3,353	3.24	0.62	2.10	3.50	3.80	3.80	3.2%	3.41	3.41	3.50	3.70	3.92	4.12	3.8%
Propane MLPs - Average					*23%*		*8.5%*	*2.6%*									--							-1.6%
Other MLPs																								
CVR Partners[3]	UAN	Neutral	$25.80	$28	15%	$1.78	6.9%	--	$1,888	$1,817	$1.77	$1.50	$1.85	$1.65	$1.95	$1.80	0.4%	$1.57	$1.81	$2.05	$1.75	$2.15	$2.00	$0.05
Chesapeake Granite Wash Trust	CHKR	Neutral	20.45	$22	21%	2.72	13.3%	--	956	955	1.14	2.93	3.52	3.25	2.71	--	NA	1.31	2.91	3.52	3.25	2.71	–	NA
Enduro Royalty Trust	NDRO	Buy	18.95	$22	26%	1.80	9.5%	29.6%	625	625	0.84	1.92	2.32	1.30	1.30	–	NA	0.31	1.92	2.32	1.30	1.30	--	NA
Averages																								
Energy MLPs	–	–	–	–	**16.9%**	–	**6.2%**	**5.8%**																
Energy MLPs (ex-GP MLPs)	--	--	--	--	**16.6%**	--	**6.2%**	**5.9%**																

EV = Equity Market Cap + Net Debt + Minority Interest + Preferred + [Other]
NR - Not rated; NC - Not covered; CS - Coverage Suspended; NC/CS estimates are based on Thomson One Analytics' consensus
** - denotes Conviction List stock
1 - ETE figures are driven by our estimates for ETP, respectively, and company data.
2 - NKA reports 3/31 fiscal year end
3 - UAN distribution a discount of GS 2012-14 forecasts, using 5% discount rate

Source: Goldman Sachs Research estimates, FactSet, Thomson One Analytics.

Exhibit 16: Energy MLPs valuation overview

Partnership	Ticker	Total Return YTD	Total Return Trailing 12-mths	Last Q Debt/Cap	2012E EBITDA/Int exp	2012E Debt/EBITDA	Debt Rating S&P	Debt Rating Moodys	Distributable Cash Flow (DCF) Per Unit 2011A	DCF Per Unit 2012E	DCF Per Unit 2013E	DCF Per Unit 2014E	DCF Per Unit 2015E	DCF Per Unit 2016E	5-year CAGR	DCF Per Unit / Distribution (coverage ratio) 2011A	Coverage 2012E	Coverage 2013E	Coverage 2014E	Coverage 2015E	Coverage 2016E	Return on Equity (ROE) to the Limited Partner 2011A	ROE 2012E	ROE 2013E	ROE 2014E
Diversified MLPs																									
Enbridge Energy Partners	EEP	-7%	16%	55%	3.1	5.2	BBB	Baa2	$2.27	$1.86	$2.33	$2.52	$2.68	$2.83	4.5%	1.08	0.86	1.04	1.09	1.13	1.16	9.5%	6.9%	9.8%	11.5%
Enbridge Energy Management	EEQ	-7%	24%	55%	3.1	5.2	BBB	Baa2	2.27	1.86	2.33	2.52	2.68	2.83	4.5%	1.08	0.86	1.04	1.09	1.13	1.16	9.5%	6.9%	9.8%	11.5%
Enterprise Products Partners	EPD	18%	38%	55%	5.3	4.0	BBB-	NR	3.17	3.40	3.70	3.80	4.20	4.50	7.3%	1.30	1.33	1.36	1.30	1.35	1.35	15.9%	17.6%	18.3%	17.4%
Kinder Morgan Energy Partners	KMP	1%	29%	66%	6.6	4.1	BBB	Baa2	4.10	4.75	5.80	5.10	5.35	5.60	6.5%	0.89	0.95	1.11	0.95	0.97	1.00	7.9%	10.9%	14.5%	11.4%
Kinder Morgan Management	KMR	-2%	35%	66%	6.6	4.1	BBB	Baa2	4.10	4.75	5.80	5.10	5.35	5.60	6.5%	0.89	0.95	1.11	0.95	0.97	1.00	7.9%	10.9%	14.5%	11.4%
Diversified MLPs - Average		*0%*	*28%*	*59%*	*5.0*	*4.6*									*5.8%*	*1.05*	*0.99*	*1.13*	*1.08*	*1.11*	*1.13*	*10.1%*	*10.6%*	*13.4%*	*12.6%*
Liquids MLPs																									
Buckeye Partners	BPL	-20%	-14%	46%	4.6	4.9	BBB	Baa3	$3.58	$3.65	$4.90	$5.65	$6.10	$6.45	12.5%	0.88	0.88	1.15	1.23	1.23	1.21	15.2%	12.1%	14.5%	15.7%
Holly Energy Partners	HEP	29%	47%	46%	3.5	4.5	BB	Ba3	3.54	4.70	4.55	4.65	4.81	4.81	6.3%	1.02	1.29	1.19	1.17	1.15	1.10	8.7%	8.7%	9.4%	10.2%
Magellan Midstream Partners	MMP	23%	48%	59%	5.7	3.5	BBB	Baa2	4.15	4.50	5.60	5.90	6.30	6.75	10.2%	1.31	1.20	1.33	1.24	1.20	1.15	28.8%	29.5%	32.6%	29.0%
NuStar Energy, LP	NS	-3%	-2%	41%	4.6	6.3	BBB-	Baa3	4.78	3.55	4.75	4.80	5.00	5.20	1.7%	1.10	0.81	1.08	1.07	1.10	1.13	7.0%	4.6%	9.9%	10.2%
Plains All American Pipeline	PAA**	22%	53%	38%	6.2	2.5	BBB-	Baa2	5.69	6.35	6.50	5.95	6.20	6.55	2.2%	1.48	1.48	1.37	1.17	1.15	1.15	16.6%	15.2%	12.8%	11.0%
Sunoco Logistics Partners	SXL	14%	64%	54%	6.4	2.5	BBB	NR	3.37	4.05	2.95	2.90	2.95	3.00	-2.3%	2.06	2.18	1.45	1.30	1.22	1.14	30.3%	32.6%	19.2%	17.1%
Liquids MLPs - Average		*11%*	*33%*	*47%*	*5.2*	*4.1*									5.1%	*1.31*	*1.31*	*1.26*	*1.20*	*1.18*	*1.15*	*17.6%*	*17.2%*	*16.4%*	*15.5%*
Natural Gas MLPs																									
Access Midstream Partners LP	ACMP	6%	17%	34%	5.9	3.8	NR	NR	$1.81	$1.90	$2.45	$2.60	$2.65	$2.75	8.8%	1.22	1.11	1.26	1.21	1.15	1.14	8.2%	7.4%	9.2%	8.7%
El Paso Pipeline Partners	EPB	7%	8%	66%	3.7	4.1	BB	NR	$1.92	$2.00	$2.05	$2.40	$2.50	$2.60	6.3%	1.00	0.89	0.83	0.91	0.90	0.90	11.5%	9.9%	9.5%	10.4%
Energy Transfer Partners	ETP	-2%	7%	58%	3.6	4.6	BBB-	Baa3	3.01	2.80	3.90	4.55	4.85	5.00	10.7%	0.84	0.78	1.08	1.23	1.24	1.22	6.5%	4.5%	9.1%	11.6%
Niska Gas Storage Partners[1]	NKA	53%	20%	55%	1.6	4.8	BB-	B1	1.14	1.13	1.03	1.37	1.62	–	NA	0.82	0.80	0.74	0.98	1.16	--	2.3%	-23.5%	-9.5%	4.3%
ONEOK Partners	OKS	-1%	39%	44%	6.2	3.6	BBB	Baa2	3.90	3.62	3.01	2.90	3.95	4.20	1.5%	1.65	1.35	1.04	0.95	1.23	1.25	20.6%	16.7%	10.9%	6.8%
Spectra Energy Partners	SEP	5%	23%	24%	8.5	2.2	BBB	Baa3	2.07	2.02	2.09	2.19	2.19	2.21	1.3%	1.11	1.04	1.03	1.04	1.00	0.97	9.9%	9.4%	9.6%	9.9%
TC Pipelines, LP	TCP	1%	18%	35%	7.3	3.6	NR	NR	4.43	4.01	4.46	4.59	4.64	4.69	1.1%	1.45	1.29	1.38	1.35	1.30	1.25	12.8%	11.1%	12.9%	12.8%
Williams Partners	WPZ	-11%	6%	40%	5.7	3.3	BBB-	Baa2	4.49	3.75	4.75	4.30	4.40	4.40	-0.4%	1.52	1.17	1.36	1.15	1.12	--	10.0%	9.1%	11.8%	10.7%
Natural Gas MLPs - Average		*7%*	*19%*	*44%*	*5.3*	*3.8*									*4.2%*	*1.20*	*1.05*	*1.09*	*1.10*	*1.14*	*1.12*	*10.3%*	*5.6%*	*7.9%*	*9.6%*
Other MLPs / Royalty Trusts																									
Suburban Propane Partners	SPH	-15%	-12%	59%	2.6	11.4	BB	Ba2	$3.96	$1.57	$4.00	$5.40	$5.70	$5.70	7.6%	1.16	0.46	1.14	1.46	1.45	1.39	6.5%	1.3%	5.5%	7.7%
CVR Partners	UAN	11%	–	21%	25.4	0.9	NR	NR	1.94	1.70	2.05	1.75	2.15	2.00	0.6%	0.83	0.83	1.17	0.81	1.08	–	–	–	–	–
Chesapeake Granite Wash Trust	CHKR	-7%	–	0%	–	–	NR	NR	1.14	2.93	3.52	3.25	2.71	–	NA	0.87	1.01	1.00	1.00	1.00	--	–	–	–	–
Enduro Royalty Trust	NDRO	-2%	–	0%	–	–	NR	NR	0.84	1.92	2.32	1.30	1.30	–	NA	2.68	1.00	1.00	1.00	1.00	–	–	–	–	–
Energy MLPs - Average	–	5%	24%	50%	5.0	4.4	–	–	–	–	–	–	–	–	5.1%	1.19	1.08	1.15	1.14	1.16	1.15	12.3%	10.1%	11.7%	12.1%
Alerian MLP Index	AMZ	0%	15%	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
S&P 500	SPX	12%	22%	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

Partnership	Ticker	Total Return YTD	Total Return Trailing 12-mths	LP units owned (mn)	GP split level	Yield Spread to MLP	Percent of DCF from GP ownership 2011A	Percent of DCF from GP ownership 2012E	Distributable Cash Flow (DCF) Per Unit 2011A	DCF Per Unit 2012E	DCF Per Unit 2013E	DCF Per Unit 2014E	DCF Per Unit 2015E	DCF Per Unit 2016E	5-year CAGR	Enterprise Value / Distributable Cash Flow 2012E	EV/DCF 2013E	EV/DCF 2014E	EV/DCF 2015E	EV/DCF 2016E
NuStar GP Holdings	NSH	-1%	0%	10.2	25%	198	49%	51%	1.97	2.08	2.13	2.30	2.34	2.39	4.0%	15.0	14.7	13.6	13.4	13.1

EV = Equity Market Cap + Net Debt + Minority Interest + Preferred + [Other]
NR - Not rated; NC - Not covered; CS - Coverage Suspended; NC/CS estimates are based on Thomson One Analytics' consensus
** - denotes Conviction List stock
1 - NKA reports 3/31 fiscal year end

Source: Goldman Sachs Research estimates, FactSet, Thomson One Analytics.

Upcoming events

Exhibit 17: Upcoming events

Monday	Tuesday	Wednesday	Thursday	Friday
27-Aug	28-Aug	29-Aug	30-Aug	31-Aug
3-Sep	4-Sep	5-Sep	6-Sep	7-Sep
10-Sep	11-Sep	12-Sep	13-Sep	14-Sep

Source: Company Releases

Source: Company data.

Company-specific risks

Exhibit 18: Company-specific risks

Ticker	Company Name	Rating	Target Price[1]	Target Price Methodology	Risks
Diversified Pipelines					
ENB.TO	Enbridge Inc.	Neutral	C$ 40	EV/EBITDA	Higher/lower oil pipeline volumes, increased accretive growth capital spending or acquisitions, cost overruns or delays
KMI	Kinder Morgan Inc.	Buy	$39	SoP	Lower commodity prices and volume, cost overruns or delays
OKE	ONEOK Inc.	Neutral	$48	SoP/NAV	Lower/higher economic growth, lower/higher volumes/pricing for natural gas/NGLs
SE	Spectra Energy	Neutral	$32	EV/EBITDA	Lower/higher commodity prices & volumes; project cost overruns or delays.
TRP.TO	TransCanada Corp.	Neutral	C$ 42	EV/EBITDA	Higher power prices/volumes, positive regulatory outcomes. Further delays to Keystone XL permit, project cost overruns.
WMB**	The Williams Companies	Buy	$38	EV/EBITDA	Lower commodity prices, lower margins, lower volumes, higher costs
Master Limited Partnerships (MLPs)					
ACMP	Access Midstream Partners LP	Not Rated	NA	NA	
BPL	Buckeye Partners	Buy	$62	Yield-based	Deterioration of economic growth, slower pace or less accretive rate of asset acquisitions, rising interest rates
CHKR	Chesapeake Granite Wash Trust	Neutral	$22	Yield-based	Higher/lower commodity prices, better/worse than anticipated well results, rising/falling interest rates
EEP	Enbridge Energy Partners	Neutral	$33	Yield-based	Higher/lower than expected distribution growth, faster/slower-than-expected recovery in energy prices
EEQ	Enbridge Energy Management	Neutral	$34	Yield-based	Higher/lower than expected distribution growth, faster/slower-than-expected recovery in energy prices
EPB	El Paso Pipeline Partners	Neutral	$42	Yield-based	Higher/lower than expected distribution growth, faster/slower-than-expected recovery in energy prices
EPD	Enterprise Product Partners	Buy	$60	Yield-based	Weaker infrastructure growth, energy prices, capital market volatility, rising interest rates
ETP	Energy Transfer Partners	Neutral	$49	Yield-based	Lower/higher gas prices/differentials, higher/lower rate of dropdowns, more/less accretive acquisitions
HEP	Holly Energy Partners	Neutral	$65	Yield-based	Weaker/stronger infrastructure growth, energy prices, capital market volatility, rising/falling interest rates
KMP	Kinder Morgan Partners	Neutral	$86	Yield-based	Higher/lower commodity prices, volume declines, cost overruns, project delays or changes to MLP taxes
KMR	Kinder Morgan Management	Neutral	$83	Yield-based	Higher/lower commodity prices, volume declines, cost overruns, project delays
MMP	Magellan Midstream Partners	Buy	$92	Yield-based	Weaker infrastructure growth, energy prices, capital market volatility, rising interest rates
NDRO	Enduro Royalty Trust	Buy	$22	Yield-based	Lower commodity prices, reduced third-party drilling, higher interest rates
NKA	Niska Gas Storage	Neutral	$11	Yield-based	Weaker/stronger infrastructure growth, energy prices, wider/narrower summer-winter natural gas price differentials, capital market volatility, rising/falling interest rates and a potential overbuild of natural gas storage
NS	NuStar Energy L.P.	Neutral	$57	Yield-based	Higher/lower government highway spending, higher/lower transport volumes, weaker/stronger asphalt pricing, increased/decreased competition, higher/lower storage rates
NSH	NuStar GP Holdings	Neutral	$36	EV/Distributable cash flow	Weaker/stronger infrastructure growth, energy prices, capital market volatility, rising/falling interest rates
OKS	ONEOK Partners	Sell	$54	Yield-based	Stronger infrastructure growth, faster recovery in energy prices, reduced capital market volatility, falling interest rates
PAA**	Plains All American	Buy	$104	Yield-based	Less accretive acquisition/new-build project, narrower-than-expected contango crude oil spreads, rising interest rates
SEP	Spectra Energy Partners	Neutral	$35	Yield-based	Weaker/stronger infrastructure growth, energy prices, capital market volatility, rising/falling interest rates
SPH	Suburban Propane Partners	Neutral	$43	Yield-based	Weaker/stronger infrastructure growth, energy prices, capital market volatility, rising/falling interest rates, weather and propane margin volatility and faster/slower-than expected recovery to the domestic economy
SXL	Sunoco Logistics Partners	Sell	$40	Yield-based	Higher contango profits, more accretive acquisitions, faster demand recovery for refined products
TCP	TC Pipelines	Sell	$43	Yield-based	More accretive rate of asset acquisitions, more sustained level of Great Lakes volumes than currently expected, higher level of recontracted margins than expected
UAN	CVR Partners	Neutral	$28	Yield-based	Significant sensitivity to UAN-Ammonia prices and spreads, lack of product, feedstock, facility diversification, project cost overrun
WPZ	Williams Partners	Neutral	$61	Yield-based	Regulatory risks, rising/falling interest rates
Local Distribution Companies (LDCs)					
GAS	AGL Resources	Neutral	$42	DDM, P/E	Colder/warmer weather, increased/decreased natural gas price volatility, higher/lower retail or wholesale margins, increased/decreased shipping volumes
ATO	Atmos Energy	Neutral	$36	DDM, P/E	Lower/higher natural gas prices and low/high gas price volatility
WGL	WGL Holdings	Sell	$36	DDM, P/E	Higher than expected rate case increases and non-regulated margins

** - denotes Conviction List Stock
1 - 12-month price target

Source: Goldman Sachs Research estimates.

Financial Advisory Disclosure

Goldman Sachs is acting as financial advisor to Chesapeake Energy Corporation in an announced strategic transaction.

Disclosure Appendix

Reg AC

I, Theodore Durbin, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Investment Profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

GS SUSTAIN

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Disclosures

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May 9, 2012

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Americas: Utilities: Diversified

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Takeaways from AGA conference management meetings

We met with management of Spectra, ONEOK, TransCanada, AGL Resources, Atmos Energy and WGL Holdings at the AGA conference in Scottsdale, AZ.

Spectra (SE): no change to core structure/strategy

Spectra (SE, Neutral) continues to defend its corporate structure, where capital and earnings remain at the C-corp parent, as it would trigger tax leakage from selling depreciated assets or Canadian holdings to its MLP. We believe investors are becoming more focused on SE's structure, especially given the strong performance of peers OKE and WMB. On M&A, Spectra stressed it does not need to pursue transactions to drive growth.

ONEOK (OKE/OKS): growing oil infrastructure, NGL competition

Despite its recent "Bakken Express" oil pipeline announcement, ONEOK feels no pressure to upward integrate into lease gathering or downward into oil storage to drive volumes on its system. We came away more positive on the "Bakken Express," but we still expect strong competition. On NGLs, ONEOK remains bullish on prices and geographic spreads in the short to medium term but acknowledges "optimization" margins will likely decline in 2013, and will seek to replace those spread-based earnings with fee-based earnings. We believe ONEOK's NGL competition remains fierce.

TransCanada: Mainline grind continues; LNG pipeline potential

We focused on the financial grind of the Mainline natural gas pipeline, where we do not see an easy way out of the fundamental shifts happening in the gas market. We credit management with attempting to keep the Mainline toll competitive but expect a contentious hearing and decision process through 2012. On Canadian LNG, we believe TRP will aggressively bid, in part to defend the conventional production in its Alberta system and due to potentially longer contract terms and better counterparty credit risk.

AGL Resources (GAS): Moderate growth, riding through cycle

AGL remains focused on capturing $60mn of synergies from its Nicor acquisition, and does not sound bullish on rate base growth (2%-3%). On the non-regulated side, AGL is trying to ride through the current cyclical lows.

Atmos Energy (ATO): Bullish rate base growth, bearish non-reg

We came away bullish on the 8.0%-8.5% rate base growth CAGR for Atmos from infrastructure enhancement spending. ATO's Mid-Tex rate case is crucial, as it will set potentially long-term return parameters. Atmos remains relatively bearish on a recovery in its wholesale business.

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Takeaways from AGA meetings

We met with management of Spectra, ONEOK, TransCanada, AGL Resources, Atmos Energy, and WGL Holdings at the AGA conference in Scottsdale, AZ. We maintain our estimates and price targets on all companies. Our key takeaways are below.

Spectra (SE): no change to core structure/strategy; open to M&A, less positive on LNG pipeline

Spectra (SE, Neutral) continues to defend its corporate structure, where the bulk of capital and earnings remain at the C-corp parent, with its MLPs (SEP, DPM) used for opportunistic acquisitions and smaller growth projects. Management expects it would trigger significant tax leakage from selling highly depreciated natural gas pipeline assets like TETCO or its Canadian operations to its MLP, and remains concerned any uptick in interest rates or change in tax law could quickly erode any MLP cost of capital benefits. We believe investors are becoming more focused on SE's structure, especially given the strong performance of peers OKE and WMB which have fully embraced the LP-GP structure. Management could respond to such questions by increasing its dividend payout ratio, particularly as its earnings mix becomes more fee-based.

On M&A, Spectra stressed it does not need to pursue transactions for growth given its slate of organic projects, particularly at DCP Midstream, and sees current low teens EBITDA multiples for acquisitions as too expensive. Nonetheless, management remains open to M&A, particularly in the Marcellus, gathering & processing, and in oil/refined products infrastructure.

On LNG we see Spectra and TransCanada as the two most likely midstream candidates to construct a pipeline to the Canadian West Coast to serve LNG exports, with TRP slightly better positioned given the large, liquid natural gas market in its Alberta system. For its part Spectra believes the LNG investment opportunity at $2-$4bn, with upside to $5-$10bn if further LNG exports are sanctioned. We sense Spectra would prefer to invest in higher-return, somewhat higher-risk gathering and processing assets versus regulated pipelines where returns and risks are lower.

ONEOK (OKE/OKS): how big can it grow in oil infrastructure, and can it stave off the competition in NGLs?

We spent significant time understanding the oil infrastructure opportunity for ONEOK (OKE/OKS, Neutral/Sell) on the heels of its recent "Bakken Express" announcement. Unlike its strategy for natural gas gathering in the MidContinent, ONEOK feels no pressure to upward integrate into lease gathering in the Bakken or downward integrate into crude storage to drive volumes on its system, taking more of an "if you build it, they will come" attitude given relatively less competition in that basin. We came away more positive on the potential success of the "Bakken Express," but we still expect strong competition from incumbent Enbridge, from Kinder Morgan's proposed Pony Express gas-to-crude conversion project, and other incumbent crude pipeline providers.

On NGLs, ONEOK remains bullish on the absolute price, and on the Conway-Mont Belvieu spread (MB) in the short-to-medium term, driven by increasing petrochemical demand and propane exports. Management acknowledges that NGL "optimization" margins will likely decrease as the Conway-MB spread contracts in 2013 as new pipeline capacity comes online, but expects to replace those spread-based earnings with fee-based earnings. We believe competition in ONEOK's core MidContinent region remains fierce, with large players DCP, Enbridge, and Enterprise among midstream players aggressively pursuing gathering, processing, pipeline and fractionation expansions.

TransCanada (TRP.TO): Mainline grind continues; LNG pipeline has potential

We focused on the financial grind of TransCanada's (TRP.TO, Neutral) Mainline natural gas pipeline, where decreased throughput has caused spiking tariffs to prop up TRP's cost of service-based returns. We do not see an easy way out of the fundamental shifts happening in the gas market, where Marcellus supply growth has displaced the need to move large volumes from western Canada into the east. We credit management with attempting to keep the Mainline toll competitive via lower depreciation recovery, more differentiated zone and interruptible pricing, and some deferrals and a voluntary revenue haircut. However, we expect a contentious hearing and decision process through 2012, as suppliers try to keep costs down in the current low gas price environment, utilities/end users push for a potential securitization (return of capital, but not on) of a portion of the Mainline rate base, and all intervenors push back against TRP's requested 12% ROE (current: 8%).

On LNG, we believe TRP will aggressively bid for any potential pipeline projects to the Canadian west coast, in part to defend the conventional production in its Alberta system and keep it from being cut off by Spectra and growth in the Horn River and Montney/Duvernay shales. TRP appears willing to accept a lower return on an LNG pipeline than on non-regulated investments in exchange for longer contract terms and better counterparty credit risk.

AGL Resources (GAS): Moderate regulated growth, riding through non-regulated cyclical weakness

On the regulated side, AGL (GAS, Neutral) remains focused on capturing around $60mn of cost synergies from its recently-closed Nicor acquisition. Management does not sound particularly bullish on rate base growth (2%-3% annually) due to a continued weak housing market, the offset from bonus depreciation, and limited upside to pipeline replacement programs which have already been in place for multiple years. AGL feels optimistic on receiving regulatory approval for a settlement on its inherited performance-based rate investigation in Illinois, but acknowledged the risk of an unfavorable order.

On the non-regulated side, AGL is simply trying to ride through the current cyclical weakness in natural gas price volatility, which has negatively impacted its wholesale trading business and natural gas storage contracting, along with margin degradation in cargo shipping due to the weak economy and high fuel costs. We are not optimistic on a rapid snap-back in either business, particularly in gas trading/storage where we worry the market changes may be more secular than cyclical. Management may participate in future natural gas pipeline development similar to WGL's new venture, but we do not expect pipes to play a large role in the future.

Atmos Energy (ATO): Bullish rate base growth, but much hinges on Mid-Tex rate

We came away bullish on the rate base growth prospects for Atmos (ATO, Neutral), which is guiding to 8.0%-8.5% CAGR in regulated utility and pipeline rate base through 2016. ATO expects significant growth from infrastructure enhancement spending, particularly from the Texas "Rule 8" provision, and from pipeline connectivity projects. ATO's Mid-Tex (ex-Dallas) rate case has thus become crucial, as it will determine not just the revenue uplift in

2013, but will set the return parameter for potentially multiple years of spending. ATO has requested a $46mn rate increase premised on a 10.9% ROE. Management indicated it remains far apart in its negotiations with its customers in Mid-Tex, and now expects to go to a fully litigated decision in front of the Texas RRC this fall. ATO currently books a 9.7% ROE in Mid-Tex ex-Dallas (80% of customers) and 10.4% in Dallas but at one point accepted a 9.0% ROE for a Texas pipeline replacement program.

Atmos remains relatively bearish on a recovery in its non-regulated wholesale business due to weak natural gas price volatility, but does not appear interested in fully exiting the business. Finally, our discussions were notable in what was not discussed, i.e., M&A, where management did not seem particularly keen on executing a transaction, in contrast to its previously stated desire to add to growth via acquisition.

WGL Holdings (WGL): Getting bigger in non-regulated as others get smaller

WGL Holdings (WGL, Sell) continues to push deeper into non-regulated businesses, via Retail marketing, wholesale optimization, solar, commercial energy services, and now pipelines with its "Constitution" natural gas joint venture proposal. We discussed the $1bn Constitution pipeline at length, but came away feeling the project is still in its early days with significant commercial, construction, and permitting risk. Partners WGL and UGI (NC) would off take approximately one third of the 1.2 Bcf/d of capacity, leaving significant commercial effort required to bring the project into execution. And we expect Constitution would face high construction and permitting risk in trying to build through or near heavily populated areas in the Mid-Atlantic.

On the regulated side, WGL defended its decision to postpone setting new rates in Maryland until late 2013, as it believes it can better match recovery of returns on its pipeline integrity spending. Management is disappointed the MD legislature did not approve rider treatment and more real-time recovery of integrity spending, but it remains optimistic on the ultimate recovery of and return on that spending via the traditional rate case process.

Rating and pricing information

AGL Resources Inc. (N/C, $38.50), Atmos Energy Corp. (N/C, $32.69), ONEOK Partners, L.P. (S/N, $56.69), ONEOK, Inc. (N/N, $85.80), Spectra Energy Corp. (N/N, $30.36), TransCanada Corp. (N/N, C$43.16) and WGL Holdings, Inc. (S/C, $39.33)

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Reg AC

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HILLIARD LYONS

COMPANY UPDATE/ ESTIMATE CHANGE

Natural Gas Utilities
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November 12, 2012

Key Metrics

ATO - NYSE - as of	11/9/12		$34.92
Price Target			$39.00
52-Week Range		$30.39 -	$37.33
Shares Outstanding (mm)			90.2
Market Cap. ($mm)			$3,148.8
1-Mo. Average Daily Volume			358,158
Institutional Ownership			60.2%
LT Debt/Total Capital	Q4'12		45.3%
ROE	FY'12		9.2%
Book Value / Share	Q4'12		$25.86
Price / Book Value			1.4x
Dividend Yield			4.0%
LTM EBITDA Margin			16.0%

EPS FY 9/30 (ctd ops; ex MTM adj & one-time items)

	2011A	Prior 2012E	2012A	Prior 2013E	Current 2013E
1Q	$0.79	--	$0.59	--	$0.82
2Q	*$1.32	--	$1.24	--	$1.30
3Q	*$0.05	--	$0.31	--	$0.11
4Q	*$0.08	--	*$0.03	--	$0.06
Year	$2.24	$2.24	$2.17	$2.45	$2.29
P/E	15.6x		16.1x	--	15.2x

Exclusive of one-time items

Revenue ($MM)

	2011A	Prior 2012E	Current 2012E		Prior 2013E	Current 2013E
1Q	$1,133	--	$1,101	A	--	$1,169
2Q	$1,581	--	$1,246	A	--	$1,282
3Q	$844	--	$586	A	--	$581
4Q	$789	$683	--		--	$725
Year	$4,348	$3,614	--		$4,176	$3,757

Company Description: *Headquartered in Dallas, Texas, Atmos is one of the largest natural gas-only distributors in the US with customers in 9 states. ATO has non-utility operations in 22 states. It also provides natural gas marketing and procurement services and manages company owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Atmos Energy Corp.

ATO — NYSE — Long-term Buy-2

Fiscal Q4 and Full Year 2012 Results for ATO.

Investment Highlights

- Atmos Energy Corp. reported fiscal Q4'12 (ending 9/30/12) adjusted EPS of $0.12 vs. $0.09 in the year ago period. Full year fiscal '12 adjusted EPS of $2.31 equaled the adjusted figure from 2011. Though the company does not regularly discuss 'continuing operations' EPS, we believe the figure fell slightly from '11. **(see additional discussion)**
- On the regulated distribution side, gross profit gains from continuing operations were negligible for the year, though regulated storage and transmission saw increased margin of $28MM, or ~13%.
- Capital Expenditures in fiscal '12 grew to $733MM from $623MM in fiscal '11, with the bulk of yr/yr upside dedicated to growth Capex.
- On 11/7/12, ATO announced a ~1.5% increase in its dividend. The quarterly payout moves from $0.345/share to $0.35/share.
- Management issued EPS guidance for full year fiscal 2013 in the range of $2.40-$2.50, exclusive of mark-to-market adjustments and any gain on sale of the Georgia assets. We are trimming our 2013 continuing ops EPS estimate by $0.16 to $2.29, but note our adjusted figure comparable to company guidance is $2.43.
- We are maintaining our Long-term Buy rating on ATO and are keeping our $39 2-year price target. Our target is derived by applying a base 16x multiple to our 2013 continuing operations earnings estimate, though in addition, we allow for a $2 premium as we believe growth will continue into 2014. We believe this is appropriate given our positive view toward Atmos' growth strategy and the continuing low interest rate environment.

Note Important Disclosures on Pages 4-5
Note Analyst Certifications on Page 4

ADDITIONAL DISCUSSION

Earnings at Atmos continue to be difficult to interpret and digest as the company recorded several impairments in 2012, made a $10MM charitable donation, and realized a gain on the unwind of two Treasury lock agreements. Additionally, the company sold assets in Missouri, Illinois, and Iowa, and announced plans to divest its Georgia distribution assets, thus reclassifying material portions of its business to discontinued operations.

We believe more important to the Atoms story is the firm's focus on growing regulated rate base in core states where management believes ATO has critical mass, the best long-term growth prospects, and the most attractive regulatory environments. We mentioned in our opening points that the majority of the Capex increase is attributable to growth Capex, which are expenditures that the company expects to recover via surcharges and rate increases. This focus is the core of our investment thesis in ATO, as we believe regulated activities are more stable and predictable, and are worthy of higher valuation multiples.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation by customers in order to reduce consumption.

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. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities. Additionally, we anticipate a high level of capital expenditure over the coming years; inability to access the capital markets may negatively impact the company's growth prospects.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Atmos Energy Corp. FYE Sept

Income Statements (000's)	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12p	FY'12E	Q1'13E	Q2'13E	Q3'13E	Q4'13E	FY'13E
Operating Revenues												
Natural Gas Distribution	2,842,638	2,531,863	693,292	889,008	325,051			732,113	929,628	339,644	301,277	2,302,662
Regulated Transmission & Storage	203,013	219,373	56,759	58,037	67,073			61,300	62,680	72,439	73,442	269,861
Nonregulated	2,146,658	2,024,893	444,176	370,763	256,250			466,000	389,301	269,063	450,000	1,574,364
Intersegment eliminations	(472,474)	(428,495)	(93,054)	(74,358)	(62,543)			(90,000)	(100,000)	(100,000)	(100,000)	(390,000)
Total Operating Revenues	4,719,835	4,347,634	1,101,173	1,243,450	585,831			1,169,412	1,281,609	581,146	724,719	3,756,886
Purchased gas cost												
Natural gas distribution segment	1,820,627	1,487,499	402,207	508,206	124,373			439,268	539,184	135,858	123,524	1,237,833
Nonregulated segment	2,032,567	1,959,893	428,771	374,992	224,829			440,000	393,742	236,070	436,000	1,505,812
Intersegment eliminations	(470,864)	(426,999)	(92,687)	(74,009)	(62,161)			(89,000)	(99,000)	(99,000)	(99,000)	(386,000)
Total purchased gas cost	3,382,330	3,020,393	738,291	809,189	287,041			790,268	833,926	272,928	460,524	2,357,645
Gross profit	1,337,505	1,327,241	362,882	434,261	298,790	249,389	1,345,322	379,145	447,683	308,217	264,196	1,399,241
Operating Expenses												
Operations & Maintenance Exp	460,513	449,290	116,062	110,708	107,295	123,624	457,689	121,326	111,921	126,369	120,209	479,825
Depreciation & Amortization	211,589	227,099	59,215	60,272	59,819	60,783	240,089	60,399	61,477	60,417	61,391	243,685
Taxes, other than Income	188,252	178,683	43,198	54,919	46,887	36,903	181,907	37,914	57,303	67,808	36,987	200,013
Impairment of long-lived assets		30,270	-	-	-	5,288	5,288	-	-	-	-	-
Total Op Exp	860,354	885,342	218,475	225,899	214,001	226,598	884,973	219,640	230,702	254,594	218,587	923,523
Operating income	477,151	441,899	144,407	208,362	84,789	22,791	460,349	159,505	216,981	53,623	45,608	475,718
Other Income (Expense)												
Miscellaneous Income (Expense)	(156)	21,499	(1,875)	616	(1,948)	(11,059)	(14,266)	(1,875)	616	(1,948)	-	(3,207)
Total other income (expense)	(156)	21,499	(1,875)	616	(1,948)	(11,059)	(14,266)	(1,875)	616	(1,948)	-	(3,207)
Interest charges	154,360	150,825	35,442	36,660	34,923	33,896	140,921	34,896	34,896	34,896	34,896	139,584
Inc Cont'd Ops pre-tax	322,635	312,573	107,090	172,318	47,918	(22,164)	305,162	122,734	182,701	16,779	10,712	332,927
Income tax expense	124,362	113,689	41,302	66,408	17,774	(21,878)	103,606	47,866	63,946	6,544	5,249	123,605
Net Income Cont'd Ops	198,273	198,884	65,788	105,910	30,144	(286)	201,556	74,868	118,756	10,235	5,463	209,322
Income from Disc Ops	7,566	8,717	2,719	3,201	988	8,253	15,161	7,000	2,000	2,000	2,000	13,000
Net income	$205,839	$207,601	68,507	109,111	31,132	7,967	$216,717	81,868	120,756	12,235	7,463	$222,322
Average shares outstanding (FD)	92,422	90,652	90,546	90,322	90,993	91,224	90,771	91,324	91,424	92,939	95,969	
Net Income per Share	$2.20	$2.27	$0.75	$1.21	$0.34	$0.09	$2.37	$0.90	$1.32	$0.13	$0.08	$2.43
MTM gains (losses)	($0.05)	($0.07)	$0.14	($0.07)	$0.02	($0.14)	($0.05)					
One-time benefits (charges)	$0.05	$0.03	$0.00	$0.00	$0.00	$0.11	$0.11					
Adjusted EPS [Cont'd Ops]	$2.17	$2.24	$0.59	$1.24	$0.31	$0.03	$2.17	$0.82	$1.30	$0.11	$0.06	$2.29
Adjusted EPS	$2.20	$2.31	$0.61	$1.28	$0.32	$0.12	$2.31	$0.90	$1.32	$0.13	$0.08	$2.43
Dividends per share	$1.340	$1.360	$0.345	$0.345	$0.345	$0.345	$1.380	$0.350	$0.350	$0.350	$0.350	$1.400
Rate of Change Analysis:							**EPS Ex-MTM Guidance. $2.30-$2.40**					**EPS Ex-MTM & Gain on GA sale Guidance. $2.40-$2.50**
Gross margin	1.4%	-0.8%	-0.5%	-4.3%	12.0%	3.0%	1.4%	4.5%	3.1%	3.2%	5.9%	4.0%
Operating income	9.3%	-7.4%	-7.0%	-1.3%	148.8%	-44.9%	4.2%	10.5%	4.1%	-36.8%	100.1%	3.3%
EBITDA	6.2%	-2.9%	-3.1%	0.7%	58.9%	-17.5%	4.7%	8.0%	3.7%	-21.1%	28.0%	2.7%
Margin Analysis:												
O&M/GM	34.4%	33.9%	32.0%	25.5%	35.9%	49.6%	34.0%	32.0%	25.0%	41.0%	45.5%	34.3%
D&A/GM	15.8%	17.1%	16.3%	13.9%	20.0%	24.4%	17.8%	15.9%	13.7%	19.6%	23.2%	17.4%
Taxes, other than income/GM	14.1%	13.5%	11.9%	12.6%	15.7%	14.8%	13.5%	10.0%	12.8%	22.0%	14.0%	14.3%
Operating income/GM	35.7%	33.3%	39.8%	48.0%	28.4%	9.1%	34.2%	42.1%	48.5%	17.4%	17.3%	34.0%
Net income/GM	15.4%	15.6%	18.9%	25.1%	10.4%	3.2%	16.1%	21.6%	27.0%	4.0%	2.8%	15.9%
Tax rate	38.5%	36.4%	38.6%	38.5%	37.1%	98.7%	34.0%	39.0%	35.0%	39.0%	49.0%	37.1%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

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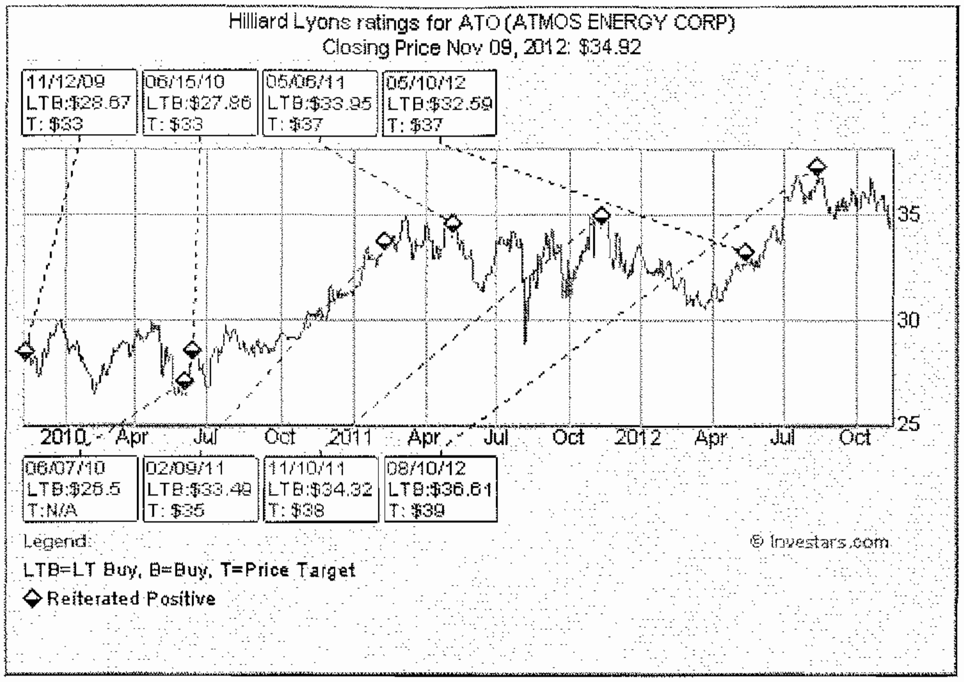
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high 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.
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.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	59	44%	10%	90%
Hold/Neutral	69	51%	10%	90%
Sell	4	3%	0%	100%
Restricted	2	1%	100%	0%

As of 7 November 2012

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August 10, 2012

COMPANY UPDATE/ TARGET CHANGE
ESTIMATE CHANGE

Key Metrics

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Price Target		$39.00
52-Week Range		$28.51 - $37.33
Shares Outstanding (mm)		90.0
Market Cap. ($mm)		$3,296.0
1-Mo. Average Daily Volume		606,455
Institutional Ownership		58.0%
LT Debt/Total Capital	Q3'12	45.4%
ROE	FY'11	9.2%
Book Value / Share	Q3'12	$25.88
Price / Book Value		1.4x
Dividend Yield		3.8%
LTM EBITDA Margin		16.0%

EPS FY 9/30 (ctd ops; ex MTM adj & one-time items)

	2011A	Prior 2012E	Current 2012E		Prior 2013E	Current 2013E
1Q	$0.79	--	$0.59	A	--	--
2Q	*$1.32	--	$1.24	A	--	--
3Q	*$0.05	--	$0.31	A	--	--
4Q	*$0.08	$0.22	$0.10		--	--
Year	$2.24	$2.28	$2.24		$2.55	$2.45
P/E	16.4x		16.3x		--	14.9x

**Exclusive of one-time items*

Revenue ($MM)

	2011A	Prior 2012E	Current 2012E		Prior 2013E	Current 2013E
1Q	$1,133	--	$1,101	A	--	--
2Q	$1,581	--	$1,246	A	--	--
3Q	$844	--	$586	A	--	--
4Q	$789	$733	$683		--	--
Year	$4,348	$3,999	$3,614		$4,294	$4,176

Company Description: *Headquartered in Dallas, Texas, Atmos is the largest natural gas-only distributor in the US. It serves more than three million utility customers in 12 states, and has non-utility operations in 22 states. It also provides natural gas marketing and procurement services and manages company owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Atmos Energy Corp.

ATO — NYSE — Long-term Buy-2

Fiscal Q3'12 Results; Raising Price Target.

Investment Highlights

- Atmos Energy Corp. reported fiscal Q3'12 (ending 6/30/12) adjusted EPS from continuing operations of $0.31 vs. $0.05 in the year ago period. Our estimate called for $0.17/share and consensus stood at $0.16/share.
- The strong increase in year-over-year EPS for the quarter was largely attributable to the non-regulated segment, which realized benefit from transactions entered into during 1H'12.
- In the quarter, gross margin from continuing operations increased negligibly for the distribution segment, though the regulated storage and transmission segment posted a gain of ~$13.5MM, or ~25%.
- Management reiterated EPS guidance for full year 2012 in the range of $2.30-$2.40, though this includes discontinued operations and an anticipated ~$0.06/share gain on the sale of MO, IL and IA assets. Despite the upside to Q3, our full year 2012 EPS estimate for continuing ops falls by $0.04 to $2.24 due to an adjustment for discontinued operations. Also due to discontinued ops, our 2013 EPS target falls by $0.10 to $2.45.
- We are maintaining our Long-term Buy rating on ATO, but are raising our two-year price target by $2 to $39. We derive our target by applying a 16x multiple to our 2013 earnings estimate. While 16x represents a premium to ATO's realized P/E multiple over the past several years, we believe this is appropriate given our positive view of company prospects and the continuing low interest rate environment.

Note Important Disclosures on Pages 4-5
Note Analyst Certifications on Page 4

ADDITIONAL DISCUSSION

The upside on a year over year basis was quite dramatic this quarter, though we remind investors that this was somewhat anticipated as margin locked in during 1H'12 was realized. This process may impact Q4 as well, but moving forward we believe the major story for Atmos remains regulated infrastructure investment and the resulting rate case awards and recovery mechanism adjustments. Year-to-date cap ex spend is nearly $500MM, roughly $100MM above year-ago levels for the comparable period. The majority of the increase is attributable to growth-oriented investment, which is expected to eventually be recovered via rate increases. The company expects to grow rate base through 2016 at a compound annual growth rate of 8%-8.5%, up from 6%-6.5% previously.

ATO completed the sale of its MO, IA and IL distribution assets on August 1, and utilized the net proceeds of ~$129MM to pay down commercial paper. Additionally, the company recently announced the sale of gas distribution assets in Georgia; ATO will offload ~64k customer meters for an estimated all-cash price of $141MM. Though these transactions may seem counter to company strategy and may detract from EPS over the near-term, we believe the divestitures will allow the company to focus on and deploy cash into its areas that offer the greatest growth potential.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation by customers in order to reduce consumption.

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. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities. Additionally, we anticipate a high level of capital expenditure over the coming years; inability to access the capital markets may negatively impact the company's growth prospects.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Atmos Energy Corp. FYE Sept

Income Statements (000's)	FY'09	FY'10	Q1'11	Q2'11	Q3'11	Q4'11	FY'11	Q1'12	Q2'12	Q3'12	Q4'12E	FY'12E	FY'13E
Operating revenues													
Natural gas distribution segment	**2,884,796**	**2,842,638**	703,462	1,077,414	407,031	343,956	**2,531,863**	693,292	889,008	325,051	293,934	**2,201,285**	**2,316,313**
Regulated transmission and storage	**209,658**	**203,013**	49,007	54,976	53,570	61,820	**219,373**	56,759	58,037	67,073	68,002	**249,871**	**269,861**
Nonregulated segment	**2,283,988**	**2,146,658**	475,640	583,531	491,285	474,437	**2,024,893**	444,176	370,763	256,250	411,153	**1,482,342**	**1,980,000**
Intersegment eliminations	**(509,331)**	**(472,474)**	(94,847)	(134,424)	(108,271)	(90,953)	**(428,495)**	(93,054)	(74,358)	(62,543)	(90,000)	**(319,955)**	**(390,000)**
Total operating revenues	**4,869,111**	**4,719,835**	1,133,262	1,581,497	843,615	789,260	**4,347,634**	1,101,173	1,243,450	585,831	683,089	**3,613,543**	**4,176,174**
Purchased gas cost													
Natural gas distribution segment	**1,887,192**	**1,820,627**	412,526	698,410	206,839	169,724	**1,487,499**	402,207	508,206	124,373	117,374	**1,152,160**	**1,239,308**
Nonregulated segment	**2,169,880**	**2,032,567**	450,462	563,473	477,880	468,078	**1,959,893**	428,771	374,992	224,829	402,930	**1,431,522**	**1,886,000**
Intersegment eliminations	**(507,639)**	**(470,864)**	(94,450)	(134,054)	(107,909)	(90,586)	**(426,999)**	(92,687)	(74,009)	(62,161)	(89,000)	**(317,857)**	**(386,000)**
Total purchased gas cost	**3,549,433**	**3,382,330**	768,538	1,127,829	576,810	547,216	**3,020,393**	738,291	809,189	287,041	431,303	**2,265,824**	**2,739,308**
Gross profit	**1,319,678**	**1,337,505**	364,724	453,668	266,805	242,044	**1,327,241**	362,882	434,261	298,790	251,785	**1,347,718**	**1,436,866**
Operating expenses													
Operation and maintenance expense	**485,704**	**460,513**	114,490	114,162	112,665	107,973	**449,290**	116,062	110,708	107,295	105,750	**439,815**	**486,402**
Depreciation and amortization	**211,984**	**211,589**	54,777	55,467	56,932	59,923	**227,099**	59,215	60,272	59,819	61,614	**240,920**	**244,524**
Taxes, other than income	**180,242**	**188,252**	40,168	53,558	52,142	32,815	**178,683**	43,198	54,919	46,887	32,732	**177,736**	**202,786**
Impairment of long-lived assets	**5,382**			19,282	10,988		**30,270**			-			
Total operating expenses	**883,312**	**860,354**	209,435	242,469	232,727	200,711	**885,342**	218,475	225,899	214,001	200,096	**858,471**	**933,712**
Operating income	**436,366**	**477,151**	155,289	211,199	34,078	41,333	**441,899**	144,407	208,362	84,789	51,690	**489,248**	**503,154**
Other income (expense)													
Miscellaneous income (expense)	**(3,067)**	**(156)**	(726)	26,202	(1,430)	(2,547)	**21,499**	(1,875)	616	(1,948)	(2,547)	**(5,754)**	**(5,754)**
Total other income (expense)	**(3,067)**	**(156)**	(726)	26,202	(1,430)	(2,547)	**21,499**	(1,875)	616	(1,948)	(2,547)	**(5,754)**	**(5,754)**
Interest charges	**152,638**	**154,360**	38,895	37,875	35,845	38,210	**150,825**	35,442	36,660	34,923	34,923	**141,948**	**143,692**
Inc Cont'd Ops pre-tax	**280,661**	**322,635**	115,668	199,526	(3,197)	576	**312,573**	107,090	172,318	47,918	14,220	**341,546**	**353,708**
Income tax expense	**97,362**	**124,362**	44,568	71,366	(1,723)	(522)	**113,689**	41,302	66,408	17,774	5,546	**131,030**	**130,034**
Net Income Cont'd Ops	**183,299**	**198,273**	71,100	128,160	(1,474)	1,098	**198,884**	65,788	105,910	30,144	8,674	**210,516**	**223,674**
Income from discontinued operations	**7,679**	**7,566**	2,897	4,049	908	863	**8,717**	2,719	3,201	988	250	**7,158**	**8,500**
Net income	**$190,978**	**$205,839**	73,997	132,209	(566)	1,961	**$207,601**	68,507	109,111	31,132	8,924	**$217,674**	**$232,174**
Average shares outstanding (FD)	**91,620**	**92,422**	90,408	90,533	90,127	90,576	**90,652**	90,546	90,322	90,993	90,993	**90,714**	**92,708**
Net Income per Share	**$2.07**	**$2.20**	$0.81	$1.45	($0.01)	$0.02	**$2.27**	$0.75	$1.21	$0.34	$0.10	**$2.40**	**$2.54**
MTM gains (losses)	**($0.23)**	**($0.05)**	$0.00	($0.02)	$0.00	($0.05)	**($0.07)**	$0.14	($0.07)	$0.02			
One-time benefits (charges)	**$0.19**	**$0.05**	$0.00	$0.12	($0.07)	($0.02)	**$0.03**	$0.00	$0.00	$0.00			
Adjusted EPS Cont'd Ops	**$2.11**	**$2.17**	$0.79	$1.32	$0.05	$0.08	**$2.24**	$0.59	$1.24	$0.31	$0.10	**$2.24**	**$2.45**
Dividends per share	**$1.320**	**$1.340**	$0.335	$0.340	$0.340	$0.340	**$1.355**	$0.340	$0.345	$0.345	$0.345	**$1.375**	**$1.395**
												EPS Ex-MTM Guidance. $2.30-$2.40	

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Joel K. Havard, 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.

I, Spencer E. Joyce, 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

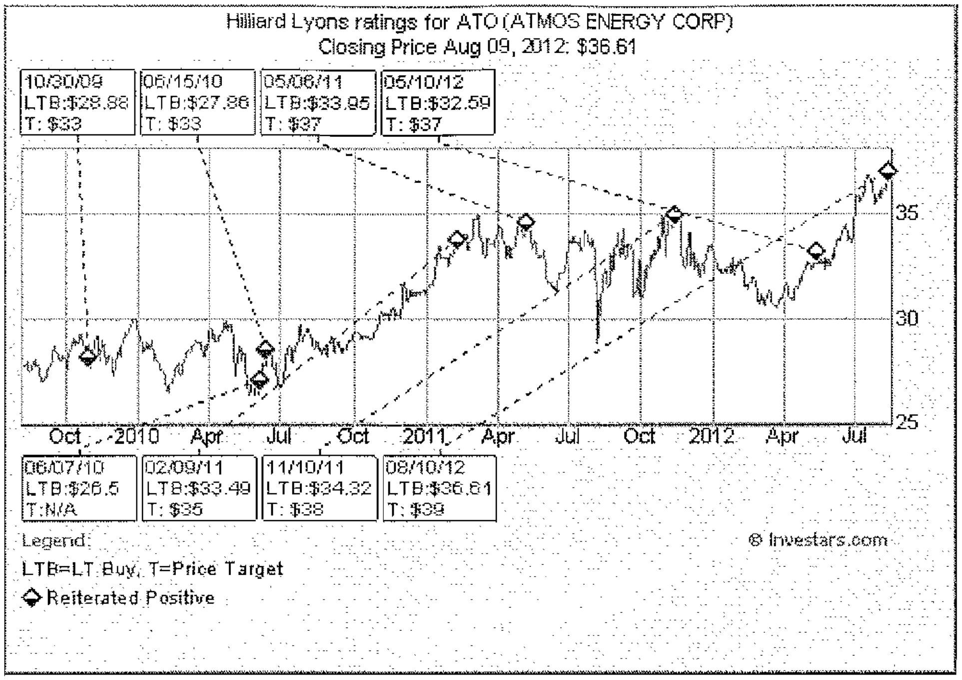
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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.
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.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	61	46%	8%	92%
Hold/Neutral	64	48%	2%	98%
Sell	4	3%	0%	100%
Restricted	3	2%	100%	0%

As of 8 August 2012

Other Disclosures

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HILLIARD LYONS

Natural Gas Utilities
James O. Lykins
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February 8, 2012

COMPANY UPDATE/ESTIMATE CHANGE

Atmos Energy Corp.

ATO -- NYSE -- Long-term Buy-2

FQ1 Results

Investment Highlights

- ATO reported FQ1'12 (ended December 31) EPS of $0.61 versus $0.81, compared to the consensus $0.84 and our $0.83 forecast. However, results are exclusive of unrealized margins, much of which should benefit 2H'12. Results were primarily negatively impacted by the nonregulated segment, although the company expects to generate positive results in 2H'12 due to margins captured from forward spread values during the quarter that are anticipated to be realized in 2H'12 when contracts expire and gains are recognized.
- Natural gas distribution gross profit increased negligibly to $291.1M, driven by the positive impact of rate increases that were largely offset by weather normalization adjustment revisions. Regulated transmission and storage gross profit increased 15.8% to $56.8M mostly as a result of rate design changes from the Atmos Pipeline – Texas rate case last May. Nonregulated gross profit fell 38.8% to $15.4M driven by a decrease in realized asset optimization margins. Overall gross profit declined 1.0% to $362.9M and O&M rose 1.4% to $116.1M, and rose just negligibly excluding the provision for doubtful accounts.
- Rates will likely drive near-term growth, and ATO believes it will grow rate base 6.0%-6.5% over the next five years. It also has ~$66M in rate requests outstanding, with plans to file another 10-15 cases in FY'12 totaling $20M-$30M in the aggregate.
- ATO reiterated FY'12 guidance of $2.30-$2.40. We are decreasing our FY'12 EPS estimate by $0.06 to $2.30, but our FY'13 estimate of $2.55 is unchanged. We maintain our $38 price target, which we derive using a multiple of 15x our FY'13 EPS estimate, which we believe is justified given the company's historical trading range and growth prospects.

Key Metrics

ATO - NYSE (as of 2/7/12)	$32.87
Price Target	$38.00
52-Week Range	$35.55-$28.51
Shares Outstanding (mm)	90.5
Market Cap. ($mm)	$2,970.3
3-Mo. Average Daily Volume	348,312
Institutional Ownership	56.9%
LT Debt/Total Capital (12/11)	53.4%
ROE (12/11)	10.7%
Book Value/Share (12/11)	$25.03
Price/Book Value	1.3x
Dividend Yield	4.2%
LTM EBITDA Margin	52.0%

EPS FY 9/30 (excl. unrealized gains/losses & one-time items)

	2011A	Prior 2012E	Curr. 2012E	Prior 2013E	Curr. 2013E
1Q	$0.81	--	$0.61A	--	--
2Q	*$1.35	$1.49	$1.39	--	--
3Q	*$0.05	$0.00	$0.15	--	--
4Q	$0.02	$0.03	$0.15	--	--
Year	*$2.23	$2.36	$2.30	--	$2.55
P/E	14.7x		14.3x		12.9x

**Exclusive of one-time items*

Revenue ($mm)

	2011A	Prior 2012E	Curr. 2012E	Prior 2013E	Curr. 2013E
1Q	$1,157	--	$1,179	--	--
2Q	$1,617	--	$1,676	--	--
3Q	$844	--	$861	--	--
4Q	$789	--	$716	--	--
Year	$4,407	$4,484	$4,432	$4,513	$4,451

Company Description: *Atmos Energy Corp. is headquartered in Dallas, Texas, and is the largest natural gas-only distributor in the United States. It serves more than three million utility customers in more than 1,600 communities in 12 states, and has non-utility operations in 22 states. It provides natural gas marketing and procurement services to industrial, commercial, and municipal customers, and manages company owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Note Important Disclosures on Pages 3 and 4.
Note Analyst Certification on Page 3.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from a lower volume of natural gas sold or transported, while extremely cold weather may lead to conservation by customers in order to reduce consumption. Weather can also have a negative effect on the company's agricultural sales associated with rainfall.

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. Regulatory commissions and policies vary from state to state, 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.

Additional information is available upon request.

Analyst Certification

I, James O. Lykins, 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

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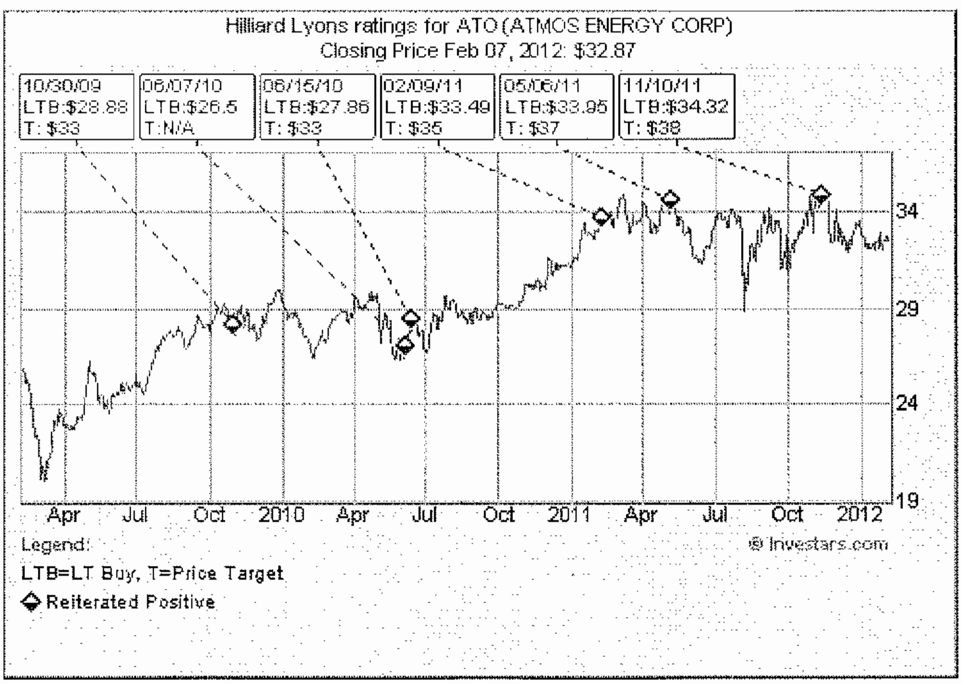
Investment Ratings

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.
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 decline in the next 12 months.

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 revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	64	47%	6%	94%
Hold/Neutral	69	51%	0%	100%
Sell	2	1%	0%	100%
Restricted	1	1%	100%	0%

As of 7 February 2012

Other Disclosures

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HILLIARD LYONS

COMPANY UPDATE/ ESTIMATE CHANGE

Natural Gas Utilities
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jhavard@hilliard.com // sjoyce@hilliard.com
November 12, 2012

Key Metrics

ATO - NYSE - as of	11/9/12		$34.92
Price Target			$39.00
52-Week Range		$30.39 -	$37.33
Shares Outstanding (mm)			90.2
Market Cap. ($mm)			$3,148.8
1-Mo. Average Daily Volume			358,158
Institutional Ownership			60.2%
LT Debt/Total Capital	Q4'12		45.3%
ROE	FY'12		9.2%
Book Value / Share	Q4'12		$25.86
Price / Book Value			1.4x
Dividend Yield			4.0%
LTM EBITDA Margin			16.0%

EPS FY 9/30 (ctd ops; ex MTM adj & one-time items)

	2011A	Prior 2012E	2012A	Prior 2013E	Current 2013E
1Q	$0.79	--	$0.59	--	$0.82
2Q	*$1.32	--	$1.24	--	$1.30
3Q	*$0.05	--	$0.31	--	$0.11
4Q	*$0.08	--	*$0.03	--	$0.06
Year	$2.24	$2.24	$2.17	$2.45	$2.29
P/E	15.6x		16.1x	--	15.2x

**Exclusive of one-time items*

Revenue ($MM)

	2011A	Prior 2012E	Current 2012E		Prior 2013E	Current 2013E
1Q	$1,133	--	$1,101	A	--	$1,169
2Q	$1,581	--	$1,246	A	--	$1,282
3Q	$844	--	$586	A	--	$581
4Q	$789	$683	--		--	$725
Year	$4,348	$3,614	--		$4,176	$3,757

Company Description: *Headquartered in Dallas, Texas, Atmos is one of the largest natural gas-only distributors in the US with customers in 9 states. ATO has non-utility operations in 22 states. It also provides natural gas marketing and procurement services and manages company owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Atmos Energy Corp.

ATO — NYSE — Long-term Buy-2

Fiscal Q4 and Full Year 2012 Results for ATO.

Investment Highlights

- Atmos Energy Corp. reported fiscal Q4'12 (ending 9/30/12) adjusted EPS of $0.12 vs. $0.09 in the year ago period. Full year fiscal '12 adjusted EPS of $2.31 equaled the adjusted figure from 2011. Though the company does not regularly discuss 'continuing operations' EPS, we believe the figure fell slightly from '11. **(see additional discussion)**
- On the regulated distribution side, gross profit gains from continuing operations were negligible for the year, though regulated storage and transmission saw increased margin of $28MM, or ~13%.
- Capital Expenditures in fiscal '12 grew to $733MM from $623MM in fiscal '11, with the bulk of yr/yr upside dedicated to growth Capex.
- On 11/7/12, ATO announced a ~1.5% increase in its dividend. The quarterly payout moves from $0.345/share to $0.35/share.
- Management issued EPS guidance for full year fiscal 2013 in the range of $2.40-$2.50, exclusive of mark-to-market adjustments and any gain on sale of the Georgia assets. We are trimming our 2013 continuing ops EPS estimate by $0.16 to $2.29, but note our adjusted figure comparable to company guidance is $2.43.
- We are maintaining our Long-term Buy rating on ATO and are keeping our $39 2-year price target. Our target is derived by applying a base 16x multiple to our 2013 continuing operations earnings estimate, though in addition, we allow for a $2 premium as we believe growth will continue into 2014. We believe this is appropriate given our positive view toward Atmos' growth strategy and the continuing low interest rate environment.

Note Important Disclosures on Pages 4-5
Note Analyst Certifications on Page 4

ADDITIONAL DISCUSSION

Earnings at Atmos continue to be difficult to interpret and digest as the company recorded several impairments in 2012, made a $10MM charitable donation, and realized a gain on the unwind of two Treasury lock agreements. Additionally, the company sold assets in Missouri, Illinois, and Iowa, and announced plans to divest its Georgia distribution assets, thus reclassifying material portions of its business to discontinued operations.

We believe more important to the Atoms story is the firm's focus on growing regulated rate base in core states where management believes ATO has critical mass, the best long-term growth prospects, and the most attractive regulatory environments. We mentioned in our opening points that the majority of the Capex increase is attributable to growth Capex, which are expenditures that the company expects to recover via surcharges and rate increases. This focus is the core of our investment thesis in ATO, as we believe regulated activities are more stable and predictable, and are worthy of higher valuation multiples.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation by customers in order to reduce consumption.

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. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities. Additionally, we anticipate a high level of capital expenditure over the coming years; inability to access the capital markets may negatively impact the company's growth prospects.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Atmos Energy Corp. FYE Sept

Income Statements (000's)	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12p	FY'12E	Q1'13E	Q2'13E	Q3'13E	Q4'13E	FY'13E
Operating Revenues												
Natural Gas Distribution	**2,842,638**	**2,531,863**	693,292	889,008	325,051			732,113	929,628	339,644	301,277	**2,302,662**
Regulated Transmission & Storage	**203,013**	**219,373**	56,759	58,037	67,073			61,300	62,680	72,439	73,442	**269,861**
Nonregulated	**2,146,658**	**2,024,893**	444,176	370,763	256,250			466,000	389,301	269,063	450,000	**1,574,364**
Intersegment eliminations	**(472,474)**	**(428,495)**	(93,054)	(74,358)	(62,543)			(90,000)	(100,000)	(100,000)	(100,000)	**(390,000)**
Total Operating Revenues	**4,719,835**	**4,347,634**	1,101,173	1,243,450	585,831			1,169,412	1,281,609	581,146	724,719	**3,756,886**
Purchased gas cost												
Natural gas distribution segment	**1,820,627**	**1,487,499**	402,207	508,206	124,373			439,268	539,184	135,858	123,524	**1,237,833**
Nonregulated segment	**2,032,567**	**1,959,893**	428,771	374,992	224,829			440,000	393,742	236,070	436,000	**1,505,812**
Intersegment eliminations	**(470,864)**	**(426,999)**	(92,687)	(74,009)	(62,161)			(89,000)	(99,000)	(99,000)	(99,000)	**(386,000)**
Total purchased gas cost	**3,382,330**	**3,020,393**	738,291	809,189	287,041			790,268	833,926	272,928	460,524	**2,357,645**
Gross profit	**1,337,505**	**1,327,241**	362,882	434,261	298,790	249,389	**1,345,322**	379,145	447,683	308,217	264,196	**1,399,241**
Operating Expenses												
Operations & Maintenance Exp	**460,513**	**449,290**	116,062	110,708	107,295	123,624	**457,689**	121,326	111,921	126,369	120,209	**479,825**
Depreciation & Amortization	**211,589**	**227,099**	59,215	60,272	59,819	60,783	**240,089**	60,399	61,477	60,417	61,391	**243,685**
Taxes, other than Income	**188,252**	**178,683**	43,198	54,919	46,887	36,903	**181,907**	37,914	57,303	67,808	36,987	**200,013**
Impairment of long-lived assets		**30,270**	-	-	-	5,288	**5,288**	-	-	-	-	-
Total Op Exp	**860,354**	**885,342**	218,475	225,899	214,001	226,598	**884,973**	219,640	230,702	254,594	218,587	**923,523**
Operating income	**477,151**	**441,899**	144,407	208,362	84,789	22,791	**460,349**	159,505	216,981	53,623	45,608	**475,718**
Other Income (Expense)												
Miscellaneous Income (Expense)	**(156)**	**21,499**	(1,875)	616	(1,948)	(11,059)	**(14,266)**	(1,875)	616	(1,948)	-	**(3,207)**
Total other income (expense)	**(156)**	**21,499**	(1,875)	616	(1,948)	(11,059)	**(14,266)**	(1,875)	616	(1,948)	-	**(3,207)**
Interest charges	**154,360**	**150,825**	35,442	36,660	34,923	33,896	**140,921**	34,896	34,896	34,896	34,896	**139,584**
Inc Cont'd Ops pre-tax	**322,635**	**312,573**	107,090	172,318	47,918	(22,164)	**305,162**	122,734	182,701	16,779	10,712	**332,927**
Income tax expense	**124,362**	**113,689**	41,302	66,408	17,774	(21,878)	**103,606**	47,866	63,946	6,544	5,249	**123,605**
Net Income Cont'd Ops	**198,273**	**198,884**	65,788	105,910	30,144	(286)	**201,556**	74,868	118,756	10,235	5,463	**209,322**
Income from Disc Ops	**7,566**	**8,717**	2,719	3,201	988	8,253	**15,161**	7,000	2,000	2,000	2,000	**13,000**
Net income	**$205,839**	**$207,601**	68,507	109,111	31,132	7,967	**$216,717**	81,868	120,756	12,235	7,463	**$222,322**
Average shares outstanding (FD)	**92,422**	**90,652**	90,546	90,322	90,993	91,224	**90,771**	91,324	91,424	92,939	95,969	
Net Income per Share	**$2.20**	**$2.27**	$0.75	$1.21	$0.34	$0.09	**$2.37**	$0.90	$1.32	$0.13	$0.08	**$2.43**
MTM gains (losses)	**($0.05)**	**($0.07)**	$0.14	($0.07)	$0.02	($0.14)	**($0.05)**					
One-time benefits (charges)	**$0.05**	**$0.03**	$0.00	$0.00	$0.00	$0.11	**$0.11**					
Adjusted EPS [Cont'd Ops]	**$2.17**	**$2.24**	$0.59	$1.24	$0.31	$0.03	**$2.17**	$0.82	$1.30	$0.11	$0.06	**$2.29**
Adjusted EPS	**$2.20**	**$2.31**	$0.61	$1.28	$0.32	$0.12	**$2.31**	$0.90	$1.32	$0.13	$0.08	**$2.43**
Dividends per share	**$1.340**	**$1.360**	$0.345	$0.345	$0.345	$0.345	**$1.380**	$0.350	$0.350	$0.350	$0.350	**$1.400**
Rate of Change Analysis:							**EPS Ex-MTM Guidance. $2.30-$2.40**					**EPS Ex-MTM & Gain on GA sale Guidance. $2.40-$2.50**
Gross margin	**1.4%**	**-0.8%**	-0.5%	-4.3%	12.0%	3.0%	**1.4%**	4.5%	3.1%	3.2%	5.9%	**4.0%**
Operating income	**9.3%**	**-7.4%**	-7.0%	-1.3%	148.8%	-44.9%	**4.2%**	10.5%	4.1%	-36.8%	100.1%	**3.3%**
EBITDA	**6.2%**	**-2.9%**	-3.1%	0.7%	58.9%	-17.5%	**4.7%**	8.0%	3.7%	-21.1%	28.0%	**2.7%**
Margin Analysis:												
O&M/GM	**34.4%**	**33.9%**	32.0%	25.5%	35.9%	49.6%	**34.0%**	32.0%	25.0%	41.0%	45.5%	**34.3%**
D&A/GM	**15.8%**	**17.1%**	16.3%	13.9%	20.0%	24.4%	**17.8%**	15.9%	13.7%	19.6%	23.2%	**17.4%**
Taxes, other than income/GM	**14.1%**	**13.5%**	11.9%	12.6%	15.7%	14.8%	**13.5%**	10.0%	12.8%	22.0%	14.0%	**14.3%**
Operating income/GM	**35.7%**	**33.3%**	39.8%	48.0%	28.4%	9.1%	**34.2%**	42.1%	48.5%	17.4%	17.3%	**34.0%**
Net income/GM	**15.4%**	**15.6%**	18.9%	25.1%	10.4%	3.2%	**16.1%**	21.6%	27.0%	4.0%	2.8%	**15.9%**
Tax rate	**38.5%**	**36.4%**	38.6%	38.5%	37.1%	98.7%	**34.0%**	39.0%	35.0%	39.0%	49.0%	**37.1%**

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Joel K. Havard, 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.

I, Spencer E. Joyce, 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

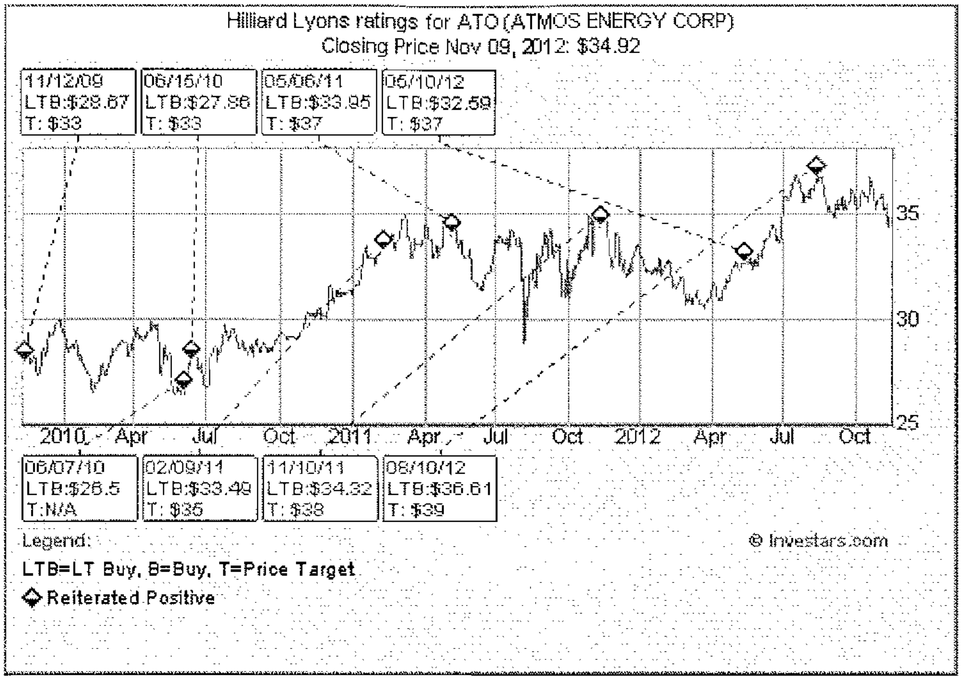
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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.
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.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	59	44%	10%	90%
Hold/Neutral	69	51%	10%	90%
Sell	4	3%	0%	100%
Restricted	2	1%	100%	0%

As of 7 November 2012

Other Disclosures

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HILLIARD LYONS

Utilities Monthly

Natural Gas and Water

July 2012

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To obtain important disclosure information regarding Hilliard Lyons' rating system, valuation methods, risk factors and potential conflicts of interest with respect to the companies covered in this report, please call (800) 444-1854 ext. 8820, send a request via e-mail to RsLib@hilliard.com, or go online to http://hilliard.com/site/market-info/research-disclosures.html. Requests should include the name and date of this report and a list of companies for which the disclosure information is requested.

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Note Analyst Certifications on page 25

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Natural Gas Utilities

PRICE PERFORMANCE

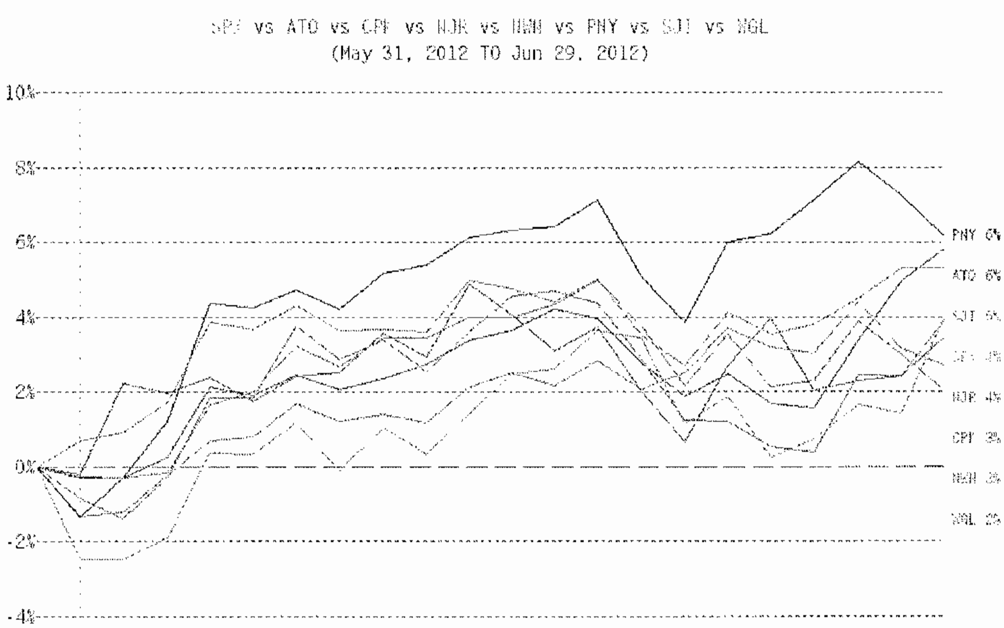
June marked the third month in a row of aggregate outperformance for our covered gas utilities versus the S&P 500, though our group traded somewhat in tandem with the broader market. Our covered names gained an average of 4.20% during June, versus an S&P 500 gain of 3.96% **(Exhibit 1)**. Breaking a string of three months of Atmos Energy (ATO) being the best performer in our coverage group, Piedmont Natural Gas (PNY) was our top stock in June, edging out ATO with a gain of 6.17%. WGL Holdings, Inc. (WGL) paced the laggards with a gain of only 2.05%. WGL's underperformance broke a streak of three consecutive months in which New Jersey Resources was our most disappointing name.

Through the first half of 2012 our covered gas utilities have declined an average of 4.53%, underperforming the S&P 500, which had gained 8.31% through the end of June **(Exhibit 2).**

For the trailing 52 weeks ending June 29, 2012, **(Exhibit 3)** our group's average return is roughly in line with the +2% posted by the S&P 500. Over the period, five of our names have beaten the S&P large-cap index, while two have lagged; the range of performance spans from -7% (SJI) to +8% (CPK). We remind investors however, the performance figures we have discussed thus far disregard dividend income.

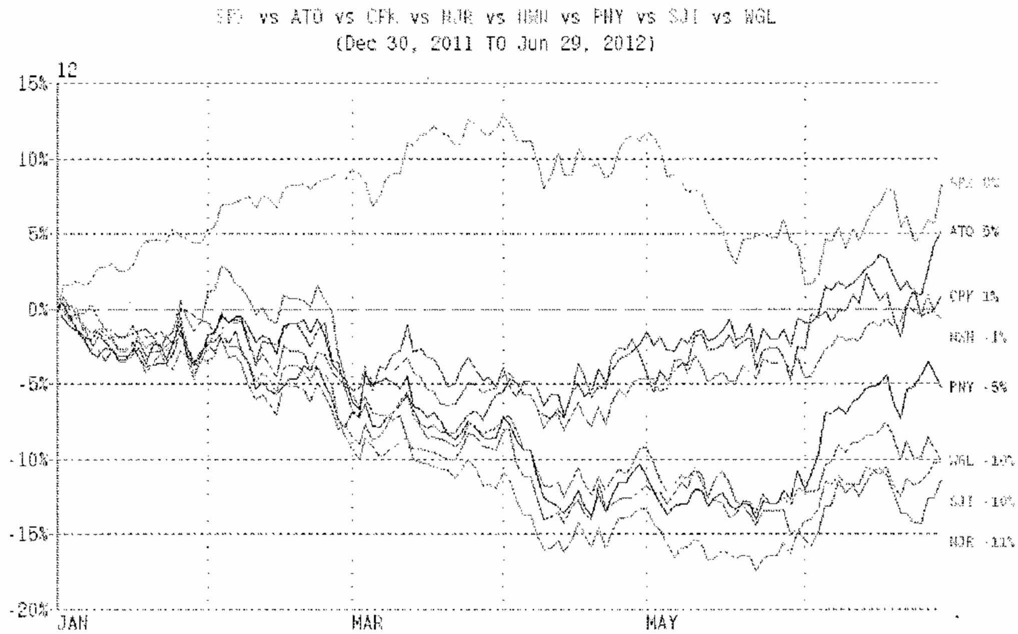
We held our ratings steady for each of our gas utilities during June, though we did issue an update note on PNY in which we raised full-year 2012 and 2013 estimates. Additionally, we raised our price target on Chesapeake Utilities from $45 to $48 early in July. We continue to recommend ATO, CPK and WGL for purchase; we maintain Neutral ratings on NJR, NWN, PNY, and SJI.

Exhibit 1
Hilliard Lyons Covered Gas Utilities Monthly Price Performance vs. S&P 500—Daily Chart



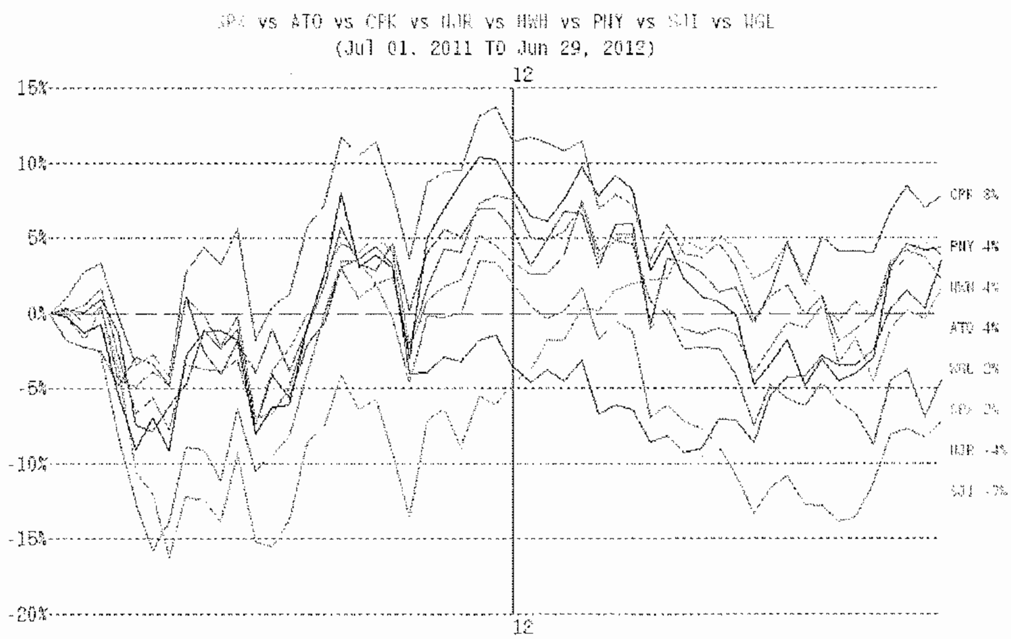
Source: Baseline

Exhibit 2
Hilliard Lyons Covered Gas Utilities YTD Price Performance vs. S&P 500—Daily Chart



Source: Baseline

Exhibit 3
Hilliard Lyons Covered Gas Utilities One-Year Price Performance vs. S&P 500—Weekly Chart



Source: Baseline

COMMENTARY AND OUTLOOK

June marked quarter end for six of our seven covered gas utilities; we look for earnings reports to hit the wire during late July-early August. ATO, NJR and WGL will be reporting numbers for fiscal Q3s, while CPK, NWN and SJI will be releasing fiscal Q2 results. During the winter months in which gas utilities typically earn the bulk of their profits, weather is a fairly constant issue; however, as we receive the upcoming cycle of reports, we will be monitoring a wider range of company-specific issues. In a slight departure from our usual format for our monthly commentary, we will briefly discuss an issue or two we will be focusing on for each of our companies preparing to report.

Atmos Energy: During the first half of fiscal 2012, non-regulated operations were a significant drag on year-over-year results; however, we believe a significant amount of margin was 'locked in' through transactions in 1H'12 that will be realized in 2H'12. With ATO's upcoming fiscal Q3'12 release, we look forward to realizing some of the first benefits from these transactions.

Chesapeake Utilities Corp: Top on our list of points-of-interest with respect to CPK is the pending acquisition in Worcester County, Maryland. We anticipate that the company will disclose some of the financial details of the transaction, which will hopefully allow us to better project the potential EPS and balance sheet impacts of the purchase.

New Jersey Resources: An item will be closely looking for in conjunction with the NJR release will be any guidance toward how many dollars worth of solar investment may be placed into service in 2013. Any decline from the ~$100MM figure the company placed in 2012 will, in our opinion, likely lead to lower year-over-year EPS for the full year 2013.

Northwest Natural Gas: We look forward to discussing any potential upside to the storage operations in relation to recent natural gas price moves. May and June saw a substantial rebound in raw gas prices, and should the Mist and Gill Ranch facilities be firming, our overall outlook for the company would likely improve.

Piedmont Natural Gas: Though PNY's current quarter does not end until 7/31, when the company does announce its quarter, we will be looking for impact from the recently completed Wayne County power generation project.

South Jersey Industries: While some of our criticisms of SJI have been based on their solar exposure, going forward we are more concerned with growth in the core utility. Management believes regulated operations should ultimately grow faster than the non-regulated business, and we will be looking toward customer conversion and utility expansion to gauge the plausibility and success of this idea.

WGL Holdings: Our top priority in relation to WGL is the Commonwealth Pipeline. The ~$1B project wrapped up its 'open season' bidding process several weeks ago, and we look forward to further clarity on how the project is proceeding.

With a brief discussion of the upcoming earnings cycle complete, we now take a step back and revisit some of the long-term secular trends that we believe are benefiting the gas utility industry. Our main thesis points have remained relatively unchanged for the balance of 2012, though we will touch on them once again as we view investing as an on-going process. In general, we believe that raw gas prices **(Exhibit 4, page 7)**, which remain low by historical standards, represent a major tailwind for the group. Low gas costs hasten customer conversions from alternative fuel sources such as propane and heating oil, and we continue to see a secular trend toward gas fired power plants due to both cost and environmental concerns. Additionally, we believe the natural gas space is relatively immune from presidential political rhetoric. Conservatives champion natural gas from an economic perspective, while liberal viewpoints generally concede that gas is a preferable alternative to coal. Furthermore, we view the increasing discussion regarding CNG vehicles as a positive for the group. While we do not believe our utility names will wind up operating extensive filling station networks, we do anticipate increased demand for transmission and distribution pipeline as infrastructure is built to supply these stations. Finally, we acknowledge that interest rate movements are difficult to predict; however, at current levels, the industry's average yield of 3.6% may serve as an attractive alternative to fixed income interest payments.

We continue to recommend that investors focus their exposure within the gas utility space on companies that derive a higher percentage of their earnings from regulated transmission and distribution operations. With our positive outlook for the industry in general, we do not see the need for investors to take on the additional risk presented by clean energy and/or ancillary projects. We view the more heavily regulated names as more stable and predictable from an earnings perspective, and we also believe they stand to benefit the most if investors seek a 'safe haven' trade should overall market conditions worsen. In June, performance was mixed between our more conservative (ATO, CPK, NWN and PNY) and aggressive (NJR, SJI and WGL) names, though we note that year-to-date and over the trailing 52 weeks **(Exhibits 2 & 3)** the former group of companies has materially outperformed the latter.

Our market-weight allocation recommendation stays in place this month. With the group trading roughly in line with the S&P 500 on average during June, not much has changed on the relative valuation front. We continue to believe the added benefit of yield and potential stability in the face of a difficult broader market effectively offset the potential risk rising from valuations that are bit higher than historical multiples. As such, we continue to stay with a market-weight recommendation to the group.

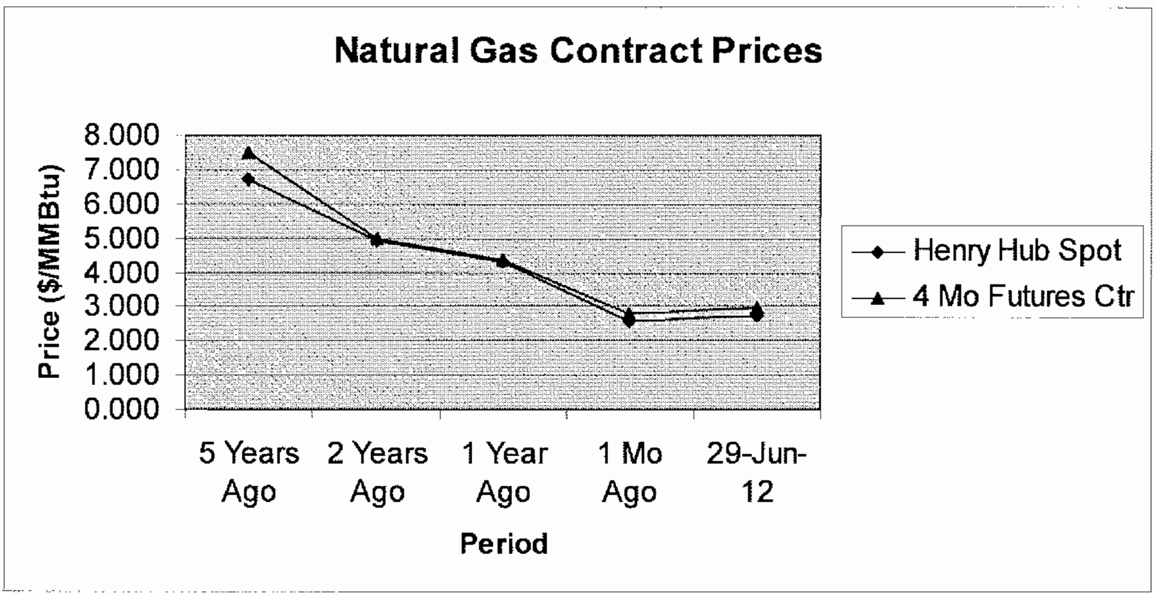
Our favorite names in the space are Atmos Energy (ATO) and Chesapeake Utilities (CPK) due to the growth prospects surrounding their regulated operations and their valuations relative to other companies with a comparable business mix. We are also recommending WGL Holdings, Inc. (WGL) as our preferred name in the space among companies with business mix tilted toward non-regulated operations, and also point out that WGL is now the top yielder within our gas utility coverage universe.

NATURAL GAS PRICES

The spot price of gas rose 6.6% in June, though the upward move was not nearly as significant as the ~30% jump we saw during the month of May. We consistently remind investors that gas utility profitability is generally decoupled from the commodity spot price, and we believe utilities are not appropriate vehicles for investors seeking to gain exposure to commodity price movements. We do believe however, that generally lower gas prices are a secular positive for the gas utility industry as they promote usage of the commodity as a substitute for other energy sources. At current price levels, we believe gas costs remain sufficiently low on an absolute basis such that much of the 'low price' tailwind remains intact. Additionally and on the margin, we believe slightly higher and more volatile prices would equate to some upside to storage operations and traditional optimization activities.

Select historical pricing data is shown in **Exhibit 4** below.

Exhibit 4
Natural Gas Prices



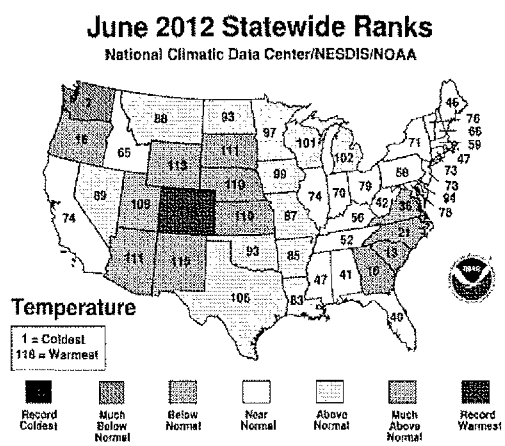
	5 Years Ago	2 Years Ago	1 Year Ago	1 Mo Ago	29-Jun-12
Henry Hub Spot	6.710	4.928	4.326	2.594	2.764
4 Mo Futures Ctr	7.48	4.96	4.39	2.80	2.94

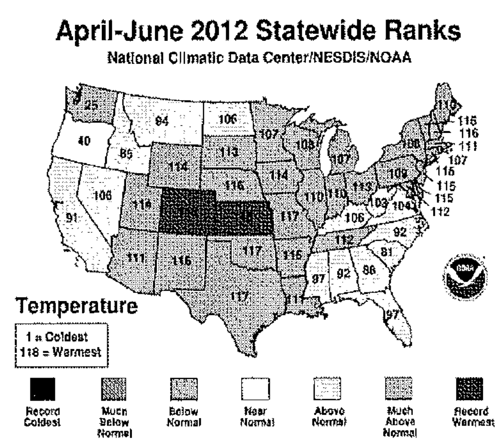
Source: Energy Information Administration

TEMPERATURE DATA

Natural Gas utilities are highly weather sensitive as extremely hot or cold temperatures increase demand for gas used in cooling and heating activities. This effect is most pronounced during the winter, which is when gas utilities earn the majority of their profits for the year. We have discussed at length that weather had a significant impact on calendar first quarter earnings throughout the industry; however, we note that our weather concerns surrounding the gas utility space lessen as we enter the summer months. Temperatures in June tended to be higher than usual for the Western half of the US, while temperatures were relatively normal for the Eastern states **(Exhibit 5)**. For the calendar second quarter (and the reporting period for six of our seven names) temperatures were mostly above average, continuing the trend from the January-March quarter. While our names are generally less sensitive to abnormal temperatures that occur during calendar Q2 and Q3, we do note that Chesapeake Utilities with its electric exposure in Florida may benefit slightly should temperatures continue to stay above average in that state throughout the summer.

Exhibit 5
Temperatures by State—June 2012 / Calendar Q2 2012





Source: National Climatic Data Center; NOAA Satellite and Information Service

RECENT EVENTS -- Hilliard Lyons Coverage Universe (chronological order)

For earnings announcements and quarterly results, please consult our most recent published notes. Dividend announcements outside of raises omitted

South Jersey Industries (SJI - $52.67, Neutral) 6/28/12—Issued $115MM of medium term notes consisting of $64MM due in June 2015, $16MM due in June 2017 and $35MM due in June 2022. Proceeds will be used to retire short-term indebtedness and for general corporate purposes, are unsecured, and will pay interest rates of 2.39%, 2.71% and 3.46% for the 3-yr, 5-yr and 10-yr series, respectively.

Chesapeake Utilities Corp. (CPK - $45.98, Long-term Buy, $48 TP) 6/26/12—Company announced it had entered into an agreement to acquire the assets of Eastern Shore Gas Company and Eastern Shore Propane Company, both of which are subsidiaries of Energy Equity Partners, L.P. The combined services of these companies provide propane distribution to ~11.5k customers in Worcester Co, MD. Financial details of the transaction have not yet been disclosed; however, management expects the transaction to close during the fourth quarter of this year and to be accretive to EPS beginning in 2013.

New Jersey Resources (NJR - $44.98, Neutral) 6/18/12—Company announced the NJ Board of Public Utilities had approved its pilot program to build 5-7 CNG filling stations across the state at an aggregate cost of ~$10MM. NJNG (distribution subsidiary) will partner with several 'host' companies that intend to use CNG for their fleet vehicles in the near future. NJNG will build and maintain a filling station in close proximity to the host, but the station will be required to remain open to the public as well. Cost recovery from this venture is expected to come from a rate case filing, which should occur early in 2013.

WGL Holdings, Inc. (WGL - $39.75, Long-term Buy, $44 TP) 6/18/12—Announced, in connection with its two JV partners, the successful completion of the non-binding open season for the Commonwealth Pipeline. Results of the season indicate high demand for the project from a wide range of customer types; final route selection and project design should be finalized in the coming weeks.

HILLIARD LYONS NATURAL GAS UTILITY COVERAGE LIST COMPARABLES

Actual // *Estimate*

Company	Ticker	Price 10-Jul-12	Target Price	Rating	Rev TTM ($MM's)	Mkt Cap ($MM)	P/B (Q most recent)	LTD / Cap. (%)	EPS FY'11	EPS FY'12E	EPS FY'13E	P / E FY'11	P / E FY'12E	P / E FY'13E	5-Yr Avg P/E	3-Yr Avg EPS Growth	LFY EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
Atmos Energy	ATO	$ 36.11	$ 37	LT Buy	4,375	3,251.0	1.5x	45.0	$2.31	*$2.28*	*$2.55*	15.6x	15.9x	14.2x	13.7x	-3%	7.5x	3.8%	74	1.1%	402.512
Chesapeake Utilities	CPK	$ 45.98	$ 48	LT Buy	392	440.4	1.6x	31.0	$2.81	*$2.58*	*$3.07*	16.4x	17.8x	15.0x	14.4x	10%	7.1x	3.2%	53	3.4%	39,745
New Jersey Resources	NJR	$ 44.98	--	Neutral	2,574	1,869.0	2.2x	33.0	$2.58	*$2.80*	*$2.80*	17.4x	16.1x	16.1x	16.4x	11%	12.3x	3.4%	48	5.7%	221,231
Northwest Natural	NWN	$ 47.97	--	Neutral	843	1,285.6	1.6x	46.0	$2.39	*$2.52*	*$2.70*	20.1x	19.0x	17.8x	17.0x	-4%	8.9x	3.7%	70	8.4%	126,855
Piedmont Natural Gas	PNY	$ 32.54	--	Neutral	1,170	2,354.0	2.1x	48.0	$1.57	*$1.60*	*$1.79*	20.7x	20.4x	18.2x	17.7x	-3%	9.1x	3.7%	79	5.1%	427,784
South Jersey Industries	SJI	$ 52.67	--	Neutral	771	1,601.2	2.3x	39.0	$2.89	*$3.03*	*$3.27*	18.2x	17.4x	16.1x	17.4x	10%	13.5x	3.1%	55	3.8%	179,001
WGL Holdings	WGL	$ 39.75	$ 44	LT Buy	2,506	2,048.5	1.6x	31.0	$2.25	*$2.48*	*$2.61*	17.7x	16.0x	15.2x	14.9x	-4%	7.7x	4.0%	65	5.7%	308.262
					Averages:		1.8x	39.0				18.0x	17.5x	16.1x	15.9x	2.4%	9.5x	3.6%	63	4.7%	

Source: Company reports, Baseline, and Hilliard Lyons estimates

NATURAL GAS INDUSTRY COMPARABLES

Actual // *Estimate*

Company	Tkr	Price 10-Jul-12	Revenue TTM ($MM)	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	Consensus EPS FY'10	Consensus EPS FY'11	Consensus EPS FY'12E	P / E FY'10	P / E FY'11	P / E FY'12E	5-Yr Avg P/E	3-Yr Avg EPS Growth	TTM EBITDA/ Share	Current EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
AGL Resources	GAS	$ 39.12	2,864.0	4,589.2	1.3x	51.0	$3.05	$2.85	*$2.70*	12.8x	13.7x	14.5x	12.9x	-3%	$7.00	10.7x	4.7%	72	1.3%	501,626
Atmos Energy	ATO	$ 36.11	4,374.8	3,251.0	1.4x	45.0	$2.24	$2.21	*$2.31*	16.1x	16.3x	15.6x	13.7x	-3%	$7.23	8.6x	3.8%	74	1.1%	402,512
Chesapeake Utilities	CPK	$ 45.98	392.3	440.4	1.8x	31.0	$3.00	$2.93	*$2.70*	15.3x	15.7x	17.0x	14.4x	10%	$7.43	8.1x	3.2%	53	3.4%	39,745
Delta Natural Gas	DGAS	$ 22.37	76.1	152.5	2.4x	46.0	$0.85	$0.95	*$0.92*	26.3x	23.5x	24.3x	16.5x	8%	$2.56	11.6x	3.1%	88	0.1%	49,328
Energy West	EGAS	$ 10.17	90.9	82.9	1.1x	29.0	$0.92	$0.66	*$0.51*	11.1x	15.4x	19.9x	11.0x	-14%	$1.65	9.2x	5.3%	100	0.1%	18,656
Laclede Group	LG	$ 40.44	1,384.4	909.4	1.5x	36.0	$2.40	$2.79	*$2.57*	16.9x	14.5x	15.7x	14.0x	2%	$7.06	8.0x	4.1%	57	5.6%	99,510
National Fuel Gas	NFG	$ 46.30	1,651.7	3,852.9	1.9x	37.0	$2.65	$3.09	*$2.38*	17.5x	15.0x	19.5x	17.9x	4%	$8.02	7.6x	3.2%	54	2.1%	660,551
New Jersey Resources	NJR	$ 44.98	2,574.4	1,869.0	2.1x	33.0	$2.45	$2.46	*$2.73*	18.4x	18.3x	16.5x	16.4x	11%	$5.00	12.0x	3.4%	48	5.7%	221,231
Northwest Natural Gas	NWN	$ 47.97	843.2	1,285.6	1.7x	46.0	$2.73	$2.56	*$2.51*	17.6x	18.7x	19.1x	17.0x	-4%	$8.48	9.0x	3.7%	70	8.4%	126,855
ONEOK	OKE	$ 42.26	14,595.3	8,783.8	3.9x	70.0	$1.55	$1.68	*$1.74*	27.3x	25.2x	24.3x	17.0x	5%	$5.59	12.1x	2.9%	72	2.6%	1,311,380
Piedmont Natural Gas	PNY	$ 32.54	1,169.6	2,354.0	2.2x	48.0	$1.53	$1.57	*$1.59*	21.3x	20.7x	20.5x	17.7x	-3%	$4.20	11.2x	3.7%	79	5.1%	427,784
South Jersey Industries	SJI	$ 52.67	771.5	1,601.2	2.5x	39.0	$2.70	$2.89	*$3.08*	19.5x	18.2x	17.1x	17.4x	10%	$5.76	13.5x	3.1%	55	3.8%	179,001
Southwest Gas	SWX	$ 44.83	1,916.4	2,067.2	1.6x	48.0	$2.27	$2.42	*$2.74*	19.7x	18.5x	16.4x	15.5x	15%	$9.93	7.1x	2.6%	42	3.3%	226,787
UGI Corp.	UGI	$ 30.50	6,261.0	3,426.5	1.6x	60.0	$2.27	$2.12	*$1.86*	13.4x	14.4x	16.4x	12.7x	-8%	$6.25	9.6x	3.5%	59	1.3%	621,293
WGL	WGL	$ 39.75	2,505.6	2,048.5	1.5x	31.0	2.29	$2.26	*$2.47*	17.4x	17.6x	16.1x	14.9x	-4%	$6.98	7.6x	4.0%	65	5.7%	308,262
			Averages:		1.9x	43.3				18.0x	17.7x	18.2x	15.3x	1.7%	$6.21	9.7x	3.6%	65.9	3.3%	

Source: Company reports and Baseline

Water Utilities

PRICE PERFORMANCE

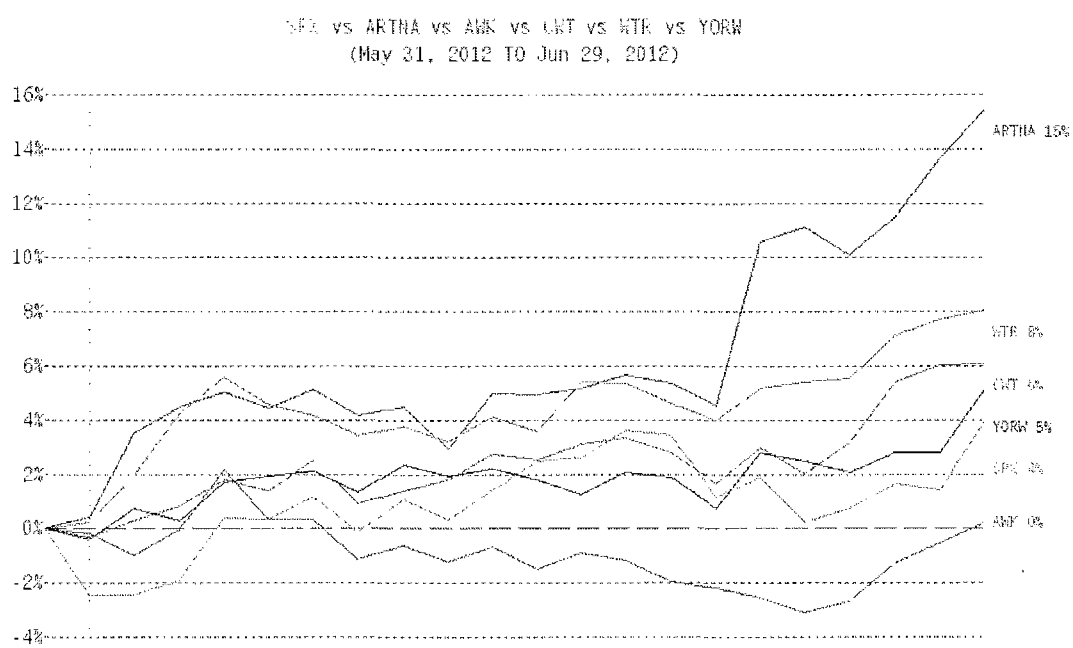
During the month of June, stock prices for our covered water utilities gained an average of 6.98% versus a rise of 3.96% for the S&P 500 **(Exhibit 6)**. Artesian Resources (ARTNA) turned in a phenomenal performance for the month and was our strongest covered name; the company gained 15.43%. American Water Works (AWK) was our lone covered name to lag the S&P during the month, rising a mere 0.20%. ARTNA and AWK broke strings of three consecutive months of Aqua America (WTR) and California Water Service Group (CWT) being our top and bottom performers, respectively.

During the first half of 2012, our covered water utilities have generally mirrored broader market performance; the group gained an average of 7.55%, while the S&P 500 gained 8.31% **(Exhibit 7).**

For the trailing 12-months ending June 29, 2012 **(Exhibit 8)**, performance has been quite strong as the group averaged a ~10% increase compared to a ~2% gain for the S&P. On the back a of strong June, ARTNA has been our best outperformer over the 52 weeks, rising roughly 18%, while the balance of our covered water utilities posted returns ranging from +14% (AWK) to -2% (CWT).

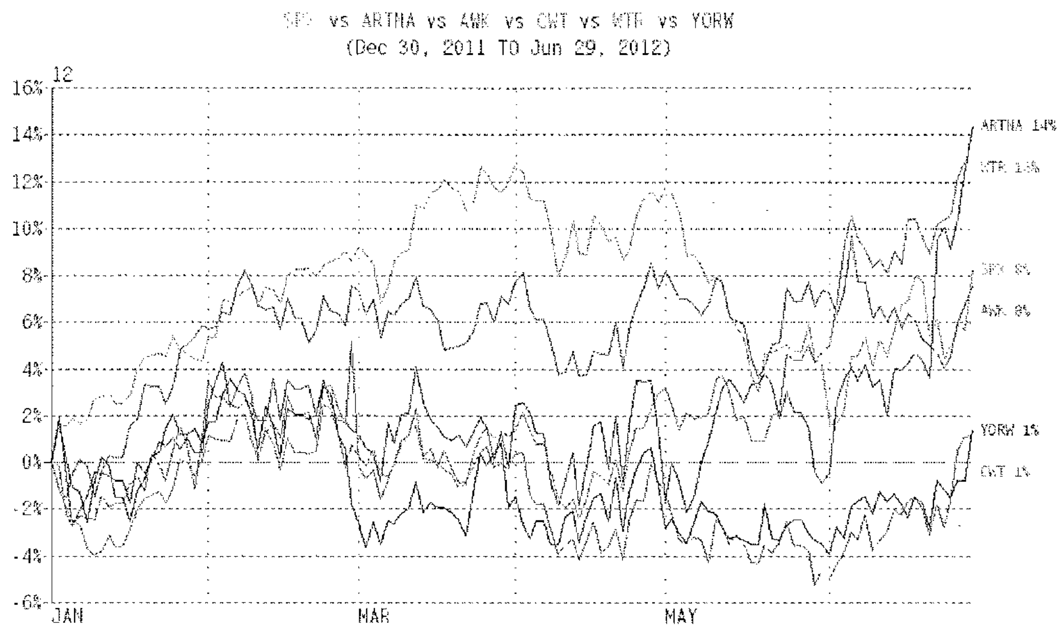
We took some significant action on the water utility front during June by raising ARTNA to a Buy rating from a Long-term Buy rating and by raising our price target on WTR from $25 to $27 while leaving our Long-term Buy rating in place. We are currently recommending ARTNA, AWK, CWT and WTR shares for purchase; we hold a Neutral rating on shares of The York Water Company (YORW).

Exhibit 6
Hilliard Lyons Covered Water Utilities Monthly Price Performance vs. S&P 500—Daily Chart



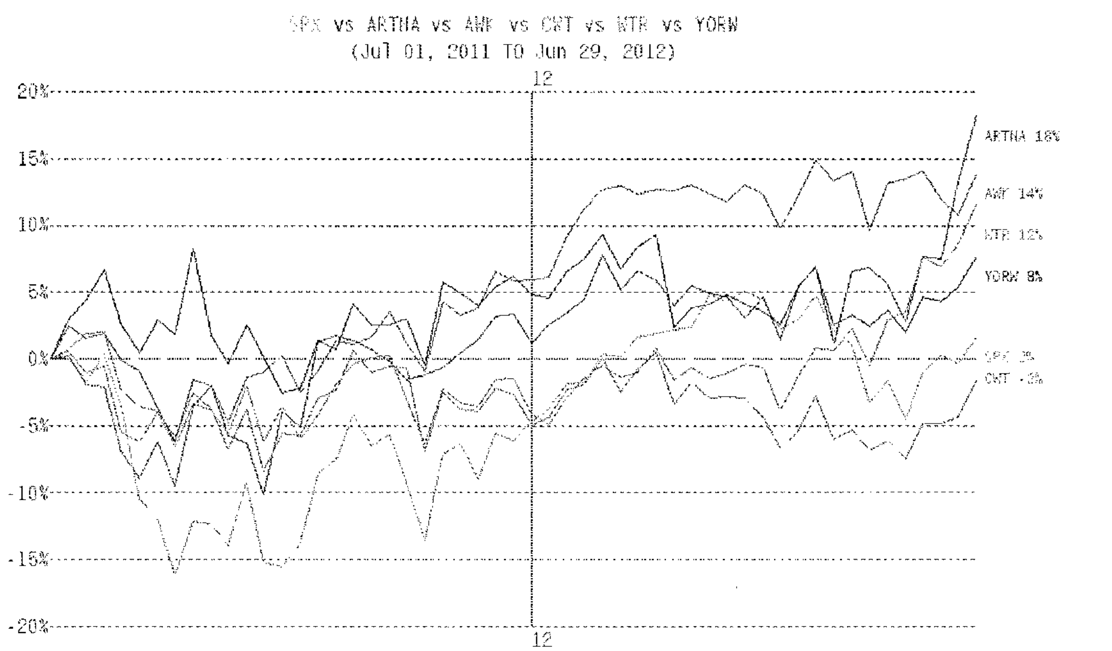
Source: Baseline

Exhibit 7
Hilliard Lyons Covered Water Utilities YTD Price Performance vs. S&P 500—Daily Chart



Source: Baseline

Exhibit 8
Hilliard Lyons Covered Water Utilities One-Year Price Performance vs. S&P 500—Weekly Chart



Source: Baseline

COMMENTARY AND OUTLOOK

Much like our gas utility coverage universe, June 30 marked quarter-end for each of our water utilities. We expect to see earnings reports begin during late July, though it will likely be mid-August before the last of our five companies have reported. All of our estimates are within $0.02 of consensus, which has stayed relatively firm throughout the quarter, and while we are expecting to see improved year over year results form each company we follow, we do not expect to see any major upside surprises.

Summer 2011 was exceptionally rainy along the Atlantic Coast, and we have been anticipating for some time now that precipitation normalization could potentially present a tailwind to Q2 and Q3'12 earnings. Though we go into our precipitation analysis in greater detail beginning on page 14, we believe it is worth mentioning that for Q2 we believe that our companies have indeed realized a benefit from lesser rainfall. Moving past this quarter, we actually believe Q3'11 was likely impacted more heavily than Q2'11. While we do not yet have any precipitation data for the third quarter of this year, we point this out to alert investors that even after the upcoming cycle of reports, 'easy comps' may still remain a story for the next several months. At this point, we are incorporating more normal rainfall numbers into both our Q2 and Q3 projections (and thus our projections of equity fair values), though as better earnings numbers are potentially realized, we note that the stocks may appear more attractive to investors that examine the securities with metrics based strictly on trailing results.

Placing day-to-day concerns to the side, we believe there exists significant opportunity for our covered names to expand through acquisition for the foreseeable future, and thus grow revenue at a rate much faster than general population growth. As governmental fiscal situations continue to worsen, aging infrastructure needs to be replaced, and environmental issues become more complex, we believe both municipalities and small private system owners will increasingly look to monetize assets, which translates into acquisition activity. Furthermore, we view the overall regulatory environment in a positive light and are confident that our companies can continue to achieve revenue growth via capital investment and subsequent rate case awards.

In addition to our operational outlook, we believe the water utility space is among the rare groups that exhibit growth characteristics while remaining largely immune to macro economic headwinds. The industry is also relatively thinly-followed. Taking these two ideas in tandem, we believe water utility stocks in general may see additional upside over time as the group gains the attention of a larger audience due to the positive drivers and characteristics we have outlined.

As we move into July, we continue to recommend a market-weight allocation to the water utility industry. For the past several months we have been urging investors not yet participating in the space to take an additional look at our recommended names, though at this point, we are softening our stance somewhat. The group on average has seen a substantial rise over the past ~2 months, and we believe in some cases it may be prudent to wait for a pullback to accumulate additional exposure.

Our top pick in the space is currently American Water Works based on its long-term growth prospects and its weaker performance relative to its peer group over the past 4-6 weeks. Regular readers of our monthly piece may recall us mentioning ARTNA as a 'favorite' name previously; though we are bit more reserved this month. We continue to view the company prospects very positively and we still find Artesian attractive on a valuation basis relative to the broader industry; however, we believe a significant portion of the 'mispricing' has been removed from the name as a result of the >15% rise the stock experienced during June. Should the stock experience a material pullback, we would be inclined to once again become more aggressive buyers.

PRECIPITATION DATA

Precipitation data takes center stage in our day-to-day analysis of the water utilities as we move through the summer months of Q2 and Q3. Our top-down precipitation analysis for April was quite bullish, while May was relatively neutral. As we look at the totality of the second quarter **(Exhibit 9)**, we believe some of the 'precipitation normalization' tailwind we have been looking forward to will come to fruition, despite a couple of difficult year-over-year comparisons in June revealed in our granular tables. With the exception of Florida and North Carolina, states where WTR maintains regulated operations, nearly every state that our East Coast utilities operate in appears to have experienced more favorable (less) precipitation. We remind investors that due to the Water Revenue Adjustment Mechanism in California, CWT is much less sensitive to rainfall fluctuations.

The state of Texas has been a recurring topic of conversation in our monthly pieces, and we will briefly touch on the region once again, though we believe this is becoming less of a story. June marked the second month in a row in which drought conditions held roughly steady, and we mention the state this month mostly to remind investors that Texas will have a slightly larger impact on WTR's Q2'12 versus Q2'11 as the company closed on AWK's Texas assets (~5300 customers) in June of 2011.

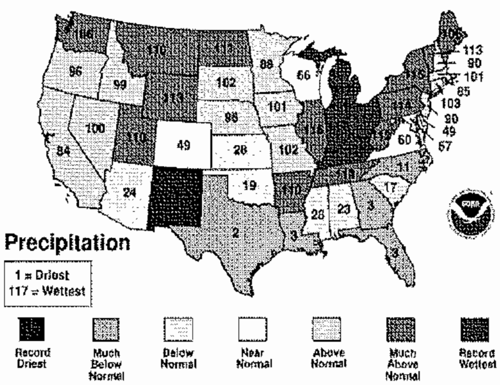
A couple of months back, we initiated a discussion of drought conditions developing in the northeast **(Exhibit 10)**, which could potentially affect ARTNA, AWK, WTR, and YORW. Conditions in the vital areas of Long Island, Philadelphia, York and Adams Counties in PA, and much of NJ held relatively stable, while conditions worsened somewhat on the Delmarva Peninsula (Delaware and Maryland). This translates to Artesian Resources being the company we remain most concerned about. On the positive side however, ARTNA maintains a relatively high level of system-interconnectedness, and if conditions hold serve, we believe the company will avoid facing mandatory conservation measures this summer. Additionally, we made it through the totality of Q2 with ARTNA sidestepping any mandatory restrictions, meaning we are heading confidently into the firms expected Q2 earnings release early next month.

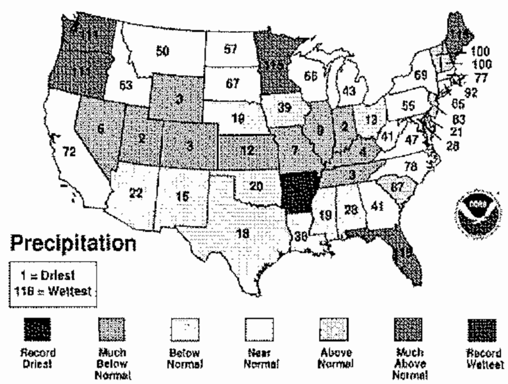
As may be expected from the precipitation totals in Exhibit 9, drought conditions across the country on average have worsened over the past several weeks **(Exhibits 11 & 12)**. Most germane to our investments in American Water Works and Aqua America are the upper Ohio Valley states of Missouri, Illinois, Indiana and Ohio. While too much red can cause some issues, all of the light brown, orange and yellow likely equates to increased consumption. The speed at which conditions have declined is a bit unsettling, but at this point we believe it has still had a positive effect on operations.

Drought conditions as a whole are important because severe conditions may result in local authorities placing limitations on water usage. Restrictions on washing cars, watering lawns, etc, may limit total water consumption, thus lowering water utility revenue and profitability. This idea flows somewhat contrary to the general rule-of-thumb in evaluating weather, which follows that generally lower precipitation is beneficial for water utilities as customer consumption trends upward. An ideal summer weather scenario in our opinion, includes just enough rainfall (occurring during the work week) to stave off drought restrictions.

Exhibits 9-12 are followed by raw data tables that allow us to analyze precipitation on a more granular basis for select measurement locations across the country. We have selected the locales based on the service areas of our covered water utilities.

Exhibit 9
Precipitation by State—Q2 2012 vs Q2 2011





Source: National Climatic Data Center

*Note: None of our covered companies do business in the state of South Carolina.

Exhibit 10
Northeast Drought Conditions—Current

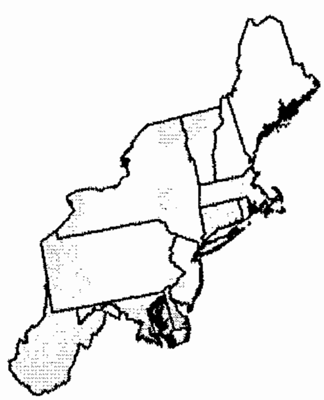
U.S. Drought Monitor

Northeast

July 3, 2012
Valid 7 a.m. EST

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	68.41	31.59	4.55	0.19	0.00	0.00
Last Week (06/26/2012 map)	76.49	23.51	2.15	0.19	0.00	0.00
3 Months Ago (04/03/2012 map)	36.11	63.89	9.87	0.00	0.00	0.00
Start of Calendar Year (12/27/2011 map)	96.69	3.31	0.00	0.00	0.00	0.00
Start of Water Year (09/27/2011 map)	97.24	2.76	0.00	0.00	0.00	0.00
One Year Ago (06/28/2011 map)	84.06	5.94	1.73	0.00	0.00	0.00



Intensity:

- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

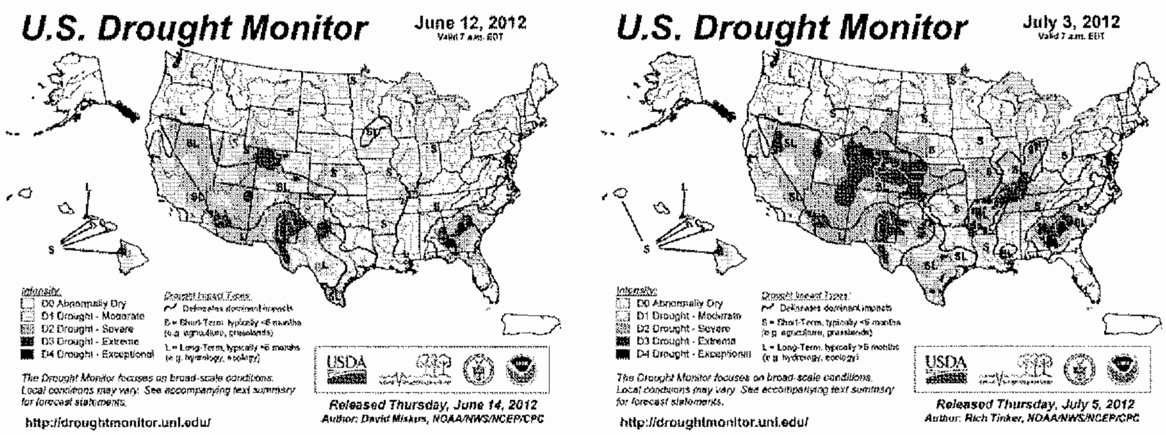
http://droughtmonitor.unl.edu

USDA

Released Thursday, July 5, 2012
Rich Tinker, Climate Prediction Center/NOAA

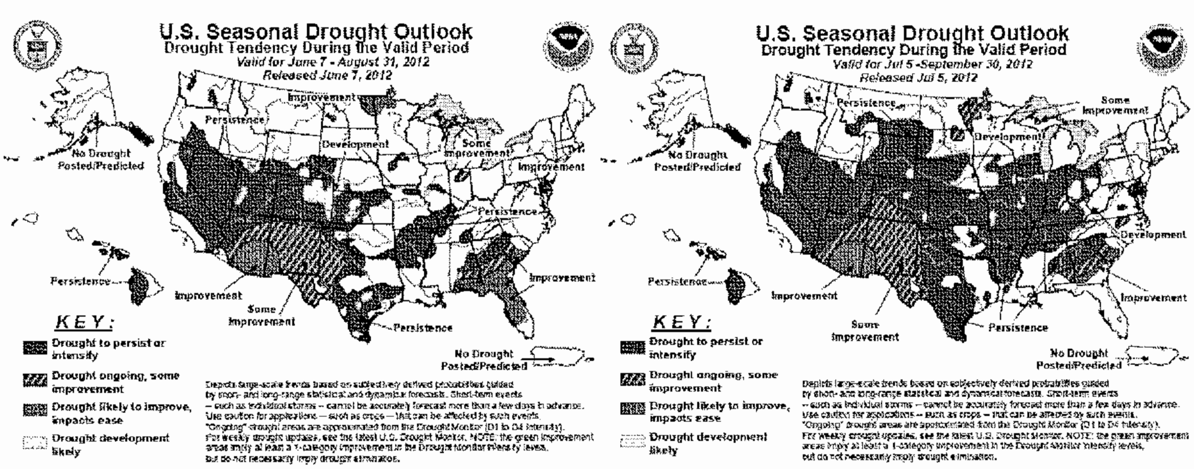
Source: National Climatic Data Center

Exhibit 11
US Drought Conditions—Current vs ~1 Month Ago



Source: National Climatic Data Center

Exhibit 12
US Drought Outlook—Current vs ~1 Month Ago



Source: National Weather Service—Climate Prediction Center

RAW PRECIPITATION TOTALS (SELECT LOCATIONS)

***Note:** A date in the 'Days of Precip' column indicates that data is not yet available; the date listed is the last date we checked for data. New to this month's issue, we have color coded our data by company affected: AWK, WTR, AWK & WTR, ARTNA, YORW.

April 2010-2012

Company	State	City	Station	Apr '12 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	7	3.15	4	64.7/41.5	1	2	0	0.01	0.36	0.37
AWK	PA	McKees (Pitbgh)	McKeesport	10	1.97	6	63.27/37.6	0	3	0	0.00	0.65	0.65
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	9	6.68	7	70.9/48.7	2	3	2	2.02	1.93	3.95
AWK	IN	Indianapolis	Indy SE Side	10	2.04	8	62.7/40.3	3	3	2	0.15	1.31	1.46
AWK	WV	Charleston	WSFO	10	3.66	7	66.7/40.0	0	2	0	0.00	0.82	0.82
AWK/WTR	PA	Philadelphia	Philly Frank Inst	7	2.58	3	64.9/47.6	0	2	0	0.00	0.08	0.08
AWK/WTR	PA	Williamsport	Williamsport 2	11	2.03	9	63.2/37.8	2	2	1	0.28	0.47	0.75
WTR	OH	Cleveland	Chippewa Lake	12	0.96	9	56.6/35.6	1	3	1	0.29	0.38	0.67
WTR	NC	Charlotte	Concord	11	1.83	9	73.9/47.0	0	2	0	0.00	0.31	0.31
WTR	NC	Raleigh	Raleigh St Univ	5	2.31	2	71.6/48.3	0	1	0	0.00	1.10	1.10
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	4	2.42	0	80.1/60.2	0	2	0	0.00	1.88	1.88
WTR	TX	Houston	NWSO	7	4.19	6	81.2/63.3	0	1	0	0.00	0.32	0.32
WTR	IL	Kankakee	Kkee--WW Metro	5	1.56	2	63.1/41.1	1	0	0	0.15	0.00	0.15
WTR	FL	Ocala	Ocala	3	1.88	2	86.7/57.6	1	1	1	0.40	1.05	1.45
ARTNA	DE	Newark	Wilmington Port	8	2.63	7	64.1/41.6	1	2	1	0.23	1.71	1.94
ARTNA	DE	New Castle Co	Bear 2	9	2.82	6	64.9/40.6	1	4	1	0.01	2.28	2.29
~ARTNA	MD	Salsbury (~S. DE)	Salsbury 2N	8	3.41	4	68.8/44.7	0	2	0	0.00	2.28	2.28
YORW	PA	York	York Haven	8	1.99	3	na	0	2	0	0.00	0.49	0.49
				144	48.11	94		13	37	9	3.54	17.42	20.96

Company	State	City	Station	Apr '11 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	16	7.17	13	63.3/44.7	3	2	1	0.85	3.45	4.30
AWK	PA	McKees (Pitbgh)	McKeesport	22	6.52	21	64.1/41.0	4	4	4	0.96	0.84	1.80
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	16	6.06	14	70.6/49.8	3	2	2	1.41	0.35	1.76
AWK	IN	Indy	Indy SE Side	19	10.79	18	62.5/41.8	4	3	3	1.32	0.57	1.89
AWK	WV	Charleston	WSFO	data not available									0.00
AWK/WTR	PA	Philadelphia	Philly Frank Inst	15	6.67	11	65.2/49.3	3	3	2	1.11	3.07	4.18
AWK/WTR	PA	Williamsport	Williamsport 2	22	9.64	22	60.7/42.6	2	3	2	2.95	0.28	3.23
WTR	OH	Cleveland	Chippewa Lake	20	5.41	18	58/39.2	5	4	3.5	0.77	0.63	1.40
WTR	NC	Charlotte	Concord	10	2.36	8	75.6/49.9	2	2	1	0.80	0.78	1.58
WTR	NC	Raleigh	Raleigh St Univ	7	3.98	4	77.0/53.0	2	2	1	1.28	2.02	3.30
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	7	2.72	4	82.5/59.2	0	2	0	0.00	0.10	0.10
WTR	TX	Houston	NWSO	2	0.02	0	82.7/63.2	1	0	0	0.01	0.00	0.01
WTR	IL	Kankakee	Kkee--WW Metro	11	5.65	7	58.8/39.4	0	0	0	0.00	0.00	0.00
WTR	FL	Ocala	Ocala	6	1.56	2	88.3/57.8	0	1	0	0.00	0.10	0.10
ARTNA	DE	Newark	Wilmington Port	14	4.58	10	63.9/46.0	2	3	2	1.65	0.38	2.03
ARTNA	DE	New Castle Co	Bear 2	14	4.37	8	66.3/46.9	2	3	2	1.98	0.11	2.09
~ARTNA	MD	Salsbury (~S. DE)	Salsbury	12	1.91	10	71.2/49.4	3	1	0	0.48	0.52	1.00
YORW	PA	York	York Haven	12	7.24	10	66.2/44.5	4	1	1	2.38	0.01	2.39
				225	86.65	180		40	36	24.50	17.95	13.21	31.16

Company	State	City	Station	Apr '10 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	8	2.54	5	68.6/42.5	1	1	0	0.12	0.57	0.69
AWK	PA	McKees (Pitbgh)	McKeesport	9	1.63	7	68.6/39.7	1	1	0	0.07	0.35	0.42
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	10	4.67	7	81.1/59.2	2	3	2	1.22	1.85	3.07
AWK	IN	Indy	Indy SE Side	8	2.37	6	69.3/45.6	2	2	1	0.13	0.57	0.70
AWK	WV	Charleston	WSFO	7	2.45	4	73.6/40.9	2	1	1	0.27	0.48	0.75
AWK/WTR	PA	Philadelphia	Philly Frank Inst	10	3.85	5	69.5/50.3	1	1	0	0.08	0.40	0.48
AWK/WTR	PA	Williamsport	Williamsport 2	10	1.90	9	70.4/40.9	2	1	1	0.03	0.67	0.70
WTR	OH	Cleveland	Chippewa Lake	9	1.25	7	64.5/40.3	1	1	0	0.12	0.38	0.50
WTR	NC	Charlotte	Concord	5	1.44	0	78.5/49.1	1	1	0	0.05	0.66	0.71
WTR	NC	Raleigh	4 SW	5	3.21	4	78.5/50.9	0	1	0	0.00	0.36	0.36
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	6	3.12	5	76.0/56.0	2	1	1	1.73	0.42	2.15
WTR	TX	Houston	NWSO	9	0.62	6	76.1/59.7	2	2	0	0.14	0.15	0.29
WTR	IL	Kankakee	Metro WWTP										0.00
WTR	FL	Ocala	Ocala	5	0.42	0	84.5/57.1	0	0	0	0.00	0.00	0.00
ARTNA	DE	Newark	Wilmington	9	2.70	5	67.6/47.1	1	1	0	0.05	0.78	0.83
ARTNA	DE	New Castle Co	Bear 2	11	2.91	8	67.8/43.0	2	1	1	0.02	1.12	1.14
~ARTNA	MD	Salsbury (~S. DE)	Salsbury	8	1.33	4	72.6/48.4	1	1	0	0.01	0.36	0.37
YORW	PA	York	York Haven	6	1.82	2	70.5/45.9	1	0	0	0.26	0.00	0.26

+ *Affecting WTR/AWK (~50% /~20% of rev):* Our Philadelphia location posted total rainfall of 2.58" versus 6.67" and 3.85" in '11 and '10 respectively. Weekend days and inches of precipitation registered 2/0.08" in April '12 versus 6/4.18" and 2/0.48" in '11 and '10, respectively.

+ *Affecting WTR (~7% of revenue):* Weekend data held roughly flat from the year-ago April in Kankakee, IL; however, total inches fell from 5.65" to 1.56"; total days and continuous days fell from 11 & 7 to 5 & 2.

May 2010-2012

Company	State	City	Station	May '12 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	15	4.65	13	74.3/55.9	1	1	1	0.26	0.06	0.32
AWK	PA	McKees (Pitbgh)	McKeesport	11	3.34	9	79.7/54.0	0	0	0	0.00	0.00	0.00
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	6	1.35	2	83.7/62.5	1	0	0	0.12	0.00	0.12
AWK	IN	Indianapolis	Indy SE Side	7	4.43	4	79.6/56.0	1	0	0	0.01	0.00	0.01
AWK	WV	Charleston	WSFO	14	4.11	11	80.2/55.9	1	1	1	0.62	0.62	1.24
AWK/WTR	PA	Philadelphia	Philly Frank Inst	13	3.84	9	76.4/60.7	1	1	0	0.31	0.03	0.34
AWK/WTR	PA	Williamsport	Williamsport 2	18	4.41	17	77.8/54.9	2	1	1	0.22	0.26	0.48
WTR	OH	Cleveland	Chippewa Lake	9	4.54	5	76.9/50.1	1	0	0	1.49	0.00	1.49
WTR	NC	Charlotte	Concord	8	6.43	5	83.8/59.6	0	0	0	0.00	0.00	0.00
WTR	NC	Raleigh	Raleigh St Univ	10	6.54	7	83.3/60.2	0	1	0	0.00	2.16	2.16
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	5	2.02	4	87.2/67.4	0	0	0	0.00	0.00	0.00
WTR	TX	Houston	NWSO	5	8.94	4	87.1/68.5	1	0	0	5.63	0.00	5.63
WTR	IL	Kankakee	Kkee--WW Metro	6	2.43	2	78.3/54.4	0	0	0	0.00	0.00	0.00
WTR	FL	Ocala	Ocala	10	5.27	8	89.2/65.3	0	0	0	0.00	0.00	0.00
ARTNA	DE	Newark	Wilmington Port	14	3.26	12	75.9/55.7	1	0	0	0.03	0.00	0.03
ARTNA	DE	New Castle Co	Bear 2	12	2.04	10	76.3/56.2	0	0	0	0.00	0.00	0.00
~ARTNA	MD	Salsbury (~S. DE)	Salsbury 2N	15	2.09	15	78.5/59.3	1	0	0	0.02	0.00	0.02
YORW	PA	York	York Haven	18	5.40	16	n/a	1	2	1	0.11	0.03	0.14
				196	**75.09**	**153**		**12**	**7**	**4**	**8.82**	**3.16**	**11.98**

Company	State	City	Station	May '11 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	11	3.17	9	73.3/53.5	1	1	0	0.30	0.33	0.63
AWK	PA	McKees (Pitbgh)	McKeesport	18	4.00	16	73.2/51.7	3	2	2	0.52	0.41	0.93
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	19	3.46	19	71.5/54.4	4	2	2	0.29	0.14	0.43
AWK	IN	Indy	Indy SE Side	16	5.67	14	40.7/52.7	0	4	0	0.00	0.96	0.96
AWK	WV	Charleston	WSFO	data not available									
AWK/WTR	PA	Philadelphia	Philly Frank Inst	10	2.57	9	76.9/59.9	1	2	1	0.49	0.26	0.75
AWK/WTR	PA	Williamsport	Williamsport 2	17	7.16	14	75.1/51.7	3	2	1	0.38	0.68	1.06
WTR	OH	Cleveland	Chippewa Lake	20	9.89	19	na	3	4	3.5	1.44	0.88	2.32
WTR	NC	Charlotte	Concord	11	4.22	9	81.8/59.3	2	1	1	0.95	0.21	1.16
WTR	NC	Raleigh	Raleigh St Univ	6	4.80	2	82.8/59.3	1	1	0	2.01	1.65	3.66
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	8	5.16	7	83.3/61.9	0	2	0	0.00	1.11	1.11
WTR	TX	Houston	NWSO	1	0.10	0	86.6/67.8	0	0	0	0.00	0.00	0.00
WTR	IL	Kankakee	Kkee--WW Metro	8	5.70	3	70.1/50.8	0	0	0	0.00	0.00	0.00
WTR	FL	Ocala	Ocala	5	1.63	4	91.6/62.0	2	1	1	0.51	0.93	1.44
ARTNA	DE	Newark	Wilmington Port	10	4.58	7	74.8/56.6	1	1	1	0.14	1.39	1.53
ARTNA	DE	New Castle Co	Bear 2	10	3.63	8	76.3/55.6	2	1	1	0.34	0.32	0.66
~ARTNA	MD	Salsbury (~S. DE)	Salsbury	5	1.05	2	79.0/57.0	1	1	1	0.08	0.03	0.11
YORW	PA	York	York Haven	13	6.42	13	NA	2	1	0	0.64	0.28	0.92
				188	**73.21**	**155**		**26**	**26**	**14.50**	**8.09**	**9.58**	**17.67**

Company	State	City	Station	May '10 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	13	2.68	12	75.3/53.1	1	2	0	0.13	0.04	0.17
AWK	PA	McKees (Pitbgh)	McKeesport	15	3.64	12	75.1/50.5	3	2	0	0.61	0.73	1.34
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	13	7.07	13	73.0/56.6	2	1	1	1.44	0.36	1.80
AWK	IN	Indy	Indy SE Side	14	5.27	8	73.3/54.4	2	2	1	0.82	1.22	2.04
AWK	WV	Charleston	WSFO	15	7.30	13	78.2/53.4	4	3	2	0.68	0.55	1.23
AWK/WTR	PA	Philadelphia	Philly Frank Inst	11	2.61	7	76.5/59.8	1	2	0	0.11	0.14	0.25
AWK/WTR	PA	Williamsport	Williamsport 2	15	3.28	11	75.7/51.4	2	2	1	0.72	0.26	0.98
WTR	OH	Cleveland	Chippewa Lake	13	2.90	11	71.3/51.0	2	4	2	0.54	0.45	0.99
WTR	NC	Charlotte	Concord	8	3.87	3	82.9/61.8	2	0	0	0.79	0.00	0.79
WTR	NC	Raleigh	4 SW	10	5.83	8	82.3/63.4	2	2	1	2.38	0.94	3.32
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	5	1.73	0	85.5/65.9	0	2	0	0.00	0.16	0.16
WTR	TX	Houston	NWSO	3	2.19	2	86.6/69.0	1	0	0	0.00	0.00	0.00
WTR	IL	Kankakee	Metro WWTP	16	4.51	15	74.2/52.5	3	3	2	0.36	0.53	0.89
WTR	FL	Ocala	Ocala	11	6.90	10	91.1/68.0	2	1	1	0.28	0.35	0.63
ARTNA	DE	Newark	Wilmington	7	2.48		74.6/57.1	1	0	0	0.26	0.00	0.26
ARTNA	DE	New Castle Co	Bear 2	10	2.19	8	75.4/53.9	0	1	0	0.00	0.17	0.17
~ARTNA	MD	Salsbury (~S. DE)	Salsbury	7	3.32	5	80.3/58.0	0	1	0	0.00	1.19	1.19
YORW	PA	York	York Haven	10	3.26	6	77.3/56.6	1	2	0	0.66	0.19	0.85

+*Affecting all companies:* Across the board, weekend precipitation appears to be abnormally light. While total precipitation and days of rain are roughly in line with one year ago, weekend days/inches are down from 52/17.67" in May '11 to 19/11.98" in May '12.

+ *Affecting AWK (~10% of rev):* Total precipitation days at our Missouri location fell from a whopping 19 (all continuous) in '11, to only 6 total days with 2 continuous in '12. Weekend days/ inches fell from 6/0.43" to 1/0.12" in '12.

+ *Affecting WTR (~7% of rev):* Days of precipitation fell from 20 (19 continuous) in May '11 to 9 (5 continuous) in May '12 at our Ohio location. Weekend days/inches fell from 7/2.32" to 1/1.49". We remind investors that Ohio takes on a greater importance to Aqua as a result of the asset swap with AWK.

June 2010-2012 (Note: totals not yet comparable due to 7 missing locations not yet reporting)

Company	State	City	Station	Jun '12 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	07/10/2012									
AWK	PA	McKees (Pitbgh)	McKeesport	10	2.76	6	83.2/56.3	2	0	0	1.01	0.00	1.01
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	4	1.85	0	88.7/66.1	0	1	0	0.00	0.41	0.41
AWK	IN	Indianapolis	Indy SE Side	4	0.32	3	84.2/60.1	1	1	1	0.01	0.08	0.09
AWK	WV	Charleston	WSFO	07/10/2012									
AWK/WTR	PA	Philadelphia	Philly Frank Inst	7	4.09	4	82.8/65.6	3	0	0	2.29	0.00	2.29
AWK/WTR	PA	Williamsport	Williamsport 2	07/10/2012									
WTR	OH	Cleveland	Chippewa Lake	6	1.96	4	80.2/56.5	2	0	0	0.74	0.00	0.74
WTR	NC	Charlotte	Concord	7	3.27	5	87.1/60.9	1	0	0	0.21	0.00	0.21
WTR	NC	Raleigh	Raleigh St Univ	07/10/2012									
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	6	1.77	3	93.9/73.4	0	1	0	0.00	0.02	0.02
WTR	TX	Houston	NWSO	10	5.46	7	91.6/73.9	3	0	0	1.61	0.00	1.61
WTR	IL	Kankakee	Kkee--WW Metro	4	6.56	0	82.6/61.0	0	1	0	0.00	5.85	5.85
WTR	FL	Ocala	Ocala	18	13.80	18	88.6/69.9	3	2	2	0.71	2.27	2.98
ARTNA	DE	Newark	Wilmington Port	07/10/2012									
ARTNA	DE	New Castle Co	Bear 2	10	7.24	8	82.3/59.3	2	1	1	1.00	0.04	1.04
~ARTNA	MD	Salsbury (~S. DE)	Salsbury 2N	07/10/2012									
YORW	PA	York	York Haven	07/10/2012									
					49.08	**58**		**17**	**7**	**4**	**7.58**	**8.67**	**16.25**

Company	State	City	Station	Jun '11 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	9	2.61	6	81.9/61.1	2	1	0	0.76	0.58	1.34
AWK	PA	McKees (Pitbgh)	McKeesport	14	3.26	11	82.0/55.3	3	2	1	0.50	0.83	1.33
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	10	6.61	8	84.5/66.8	3	1	1	2.63	2.20	4.83
AWK	IN	Indy	Indy SE Side	13	7.83	10	81.1/62.4	3	3	2	0.49	1.61	2.10
AWK	WV	Charleston	WSFO		data not available								0.00
AWK/WTR	PA	Philadelphia	Philly Frank Inst	7	2.43	2	85.2/67.9	1	0	0	0.47	0.00	0.47
AWK/WTR	PA	Williamsport	Williamsport 2	11	2.57	9	82.6/60.5	3	1	1	0.94	0.25	1.19
WTR	OH	Cleveland	Chippewa Lake	6	2.12	4	80.4/55.8	1	1	1	0.06	0.02	0.08
WTR	NC	Charlotte	Concord	8	2.98	4	92.5/67.9	0	2	0	0.00	0.54	0.54
WTR	NC	Raleigh	Raleigh St Univ	6	1.89	2	91.9/67.7	0	2	0	0.00	0.97	0.97
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	2	2.91	0	98.3/76.2	0	0	0	0.00	0.00	0.00
WTR	TX	Houston	NWSO	6	2.54	4	94.9/74.3	1	0	0	0.06	0.00	0.06
WTR	IL	Kankakee	Kkee--WW Metro	13	6.50	9	81.5/61.6	0	0	0	0.00	0.00	0.00
WTR	FL	Ocala	Ocala	12	6.15	10	94.4/70.1	1	1	1	0.15	0.12	0.27
ARTNA	DE	Newark	Wilmington Port	11	3.11	7	82.0/65.2	1	1	1	0.10	0.33	0.43
ARTNA	DE	New Castle Co	Bear 2	10	3.95	6	83.7/62.5	1	2	1	0.84	0.13	0.97
~ARTNA	MD	Salsbury (~S. DE)	Salsbury	14	1.65	10	87.2/65.7	3	3	2	0.21	0.43	0.64
YORW	PA	York	York Haven	9	3.92	6	n/a	1	2	1	0.04	1.40	1.44
				161	**63.03**	**108**		**24**	**22**	**12**	**7.25**	**9.41**	**16.66**

Company	State	City	Station	Jun '10 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	7	2.67	4	85.9/62.8	0	0	0	0.00	0.00	0.00
AWK	PA	McKees (Pitbgh)	McKeesport	17	4.77	14	82.4/60.2	1	3	1	0.38	2.03	2.41
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	12	5.98	9	90.4/70.9	2	1	1	0.09	0.82	0.91
AWK	IN	Indy	Indy SE Side	17	11.34	14	84.2/64.5	2	2	1	2.22	0.41	2.63
AWK	WV	Charleston	WSFO	16	4.80	14	85.7/63.8	2	1	1	0.16	2.16	2.32
AWK/WTR	PA	Philadelphia	Philly Frank Inst	7	2.15	0	87.9/70.6	0	1	0	0.00	0.02	0.02
AWK/WTR	PA	Williamsport	Williamsport 2	13	3.07	7	83.0/62.1	1	3	1	0.55	1.31	1.86
WTR	OH	Cleveland	Chippewa Lake	12	4.81	10	78.5/59.2	3	2	2	0.52	1.22	1.74
WTR	NC	Charlotte	Concord	10	4.02	5	92.5/70.2	2	1	0	0.34	0.10	0.44
WTR	NC	Raleigh	4 SW										0.00
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	8	3.28	5	94.7/75.6	0	0	0	0.00	0.00	0.00
WTR	TX	Houston	NWSO	11	7.45	11	90.5/75.4	0	0	0	0.00	0.00	0.00
WTR	IL	Kankakee	Metro WWTP	13	11.45	6	82.7/63.7	1	1	0	0.81	3.00	3.81
WTR	FL	Ocala	Ocala	16	3.88	14	95.6/72.9	2	1	1	0.10	0.20	0.30
ARTNA	DE	Newark	Wilmington	7	1.40	3	87.1/65.0	0	1	0	0.00	0.06	0.06
ARTNA	DE	New Castle Co	Bear 2	5	1.15	0	87.5/64.9	0	1	0	0.00	0.02	0.02
~ARTNA	MD	Salsbury (~S. DE)	Salsbury	11	2.51	4	88.8/69.8	0	1	0	0.00	0.77	0.77
YORW	PA	York	York Haven	5	2.08	2	85.1/64.6	0	1	0	0.00	1.25	1.25

+ *Affecting AWK (~10% of rev):* Total precipitation days at our Missouri location fell from 10 (8 continuous) in '11, to only 4 total days (0 continuous) in '12. Weekend days/ inches fell from 4/4.83" in '11 to 1/0.41" in '12.

— *Affecting WTR/AWK (~50% /~20% of rev):* Weekend days/inches rose from 1/0.47" in '11 to 3/2.29" in '12 at our Philadelphia, PA, location.

— *Affecting WTR (~7% of rev):* Weekend days/inches rose from 0/0.00" in '11 to 1/5.85" in '12 at our Kankakee, IL, location.

— *Affecting WTR (<5% of rev):* Weekend days/inches rose from 2/0.27" to 5/2.98" at our Ocala, FL, location. Additionally, total inches rose to 13.80" in June '12 from 6.15" in June '11

RECENT EVENTS-Hilliard Lyons Coverage Universe

For earnings announcements and quarterly results, please consult our most recent published notes. Dividend announcements outside of raises omitted

American Water Works (AWK - $35.06, Buy, $38 TP) 6/28/12—American Water Works announced an agreement to acquire the water system of the Town of New Whiteland, IN. The system serves ~2100 customers and will be purchased for ~$4.2MM. American Water currently has about 285k customers and serves ~1.2MM people in Indiana; the state accounted for ~8% of the company's 2011 revenue.

Artesian Resources (ARTNA - $21.50, Buy, $23 TP) 6/22/12—Due in large part to the annual 'Russell rebalancing', Artesian Resources gained 5.74% to close at a new 52-week high on exceptionally heavy volume. More than 160k shares traded in the name versus usual volume of 10-20k. *Note: Since closing above the $20 mark on Friday, June 22, ARTNA has held its gains and has moved slightly higher.

American Water Works (AWK - $35.06, Buy, $38 TP) June '12—American Water made two rate case announcements in June; the company received new rates in IN and filed a new rate case in TN. Annualized revenue increases of $1.948MM were granted in the Hoosier state versus a requested amount of $20.4MM. In Tennessee, AWK is seeking additional revenue in an annualized amount of $10.5MM. The company's last rate case in the state went into effect in April of 2011, and the company expects its current case to be resolved in December of this year.

American Water Works (AWK - $35.06, Buy, $38 TP) June/July '12
June 29, 2012
American Water Works was forced to issue a 'Boil Water Advisory' as a bridge holding 3 large water mains collapsed at its Swimming River Water Treatment Plant in Tinton Falls, NJ. The advisory initially covered 22 towns in Monmouth County, NJ, and affected ~55k customer accounts.

July 1, 2012
Water service had been restored to 18 of the 22 towns; however, a mandatory outdoor water use ban remained in place for all New Jersey American Water customers in Monmouth County.

July 2, 2012
American Water Works' New Jersey subsidiary lifted the 'Boil Water Advisory' for the remaining 4 of 22 initial towns included in the warning. Normal service had been restored to all customers affected by the bridge collapse; however, all of Monmouth County remained under a mandatory outdoor water usage restriction aimed at facilitating ongoing repairs.

July 8, 2012
The majority of outdoor water usage restrictions were lifted for Monmouth County, with the exception of some restrictions on select lawn-watering activities.

HILLIARD LYONS WATER UTILITY COVERAGE LIST COMPARABLES

Actual // *Estimate*

Company	Ticker	Price 10-Jul-12	Target Price	Rating	Revenue TTM ($MM's)	Mkt Cap ($MM)	P/B (Q most recent)	LTD / Cap. (%)	EPS FY'11	EPS FY'12E	EPS FY'13E	P / E FY'11	P / E FY'12E	P / E FY'13E	5-Yr Avg P/E	3-Yr Avg EPS Growth	LFY EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
American Water Works	AWK	$ 35.06	$ 38	Buy	2,691.4	6,160.6	1.4x	56.0	$1.73	*$1.99*	*$2.10*	20.3x	17.6x	16.7x	19.0x	17%	9.2x	2.9%	49	0.4%	794,455
Aqua America	WTR	$ 26.08	$ 27	LT Buy	729.6	3,627.6	2.4x	53.0	$0.94	*$1.04*	*$1.14*	27.6x	25.1x	22.9x	24.4x	11%	11.2x	2.5%	66	3.7%	723,014
Artesian Resources	ARTNA	$ 21.50	$ 23	Buy	65.1	162.4	1.4x	48.0	$0.83	*$1.17*	*$1.22*	26.0x	18.3x	17.6x	19.5x	-5%	10.1x	3.7%	79	3.3%	28,596
California Water Service	CWT	$ 18.77	$ 20.5	LT Buy	501.8	786.6	1.7x	52.0	$0.86	*$1.03*	*$1.13*	21.9x	18.3x	16.6x	21.3x	-6%	8.6x	3.4%	74	3.3%	204,245
York Water Company	YORW	$ 17.94	--	Neutral	40.6	230.2	2.3x	47.0	$0.71	*$0.74*	*$0.78*	25.1x	24.1x	22.9x	23.9x	5%	12.3x	3.0%	77	3.2%	40,860
					Averages:		1.9x	51.2				24.2x	20.7x	19.3x	21.6x	4.4%	10.3x	3.1%	69	2.8%	

Source: Company reports, Baseline, and Hilliard Lyons estimates

WATER UTILITY INDUSTRY COMPARABLES

Actual // *Estimate*

Company	Ticker	Price 10-Jul-12	Revenue TTM ($MM)	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	Consensus EPS FY'10	Consensus EPS FY'11	Consensus EPS FY'12E	P / E FY'10	P / E FY'11	P / E FY'12E	5-Yr Avg P/E	3-Yr Avg EPS Growth	TTM EBITDA Share	Curr EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
American States	AWR	$ 41.14	431.4	775.9	1.9x	45.0	$1.91	$2.23	*$2.31*	21.5x	18.4x	17.8x	20.6x	13%	$7.40	8.0x	2.7%	47	3.6%	95,727
American Water Works	AWK	$ 35.06	2,699.0	6,160.6	1.5x	56.0	$1.54	$1.88	*$1.96*	22.8x	18.6x	17.9x	19.0x	17%	$6.55	10.2x	2.9%	49	0.4%	794,455
Aqua America	WTR	$ 26.08	728.5	3,627.6	2.9x	53.0	$0.91	$0.97	*$1.07*	28.7x	26.9x	24.4x	24.4x	11%	$2.83	13.2x	2.5%	66	3.7%	723,014
Artesian Resources	ARTNA	$ 21.50	67.0	162.4	1.6x	48.0	$1.01	$0.82	*$1.14*	21.3x	26.2x	18.9x	19.5x	-5%	$3.59	9.8x	3.7%	79	3.3%	28,596
California Water Svc Grp	CWT	$ 18.77	520.4	786.6	1.7x	52.0	$0.91	$0.87	*$1.03*	20.6x	21.6x	18.2x	21.3x	-6%	$3.56	8.8x	3.4%	74	3.3%	204,245
Connecticut Water Service	CTWS	$ 29.80	78.7	262.2	2.2x	61.0	$1.13	$1.29	*$1.39*	26.4x	23.1x	21.4x	21.6x	6%	$3.77	14.4x	3.2%	75	3.8%	35,836
Consolidated Water	CWCO	$ 8.57	58.0	124.9	1.0x	5.0	$0.43	$0.42	*$0.59*	19.9x	16.8x	14.5x	25.4x	-23%	$0.93	7.9x	3.5%	68	4.0%	66,361
Middlesex Water	MSEX	$ 19.13	101.6	300.5	1.7x	42.0	$0.94	$0.84	*$0.83*	20.4x	22.8x	23.0x	20.3x	6%	$2.24	13.1x	3.9%	95	3.3%	31,219
SJW Corp.	SJW	$ 24.05	246.4	447.8	1.7x	57.0	$0.93	$0.93	*$0.99*	25.9x	25.9x	24.3x	26.4x	4%	$4.44	9.4x	3.0%	73	2.5%	31,151
York Water Co.	YORW	$ 17.94	40.7	230.2	2.4x	47.0	$0.71	$0.71	*$0.75*	25.3x	25.3x	23.9x	23.9x	5%	$1.86	13.1x	3.0%	77	3.2%	40,860
			Averages:		1.9x	46.6				23.3x	22.6x	20.4x	22.2x	2.8%		10.8x	3.2%	70.3	3.1%	

Source: Company reports and Baseline

GLOSSARY

allowed rate of return- the rate of return a regulatory commission allows on rate base in establishing just and reasonable rates for a utility; it is usually based on the composite cost of financing rate base from debt, preferred stock, and common equity

decoupling- breaks the link between earnings and revenues, allowing utilities to encourage conservation without being penalized from lower usage

DSIC- Distribution System Improvement Charge, infrastructure surcharge allowed in some states (incl. DE, IN, NY, & PA) that allows a portion of costs to be included in rates until a decision is rendered from regulators for a rate case

Bcf- one billion cubic feet

Dekatherm- (Dth) unit of heating value equivalent to 10 therms or 1,000,000 Btu's

desalination- removes salt and particulates from seawater, making it potable

heating degree day- based on extent to which the daily mean temperature falls below a reference temperature, usually 65°F

IISM- Infrastructure Investment Surcharge Mechanism, similar to DSIC in CA

LDC- local distribution company

MCBA- Modified Cost Balancing Account, tracks cost changes such as those for supply mix variations for later recovery or refund in rates and includes all wholesale costs, making balancing accounts more equitable in regards to changes in prices for purchased water, pump taxes, and mix for supply sources in California

Mcf- one thousand cubic feet

MMcf- one million cubic feet

peak-shaving- using sources of energy such as natural gas from storage to supplement the normal amounts delivered to customers during peak-use periods; using these supplemental sources prevents pipelines from having to expand their delivery facilities just to accommodate short periods of extremely high demand

QIPS- Qualifying Infrastructure Plant Surcharge in IL, similar to DSIC

rate base- the value established by a regulatory authority upon which a utility is permitted to earn a specified rate of return, generally representing the amount of property used in public service; the investment included in rate base may be based on fair value, investment, reproduction cost, or original cost; the rate base may provide for the inclusion of working capital with allowances for working capital, materials and supplies

reverse osmosis- moves seawater through a series of filtering membranes with pores that let water molecules permeate, but not salt and pollutants

therm- unit of heating equivalent to 100,000 Btu's

WNA- weather normalization adjustment, the rate adjustment approved by certain regulatory commissions that allow a company to increase the base rate portion of customers' bills when weather is warmer than normal and decrease the base rate when weather is colder than normal

WRAM- Water Revenue Adjustment Mechanism, decouples water sales from revenues in CA

****Adjective Scale Used in Text****

Least Intense	Negligible/Immaterial
	Slight
	Mild/ Minor
	Modest
	Moderate
Most Intense	Major/Severe

Additional information is available upon request.

Prices and all price sensitive data as-of Tuesday, July 10, close

RECENTLY PUBLISHED RESEARCH (listed chronologically)

Chesapeake Utilities Corp. (CPK - $45.98, Long-term Buy, $48 TP) 7/2/12: Acquisition Announced in Maryland by CPK; Adjusting Estimates and Raising Price Target.

Artesian Resources Corp. (ARTNA - $21.50, Buy, $23 TP) 6/18/12: Raising Rating on ARTNA; Maintaining Price Target.

Aqua America (WTR - $26.08, Long-term Buy, $27 TP) 6/18/12: Raising Price Target on WTR; Maintaining Rating.

Piedmont Natural Gas Co. (PNY - $32.54, Neutral) 6/11/12: Q2'12 Results for PNY; Quiet Quarter with Minor Weather Impact.

New Jersey Resources Corp. (NJR - $44.98, Neutral) 5/29/12: Adjusting 2012 and 2013 Estimates for NJR.

California Water Service Group (CWT - $18.77, Long-term Buy, $20.50 TP) 5/14/12: Q1'12 Results for CWT; Maintaining Outlook.

York Water Group (YORW - $17.94, Neutral) 5/14/12: Q1'12 Results for YORW; Maintaining Neutral Rating.

WGL Holdings, Inc. (WGL - $39.75, Long-term Buy, $44 TP) 5/11/12: Fiscal Q2'12 Results for WGL; Moderating Rating and Price Target.

Atmos Energy Corp. (ATO - $36.11, Long-term Buy, $37 TP) 5/10/12: Fiscal Q2'12 Results; Moderating Price Target but Maintaining Rating.

South Jersey Industries (SJI - $52.67, Neutral) 5/7/12: Q1'12 Results for SJI.

Northwest Natural Gas Co. (NWN - $47.97, Neutral) 5/4/12: Q1'12 Results for NWN; Neutral Thesis Intact.

American Water Works Co. (AWK - $35.06, Buy, $38 TP) 5/4/12: Q1'12 Results for AWK; Thesis Intact.

Analyst Certification

I, Joel K. Havard, 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.

I, Spencer E. Joyce, 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.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of Artesian Resources Corp. in the past 12 months.

Hilliard Lyons has received investment banking compensation from Artesian Resources Corp. in the past 12 months.

Definitions of 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. **Neutral** - We believe the stock is 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 decline in the next 12 months.

Definitions of Suitabilities: **1** - A large cap, core holding with a solid history. **2** - A historically secure company that could be cyclical, have 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 revenue, volatility, low trading volume or a narrow customer or product base

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	63	48%	8%	92%
Hold/Neutral	65	49%	5%	95%
Sell	4	3%	0%	100%

As of 10 July 2012

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities.

HILLIARD LYONS

Natural Gas Utilities
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May 10, 2012

COMPANY UPDATE / TARGET PRICE CHANGE

Key Metrics

ATO - NYSE - as of	5/9/12		$32.59
Price Target			$37.00
52-Week Range		$28.51 -	$35.55
Shares Outstanding (mm)			90.2
Market Cap. ($mm)			$2,940.2
1-Mo. Average Daily Volume			500,161
Institutional Ownership			56.3%
LT Debt/Total Capital	Q2'12		50.0%
ROE	FY'11		9.2%
Book Value / Share	Q2'12		$21.66
Price / Book Value			1.5x
Dividend Yield			4.2%
LTM EBITDA Margin			14.9%

EPS FY 9/30 (ex unrealized gain/loss & one-time items)

	2011A	Prior 2012E	Current 2012E		Prior 2013E	Current 2013E
1Q	$0.81	--	$0.61	A	--	--
2Q	*$1.35	--	$1.28	A	--	--
3Q	*$0.06	$0.15	$0.17		--	--
4Q	*$0.09	$0.15	$0.22		--	--
Year	$2.31	$2.30	$2.28		$2.55	$2.55
P/E	14.1x		14.3x		--	12.8x

**Exclusive of one-time items*

Revenue ($MM)

	2011A	Prior 2012E	Current 2012E		Prior 2013E	Current 2013E
1Q	$1,133	--	$1,101	A	--	--
2Q	$1,581	--	$1,246	A	--	--
3Q	$844	$861	$919		--	--
4Q	$789	$716	$733		--	--
Year	$4,348	$4,432	$3,999		$4,451	$4,294

Company Description: *Headquartered in Dallas, Texas, Atmos is the largest natural gas-only distributor in the US. It serves more than three million utility customers in 12 states, and has non-utility operations in 22 states. It also provides natural gas marketing and procurement services and manages company owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Atmos Energy Corp.

ATO — NYSE — Long-term Buy-2

Fiscal Q2'12 Results; Moderating Price Target but Maintaining Rating

Investment Highlights

- Atmos Energy Corp. reported fiscal Q2'12 (ending 3/31/12) adjusted EPS of $1.28 vs. $1.35 in the year ago period. Our estimate called for $1.39/share and consensus stood at $1.43/share.
- Regulated operations held relatively firm in the face of difficult weather conditions. The distribution and regulated storage and transmission segments posted gross margin from continuing operations gains of ~$1.8MM and ~$3MM, respectively. Non-regulated operations were a significant drag on overall results, though the company anticipates realizing spreads locked in during the first half of fiscal '12 during fiscal Q3 and Q4.
- Management reiterated EPS guidance for full year 2012 in the range of $2.30-$2.40. Despite the downside to our Q2 number, we are only trimming our full year 2012 estimate by $0.02, and are holding firm our 2013 estimate at $2.55.
- We are maintaining our Long-term Buy rating on ATO, but are trimming our two-year price target by $1 to $37. We derive our target by averaging the share prices of 15x our 2013 earnings estimate, and the price that would indicate a 4% dividend yield based on our two year forward dividend estimates.
- We believe our valuation is appropriate as fifteen times earnings is within the range where shares typically trade, and given our stable outlook for company fundamentals, we believe shares will trend toward this figure. However, the stock has only rarely traded with yields much below 4% over the past decade, thus the slight downward adjustment to our target price.

Note Important Disclosures on Pages 5-6
Note Analyst Certifications on Page 5

ADDITIONAL DISCUSSION

Moving past the anticipation of realizing margins locked in during the first half of 2012 on the non-regulated side, the major story for Atmos going forward centers on regulated infrastructure investment and the resulting rate case awards and recovery mechanism adjustments. The company expects to grow rate base through 2016 at a compound annual growth rate of 8%-8.5%, up from 6%-6.5% previously. Through this targeted investment, we also expect the company to alter its profit mix more toward the regulated side.

We are attracted to this strategy as regulated operations typically produce more stable and predictable earnings. Management guidance expects ~10% of profit to be generated by non-regulated operations in fiscal 2012, but we believe that the ideal/terminal profit mix will see non-regulated profits account for approximately 5% of earnings.

Additionally, ATO is in the process of exiting the regulated distribution business in the states of Missouri, Illinois and Iowa. Though this seems counter to company strategy, we believe that the divestiture will allow the company to focus on its most friendly regulatory jurisdictions and most profitable service territories. Additionally, we believe the company is receiving a fair price for its assets. Thus, we view the transaction positively.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation by customers in order to reduce consumption.

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. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities. Additionally, we anticipate a high level of capital expenditure over the coming years; inability to access the capital markets may negatively impact the company's growth prospects.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Atmos Energy Corp. FYE Sept

Income Statements (000's)	FY'09	FY'10	Q1'11	Q2'11	Q3'11	Q4'11	FY'11	Q1'12	Q2'12	Q3'12E	Q4'12E	FY'12E	FY'13E
Operating revenues													
Natural gas distribution segment	**2,884,796**	**2,842,638**	703,462	1,077,414	407,031	343,956	**2,531,863**	693,292	889,008	419,216	293,934	**2,295,450**	**2,417,269**
Regulated transmission and storage	**209,658**	**203,013**	49,007	54,976	53,570	61,820	**219,373**	56,759	58,037	58,927	68,002	**241,725**	**265,898**
Nonregulated segment	**2,283,988**	**2,146,658**	475,640	583,531	491,285	474,437	**2,024,893**	444,176	370,763	540,414	461,384	**1,816,737**	**2,001,000**
Intersegment eliminations	**(509,331)**	**(472,474)**	(94,847)	(134,424)	(108,271)	(90,953)	**(428,495)**	(93,054)	(71,358)	(100,000)	(90,000)	**(354,412)**	**(390,000)**
Total operating revenues	**4,869,111**	**4,719,835**	1,133,262	1,581,497	843,615	789,260	**4,347,634**	1,101,173	1,246,450	918,556	733,320	**3,999,500**	**4,294,166**
Purchased gas cost													
Natural gas distribution segment	**1,887,192**	**1,820,627**	412,526	698,410	206,839	169,724	**1,487,499**	402,207	508,206	209,358	117,374	**1,237,145**	**1,332,703**
Nonregulated segment	**2,169,880**	**2,032,567**	450,462	563,473	477,880	468,078	**1,959,893**	428,771	374,992	497,180	406,018	**1,706,962**	**1,886,000**
Intersegment eliminations	**(507,639)**	**(470,864)**	(94,450)	(134,054)	(107,909)	(90,586)	**(426,999)**	(92,687)	(74,009)	(99,000)	(89,000)	**(354,696)**	**(386,000)**
Total purchased gas cost	**3,549,433**	**3,382,330**	768,538	1,127,829	576,810	547,216	**3,020,393**	738,291	809,189	607,538	434,392	**2,589,410**	**2,832,703**
Gross profit	**1,319,678**	**1,337,505**	364,724	453,668	266,805	242,044	**1,327,241**	362,882	434,261	311,018	298,928	**1,410,090**	**1,461,463**
Operating expenses													
Operation and maintenance expense	**485,704**	**460,513**	114,490	114,162	112,665	107,973	**449,290**	116,062	110,708	117,565	125,550	**469,885**	**491,595**
Depreciation and amortization	**211,984**	**211,589**	54,777	55,467	56,932	59,923	**227,099**	59,215	60,272	62,382	64,253	**246,121**	**249,778**
Taxes, other than income	**180,242**	**188,252**	40,168	53,558	52,142	32,815	**178,683**	43,198	54,919	68,424	38,861	**205,402**	**204,375**
Impairment of long-lived assets	**5,382**			19,282	10,988		**30,270**						
Total operating expenses	**883,312**	**860,354**	209,435	242,469	232,727	200,711	**885,342**	218,475	225,899	248,370	228,664	**921,408**	**945,748**
Operating income	**436,366**	**477,151**	155,289	211,199	34,078	41,333	**441,899**	144,407	208,362	62,648	70,265	**488,682**	**515,715**
Other income (expense)													
Miscellaneous income (expense)	**(3,067)**	**(156)**	(726)	26,202	(1,430)	(2,547)	**21,499**	(1,875)	616	(1,430)	(2,547)	**(5,236)**	**(5,236)**
Total other income (expense)	**(3,067)**	**(156)**	(726)	26,202	(1,430)	(2,547)	**21,499**	(1,875)	616	(1,430)	(2,547)	**(5,236)**	**(5,236)**
Interest charges	**152,638**	**154,360**	38,895	37,875	35,845	38,210	**150,825**	35,442	36,660	35,660	35,660	**143,422**	**146,640**
Inc Cont'd Ops pre-tax	**280,661**	**322,635**	115,668	199,526	(3,197)	576	**312,573**	107,090	172,318	25,558	32,058	**340,024**	**363,839**
Income tax expense	**97,362**	**124,362**	44,568	71,366	(1,723)	(522)	**113,689**	41,302	66,408	9,968	12,503	**130,180**	**133,149**
Net Income Cont'd Ops	**183,299**	**198,273**	71,100	128,160	(1,474)	1,098	**198,884**	65,788	105,910	15,590	19,555		
Income from discontinued operations	**7,679**	**7,566**	2,897	4,049	908	863	**8,717**	2,719	3,201				
Net income	**$190,978**	**$205,839**	73,997	132,209	(566)	1,961	**$207,601**	68,507	109,111	15,590	19,555	**$209,844**	**$230,691**
Average shares outstanding (FD)	**91,620**	**92,422**	90,408	90,533	90,127	90,576	**90,652**	90,546	90,322	90,322	90,322		**90,467**
Net Income per Share	**$2.07**	**$2.20**	$0.81	$1.45	($0.01)	$0.02	**$2.27**	$0.75	$1.21	$0.17	$0.22	**$2.35**	**$2.55**
MTM gains (losses)	**($0.23)**	**($0.05)**	$0.00	($0.02)	$0.00	($0.05)	**($0.07)**	$0.14	($0.07)				
One-time benefits (charges)	**$0.19**	**$0.05**	$0.00	$0.12	($0.07)	($0.02)	**$0.03**	$0.00	$0.00				
Adjused EPS	**$2.11**	**$2.20**	$0.81	$1.35	$0.06	$0.09	**$2.31**	$0.61	$1.28	$0.17	$0.22	**$2.28**	**$2.55**
Dividends per share	**$1.320**	**$1.340**	$0.335	$0.340	$0.340	$0.340	**$1.355**	$0.340	$0.345	$0.345	$0.345	**$1.375**	**$1.395**
												EPS Ex-MTM Guidance. $2.30-$2.40	

Source: Company reports and Hilliard Lyons estimates

Atmos Energy Corp. FYE Sept

Balance Sheet Analysis ('000s)	FY'09	FY'10	Q1'11	Q2'11	Q3'11	Q4'11	FY'11	Q1'12	Q2'12	Q3'12E	Q4'12E	FY'12E	FY'13E
Cash	$111,203	$131,952	$129,892	$153,246	$117,429	$131,419	$131,419	$85,160	$47,040	$31,032	$43,703	$43,703	$13,000
A/R	232,806	273,207	564,934	458,813	342,092	273,303	273,303	489,797	350,261	299,000	287,000	287,000	321,000
Gas stored underground	352,728	319,038	339,105	228,051	256,768	289,760	289,760	325,669	221,112	249,000	275,000	275,000	461,000
Total other	132,203	150,995	229,324	143,978	273,459	316,471	316,471	360,615	275,428	311,000	155,000	155,000	139,000
Total current assets	828,940	875,192	1,263,255	984,088	989,748	1,010,953	1,010,953	1,261,241	893,841	890,032	760,703	760,703	934,000
Net PP&E	4,439,103	4,793,075	4,859,344	4,914,650	4,916,051	5,147,918	5,147,918	5,246,213	5,334,012	5,432,000	5,528,000	5,528,000	6,028,000
Goodwill	740,064	740,148	739,991	739,834	739,677	740,207	740,207	740,196	740,185	740,200	740,200	740,200	740,000
Deferred charges and other assets	358,976	355,376	359,033	357,252	347,994	383,793	383,793	387,982	400,689	400,700	400,700	400,700	410,000
Total Assets	$6,367,083	$6,763,791	$7,221,623	$6,995,824	$6,993,470	$7,282,871	$7,282,871	$7,635,632	$7,368,727	$7,462,932	$7,429,603	$7,429,603	$8,112,000
Short-term debt	72,550	126,100	247,993	-	-	206,396	206,396	389,985	173,996	224,000	274,000	274,000	289,000
A/P	207,421	266,208	510,085	423,726	312,205	291,205	291,205	432,332	309,864	249,000	239,000	239,000	396,000
Total other	457,450	773,771	702,348	654,258	336,077	369,997	369,997	357,484	624,254	435,000	478,000	478,000	429,000
Total current liabilities	737,421	1,166,079	1,460,426	1,077,984	648,282	867,598	867,598	1,179,801	1,108,114	908,000	991,000	991,000	1,114,000
LTD	1,972,827	2,172,696	1,807,319	1,807,323	2,206,106	2,206,117	2,212,565	2,206,193	1,956,213	1,956,000	1,956,000	1,956,000	2,213,000
Deferred income taxes	570,940	829,128	892,090	944,605	967,607	960,093	960,093	981,559	1,062,488	460,000	430,000	430,000	386,000
Reg cost of removal obligation	344,403	350,521	354,871	364,709	396,201	428,947	428,947	437,660	414,001	386,000	335,000	335,000	300,000
Deferred credits and other liabilities	368,158	430,164	432,064	427,224	439,450	564,695	564,695	562,657	467,199	299,000	287,000	287,000	257,000
Shareholders' equity	$2,176,761	$2,178,348	2,274,853	2,373,979	2,335,824	2,255,421	$2,255,421	2,267,762	$1,956,213	$2,154,000	$2,131,000	$2,131,000	$2,543,000
Total Liab & SE	$6,367,083	$6,763,791	$7,221,623	$6,995,824	$6,993,470	$7,282,871	$7,282,871	$7,635,632	$7,368,727	$7,462,932	$7,429,603	$7,429,603	$8,112,000

Cash Flow Analysis (000's)	FY'09	FY'10	Q1'11	Q2'11	Q3'11	Q4'11	FY'11	Q1'12	Q2'12	Q3'12E	Q4'12E	FY'12E	FY'13E
Net income	190,978	205,839	$73,997	$132,209	($566)	$1,961	207,601	71,226	109,111	15,590	19,555	209,844	230,691
D&A	211,984	211,589	56,161	57,136	58,429	61,429	227,099	60,811	60,272	62,382	64,253	246,121	249,778
(Inc.) dec. in working cap.	50,984	403,155	(95,776)	(79,921)	(471,179)	212,101	(434,775)	15,656	257,593	(37,380)	(44,576)	191,293	(232,938)
Other operating activities	581,850	(99,478)	11,442	283,223	494,407	(212,209)	576,863	(162,984)	(50,962)	75,000	125,000	(13,946)	245,000
Operating cash flow	1,035,796	721,105	45,824	392,647	81,091	63,282	576,788	(15,291)	376,014	115,592	164,232	633,312	492,530
Cap ex	(509,494)	(542,636)	(123,162)	(123,501)	(143,620)	(232,682)	(622,965)	(154,394)	(156,729)	(160,000)	(160,000)	(631,000)	(750,000)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	(7,707)	(66)	(370)	(1,165)	(1,838)	(1,048)	(4,421)	(1,080)	(2,798)	10,000	(10,000)	(3,878)	30,000
Investing cash flow	(517,201)	(542,702)	(123,532)	(124,666)	(145,458)	(233,730)	(627,386)	(155,474)	(159,527)	(150,000)	(170,000)	(634,878)	(720,000)
LT debt proceeds	445,623	-	-	-	394,618	(152)	394,466	-	-	-	-	-	350,000
(Repayment) of LT debt	(407,353)	0	(10,000)	(66)	(350,000)	(65)	(360,131)	(2,303)	(66)	-	-	(2,400)	(250,000)
Net increase (dec) in ST debt	(283,981)	54,268	112,628	(241,512)	(3,188)	215,378	83,306	173,905	(222,820)	50,000	50,000	51,100	100,000
Stock issued	27,687	8,766	7,253	315	(20)	248	7,796	76	88	100	100	364	125,000
Stock repurchased	-	-	-	-	-	-	-	(12,535)	-	-	-	(12,500)	-
Dividends	(121,460)	(124,287)	(31,002)	(31,065)	(30,972)	(30,972)	(124,011)	(31,517)	(31,390)	(31,200)	(31,161)	(125,000)	(128,000)
Other financing activities	1,938	(101,772)	(3,231)	27,701	18,112	1	42,583	(3,120)	(419)	(500)	(500)	(4,539)	-
Financing cash flow	(337,546)	(163,025)	75,648	(244,627)	28,550	184,438	44,009	124,506	(254,607)	18,400	18,439	(93,262)	196,600
Net cash flow	181,049	15,378	(2,060)	23,354	(35,817)	13,990	(6,589)	(46,259)	(38,120)	(16,008)	12,671	(94,828)	(30,869)
Free cash flow (incl. div.)	397,135	54,116	(108,710)	236,916	(95,339)	(201,420)	(174,609)	(202,282)	185,097	(65,608)	(36,929)	(126,566)	(355,470)
FCF/share	$4.33	$0.59	($1.20)	$2.62	($1.06)	($2.22)	($1.93)	($2.23)	$2.05	($0.73)	($0.41)	($1.42)	($3.93)
EBITDA	$648,350	$688,740	$210,066	$266,666	$91,010	$101,256	$668,998	$203,622	$268,634	$125,029	$134,518	$734,803	$765,493
EBITDA/ gross margin	49.1%	51.5%	57.6%	58.8%	34.1%	41.8%	50.4%	56.1%	61.9%	40.2%	45.0%	52.1%	52.4%
EBITDA/share	7.1x	7.5x	2.3x	$2.95	$1.01	$1.12	$7.38	$2.25	$2.97	$1.38	$1.49	$8.22	$8.46
EV/EBITDA	6.9x	6.9x	5.4x	4.4x	14.0x	12.4x	7.5x	6.3x	4.4x	9.7x	9.0x	6.6x	7.0x

Selected Financial Statistics	FY'09	FY'10	Q1'11	Q2'11	Q3'11	Q4'11	FY'11	Q1'12E	Q2'12E	Q3'12E	Q4'12E	FY'12E	FY'13E
Book value	$23.76	$23.57	$25.16	$26.22	$25.92	$24.90	$24.88	$25.05	$21.66	$23.85	$23.59	$23.84	$28.11
Tangible book value	$15.68	$15.56	$16.98	$18.05	$17.71	$16.73	$16.71	$16.87	$13.46	$15.65	$15.40	$15.56	$19.93
Price/book	1.2x	1.2x	1.2x	1.3x	1.3x	1.3x	1.3x	1.3x	1.5x	1.4x	1.4x	1.4x	1.2x
LT debt/total capital	47.5%	49.9%	44.3%	43.2%	48.6%	49.4%	49.5%	49.3%	50.0%	47.6%	47.9%	47.9%	46.5%
ROE (TTM)	9.0%	9.5%	8.1%	8.7%	9.2%	9.2%	9.4%	8.8%	8.5%	9.0%	9.8%	9.6%	9.9%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Joel K. Havard, 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.

I, Spencer E. Joyce, 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

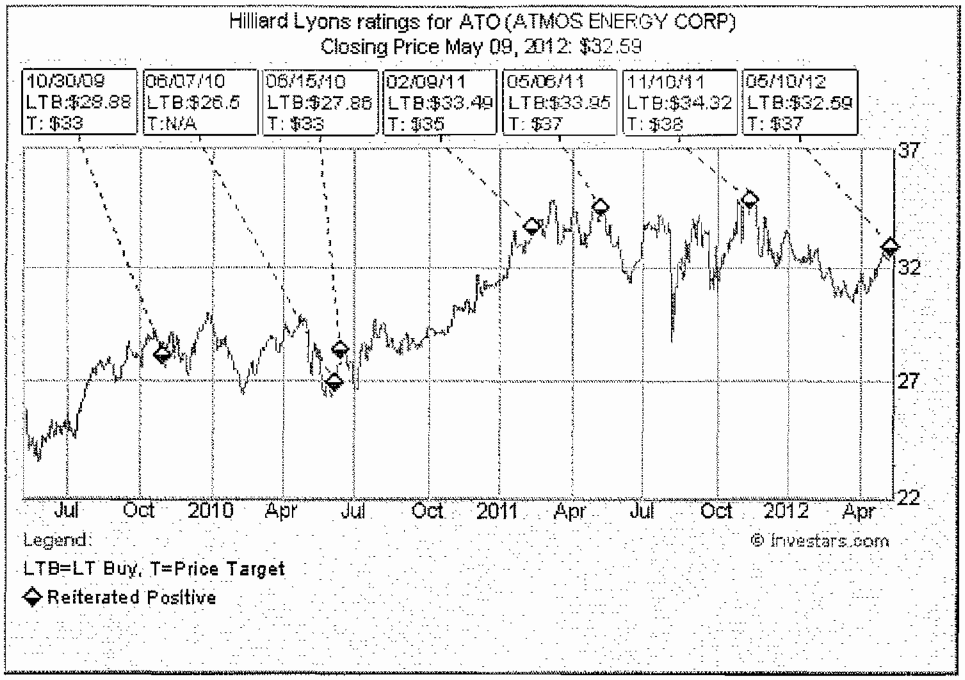
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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.
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.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	60	44%	7%	93%
Hold/Neutral	70	52%	1%	99%
Sell	4	3%	0%	100%
Restricted	1	1%	100%	0%

As of 10 April 2012

Other Disclosures

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Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Atmos is likely to put its balance sheet cash to work with an acquisition.

Updated Forecasts and Estimates from 23 Mar 2012

Morningstar Credit Committee
credit@morningstar.com

Committee members voting on rating do not own securities issued by the company.

Credit Analysis as of 05 Dec 2011
Business Analysis as of 05 Dec 2011
Estimates as of 23 Mar 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Credit Perspective 02 Dec 2011

At the end of fiscal 2011, Atmos' debt/capital ratio stood at 52%, in line with most utility peers. In addition, debt/last-12-months EBITDA was a modest 3.4 times, and EBITDA/interest coverage should hover around 4.5. While Atmos' credit metrics are currently very healthy, we believe the company is on the lookout for acquisition opportunities, which would probably lead to a releveraging of the balance sheet. The company could be in the market for more than $1 billion in combined debt and equity issuances over the next one to three years (maximum of $950 million of debt and $350 million of equity, per regulatory statute), depending on the market for gas local distribution company and pipeline acquisition targets. The sale of LDC assets for $124 million in 2012 should ease external financing needs.

The Cash Flow Cushion appears weak because utilities' regulatory compact requires continual investment and fund raising to maintain infrastructure performance. However, utilities receive full regulatory recovery of interest expense (interest plus amortized principal) along with a target return on equity. Dividends are paid out of excess cash flow from operations after the utility funds the regulatory allowed equity portion of growth capital, thus having little impact on bondholders.

The primary uncertainty that this company faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, a lowering of allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Also, Atmos could overpay in the expectation of improving regulation that may not be realized.

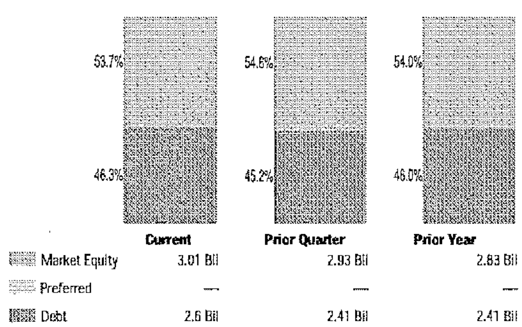
Credit Metrics (USD Mil)

	2010	2011	*2012(E)*	*2013(E)*
Cash And Equivalents	132	131	*354*	*292*
Total Debt	2,296	2,415	*2,663*	*2,747*
Interest Expense	162	158	*149*	*162*
EBITDA	707	706	*740*	*777*
Debt to Book Capital	0.5	0.5	*0.5*	*0.5*
Quick Ratio	0.3	0.5	*0.7*	*0.6*
Debt to EBITDA	3.2	3.4	*3.6*	*3.5*
EBITDA to Interest Expense	4.6	4.7	*5.0*	*4.8*

Operating Summary (USD Mil)

	2010	2011	*2012(E)*	*2013(E)*
Sales	4,790	4,348	*4,481*	*4,603*
% Change	-3.6	-9.2	*3.1*	*2.7*
EBIT	489	442	*496*	*520*
% Net Sales	10.2	10.2	*11.1*	*11.3*
Net Income	206	208	*219*	*225*
% Net Sales	4.3	4.8	*4.9*	*4.9*
Free Cash Flow	242	-29	*138*	*79*
% Net Sales	5.1	-0.7	*3.1*	*1.7*

Capital Structure



Source: Morningstar

Issuer Profile

Atmos Energy is the largest natural gas-only distributor in the United States, serving more than 3.1 million meters. After selling its Illinois, Iowa, and Missouri segment, its utility operations will serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | BBB+

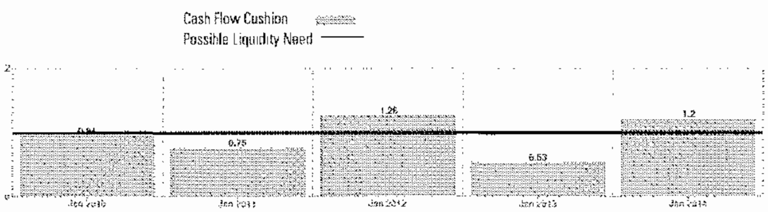
Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	131	354	292	420	237
Adjusted Free Cash Flow	157	99	96	98	196
Total Cash Available before Debt Service	171	331	261	386	297
Principal Payments	-2	-250	0	-500	0
Interest Payments	-149	-162	-178	-202	-215
Other Cash Obligations and Commitments	30	30	30	33	33
Total Cash Obligations and Commitments	-182	-442	-207	-735	-248

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	131	7.3
Sum of 5-Year Adjusted Free Cash Flow	13	0.7
Sum of Cash and 5-Year Cash Generation	144	8.0
Revolver Availability	703	38.7
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	847	46.7
Sum of 5-Year Cash Commitments	-1,813	—

Credit Rating Pillars—Peer Group Comparison

	ATO	Sector	Universe
Business Risk	4	4.9	5.3
Cash Flow Cushion	10	8.9	6.1
Solvency Score	5	6.0	4.9
Distance to Default	5	2.9	3.8
Credit Rating	BBB+	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

At the end of fiscal 2011, the company's debt/capital ratio stood at 52%. Interest coverage should remain around 3 times. Total debt/EBITDA could tick up slightly, averaging 3.6 times through 2016. Atmos has typically grown through acquisitions, and we believe it could be on the lookout for opportunities, which could lead to a releveraging of the balance sheet.

Capital Structure

While Atmos' debt/capital has hovered near 50% recently, we think the company could be gearing up for merger and acquisition activity. Atmos could be in the market for more than $1 billion of debt and equity issuances during the next year or two, depending on the market for local distribution companies and pipelines. In that event, Atmos can issue as much as $350 million in equity per regulatory statute, along with a maximum of $950 million in debt. The pending sale of some regulated subsidiaries will lessen the need to new financing should Atmos choose to make a move.

Enterprise Risk

The primary uncertainty that this company faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, lower allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Overpaying for acquisitions is also a risk, as Atmos is likely to expand through further acquisitions.

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Business Analysis

Thesis

As the nation's largest natural gas distribution utility, Atmos Energy brings together a patchwork of local distribution businesses from Virginia to Texas and a lower-risk investment opportunity for dividend-seeking investors. We like this company's focus on the basics and applaud the general efficiency of its overall rate structure, which should consistently provide healthy, if unexciting, returns.After the sale of its Illinois, Iowa, and Missouri business, Atmos will have regulated distribution operations across nine states. A highly diversified regulatory environment is one of Atmos' strengths. Harmful rate changes imposed by regulators are the bane of any utility. Regulators' ability to set rates counters the natural monopoly position of the utility, resulting in a narrow economic moat for most utilities. With so many different jurisdictions, however, Atmos is more insulated from individual negative events. It also enjoys some favorable rate mechanisms in its territories. The company is protected from weather-related fluctuations in customer usage for the bulk of its meter base, with a completely decoupled rate structure for another slice of it. Even better, Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case. All of these factors help Atmos to generate relatively stable cash flows.Atmos has historically grown through acquisition, purchasing 10 companies in the past 20 years. Its largest by far was the 2004 acquisition of TXU Gas, which added 1.5 million customers and a pipeline segment. These pipelines, which provide access to nine substantial natural gas basins in Texas, are a potential growth area for Atmos, especially if gas prices rise. But the system's contribution to the company's bottom line is still small compared with the gas utilities. Producers have also cut new investment substantially, threatening growth prospects, and competition is eating into unit margins.Atmos took on large amounts of debt to complete the purchase and integration of the TXU assets and spent a few years trimming its balance sheet to a more favorable size. The company has succeeded in bringing its debt/capitalization ratio back in the neighborhood of 50%, which could have management on the prowl again despite high local distribution company valuations. Atmos' balance sheet is well capitalized to weather the current credit markets, and we expect the company's acquisitive streak to pick up again during the next few years.

Economic Moat

Atmos owns a difficult-to-replicate network of natural gas distribution and transmission assets and provides an essential energy source to customers. In exchange for its service territory monopoly, Atmos' returns are set by state and federal regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Atmos to earn its cost of capital and leads us to assign the company a narrow moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Atmos from establishing a wide economic moat.

Moat Trend

Atmos' investment program is focused almost entirely on its regulated natural gas distribution and transmission businesses. Furthermore, the company is concentrating its growth expenditures in the territories where its regulatory return is swiftest and most transparent, like Texas. We do not foresee a material change in the regulatory compact that allows utilities to earn at a level that adequately compensates capital providers while ensuring utilities do not take advantage of their service area monopoly by gouging customers.

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
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Atmos Energy Corp ATO (NYSE) | BBB+

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	Forecast Sep 2012	Forecast Sep 2013
Total Revenue	**4,969**	**4,790**	**4,348**	***4,481***	***4,603***
Cost of Goods Sold	3,622	3,425	3,020	*3,089*	*3,148*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,392***	***1,455***
Selling, General & Administrative Expenses	494	468	449	*468*	*487*
Research & Development Expenses	0	0	0	*0*	*0*
Other Operating Expenses (Income)	183	191	179	*184*	*191*
Restructuring & Other Charges (Gains)	0	0	0	*-5*	*0*
Depreciation Expense (if reported separately)	217	217	227	*249*	*258*
Amortization of Other Intangibles (if reported seperately)	0	0	0	*0*	*0*
Amortization/Impairment of Goodwill	5	0	30	*0*	*0*
Total Expenses	**4,522**	**4,300**	**3,906**	***3,985***	***4,083***
Operating Income (EBIT)	**447**	**489**	**442**	***496***	***520***
Interest Expense	153	154	151	*149*	*162*
Interest & Other Income (Expense)	-3	0	21	*0*	*0*
Pre-Tax Income	**291**	**335**	**313**	***347***	***358***
Income Tax Expense (Benefit)	100	129	114	*128*	*132*
Income After Taxes	**191**	**206**	**199**	***219***	***225***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	0	0	0	*0*	*0*
(Preferred Dividends)	0	0	0	*0*	*0*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	9	*0*	*0*
Net Income (Loss)	**191**	**206**	**208**	***219***	***225***
Net Income (Loss) Excluding Charges	191	206	199	*215*	*225*
Diluted Shares Outstanding (Mil)	92	92	91	*90*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.42*	*2.49*
Diluted EPS Excluding Charges	2.30	2.25	2.34	*2.38*	*2.49*
Dividends Per Common Share	1.32	1.34	1.36	*1.40*	*1.45*
EBITDA	**670**	**707**	**706**	***745***	***777***
EBITDA without restructuring	**670**	**707**	**706**	***740***	***777***

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

				Forecast	
Assets	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Excess Cash & Investments	0	0	0	*289*	*227*
Operating Cash & Equivalents	111	132	131	*65*	*65*
Accounts Receivable	233	273	273	*295*	*277*
Inventory	353	319	290	*254*	*259*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,219***	***1,145***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,418*	*5,767*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,362*	*7,969*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,944*	*-2,202*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	0	0	0	*0*	*0*
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	0	0	0	*0*	*0*
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,761***	***8,036***
Liabilities					
Accounts Payable	207	266	291	*276*	*259*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***944***	***927***
Long-Term Debt	2,169	1,810	2,206	*2,363*	*2,447*
Incremental Debt Requirements	—	—	—	*0*	*0*
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,363***	***2,447***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,356***	***5,529***
Preferred Stock	**0**	**0**	**0**	***0***	***0***
Minority Interest	**0**	**0**	**0**	***0***	***0***
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,742*	*1,751*
Retained Earnings (Deficit)	405	487	570	*662*	*756*
(Treasury Stock)	0	0	0	*0*	*0*
Other Equity	-20	-23	-48	*0*	*0*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,404***	***2,507***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,761***	***8,036***
Difference, from analyst adjustments and restatements	0	0	0	*0*	*0*

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	*Forecast* Sep 2012	*Forecast* Sep 2013
Net Income from Continuing Operations	191	206	208	*219*	*225*
Depreciation Expense	217	217	233	*249*	*258*
Amortization of Other Intangibles	0	0	0	*0*	*0*
Impairment of Goodwill	5	0	30	*0*	*0*
Other Non-Cash Adjustments to Operating Income	0	0	0	*-5*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*-21*	*17*
(Increase) Decrease in Inventory	194	54	28	*36*	*-5*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	*0*	*0*
Increase (Decrease) in Accounts Payable	-182	58	24	*-15*	*-17*
Increase (Decrease) in Other Current Liabilities	84	15	14	*0*	*0*
Cash from Operations	**919**	**726**	**583**	***558***	***585***
(Capital Expenditures)	-509	-543	-623	*-638*	*-607*
(Acquisitions)	0	0	0	*0*	*0*
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	*0*
Other Investing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash from Investing	**-517**	**-543**	**-627**	***-514***	***-607***
Common Stock (Purchase) or Sale	28	-93	2	*9*	*9*
Common Stock (Dividends)	-121	-124	-124	*-127*	*-131*
Preferred Stock Issue/(Purchase)/(Dividends)	0	0	0	*0*	*0*
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	*0*
Long Term Debt Issuance and (Retirement)	40	0	82	*157*	*84*
Minority Interest Addback of Income (Loss) Distribution	0	0	0	*0*	*0*
Other Financing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***130***	***-39***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	0	0	0	*48*	*0*
Net Change in Cash	**64**	**21**	**-1**	***222***	***-61***
Change in Cash on Balance Sheet	64	21	-1	*222*	*-61*
Difference, from analyst adjustments and restatements	0	0	0	*0*	*0*

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
NiSource Inc NI USA	296 USD	53.7	53.4	53.1	23.7	24.1	24.1	14.4	15.1	15.2	4.6	5.6	5.7	-1.3	6.9	0.7
Southern Union Co SUG USA	235 USD	47.8	47.7	47.0	35.7	39.0	38.1	22.3	22.3	21.8	9.3	9.0	8.7	11.9	7.8	7.3
AGL Resources, Inc. GAS USA	234 USD	51.0	52.6	53.8	27.8	26.6	29.8	21.1	19.6	22.8	9.9	8.9	10.5	0.7	4.0	2.1
New Jersey Resources Corporation	101 USD	15.2	15.5	16.2	5.9	6.0	6.1	4.8	4.8	4.9	3.4	3.5	3.5	2.4	-2.3	0.9
Average		41.9	42.3	42.5	23.3	23.9	24.5	15.7	15.5	16.2	6.8	6.8	7.1	3.4	4.1	2.8
Atmos Energy Corp ATO US	**199** USD	**30.5**	**31.1**	**31.6**	**16.2**	**16.5**	**16.9**	**10.2**	**11.1**	**11.3**	**4.6**	**4.8**	**4.9**	**-0.9**	**-1.8**	**-0.5**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
NiSource Inc NI USA	7,353 USD	149.4	149.2	148.5	59.9	59.9	59.8	3.9	3.8	3.7	4.8	4.7	4.6	4.1	4.0	3.9
Southern Union Co SUG USA	3,969 USD	146.9	138.3	130.8	59.5	58.0	56.7	4.0	4.1	4.1	4.1	3.7	3.6	3.3	3.1	3.1
AGL Resources, Inc. GAS USA	2,541 USD	153.8	182.0	170.1	60.6	64.5	63.0	6.1	5.5	5.4	3.9	5.2	4.5	4.1	4.3	4.1
New Jersey Resources Corporation	594 USD	76.5	87.5	85.6	43.3	46.7	46.1	9.0	8.8	8.2	3.4	4.0	3.9	3.4	3.4	3.3
Average		131.7	139.3	133.8	55.8	57.3	56.4	5.8	5.6	5.4	4.1	4.4	4.2	3.7	3.7	3.6
Atmos Energy Corp ATO US	**2,415** USD	**107.1**	**110.8**	**109.6**	**51.7**	**52.6**	**52.3**	**4.7**	**5.0**	**4.8**	**3.4**	**3.6**	**3.5**	**3.2**	**3.2**	**3.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
NiSource Inc NI USA	6,778 USD	0.03	1.56	1.58	-26.22	-25.30	-25.88	2.57	5.37	3.89	-0.30	1.64	0.17	87.5	69.0	65.2
Southern Union Co SUG USA	5,294 USD	2.00	3.08	4.08	-29.90	-28.82	-27.82	5.18	4.12	4.34	2.57	1.72	1.67	29.9	32.0	33.7
AGL Resources, Inc. GAS USA	4,544 USD	0.21	6.79	5.77	-32.46	-33.93	-34.79	6.76	6.35	6.01	0.21	1.17	0.63	56.8	68.5	58.7
New Jersey Resources Corporation	1,850 USD	0.18	0.21	0.37	-14.10	-17.46	-18.06	6.02	3.73	4.58	1.75	-1.74	0.71	57.9	57.7	58.8
Average		0.6	2.9	3.0	-25.7	-26.4	-26.6	5.1	4.9	4.7	1.1	0.7	0.8	58.0	56.8	54.1
Atmos Energy Corp ATO US	**2,773** USD	**1.45**	**3.91**	**3.22**	**-25.19**	**-25.54**	**-27.06**	**6.43**	**6.17**	**6.44**	**-0.44**	**-0.89**	**-0.25**	**59.7**	**58.1**	**58.2**

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings

Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.80 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	C	BBB+	Utilities - Regulated

Atmos is likely to put its balance sheet cash to work with an acquisition.

Updated Forecasts and Estimates from 23 Mar 2012

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The primary analyst covering this company does not own its stock.

Research as of 05 Dec 2011
Estimates as of 23 Mar 2012
Pricing data through 23 Mar 2012
Rating updated as of 23 Mar 2012

Currency amounts expressed with '$' are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 02 Dec 2011

With its massive, diverse portfolio of gas distribution businesses and a small gas infrastructure business, Atmos has leverage to a structural increase in natural gas use in the U.S. economy. However, barring material economic improvement, it could take a while for this secular trend to translate into earnings growth. For now, Atmos is investing in its most favorable regulatory regimes to drive earnings growth that we forecast at 5% through 2013 and a more modest 4% through 2015. Combined with a 4.4% dividend yield at our fair value estimate, Atmos' returns should be in the middle of the utility pack--not surprising for such a large, geographically diversified company. While growth should be fairly consistent, investors should be comfortable with some acquisition risk, as we anticipate Atmos will be an active acquirer in the near to medium term.

Key Investment Considerations

- Currently trading at 13 times our 2013 earnings estimate, Atmos looks slightly overvalued.
- The formerly fast-growing pipeline and storage business in Texas is being crushed by lower volume, pricing, and increased competition.
- With a taste for acquisitive growth, Atmos risks overpaying, especially for regulated returns that could come under pressure or simply not materialize as expected in subsequent rate cases.

Vital Statistics

Market Cap (USD Mil)	2,773
52-Week High (USD)	35.55
52-Week Low (USD)	28.51
52-Week Total Return %	-4.1
YTD Total Return %	-6.6
Last Fiscal Year End	30 Sep 2011
5-Yr Forward Revenue CAGR %	8.5
5-Yr Forward EPS CAGR %	4.1
Price/Fair Value	0.99

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	13.0	13.9	*12.9*	*12.4*
EV/EBITDA	6.8	7.4	*7.1*	*6.8*
EV/EBIT	9.8	11.0	*10.8*	*10.2*
Free Cash Flow Yield %	7.0	-1.4	*-2.9*	*-0.8*
Dividend Yield %	4.7	4.2	*4.6*	*4.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	4,790	4,348	*4,481*	*4,603*
Revenue YoY %	-3.6	-9.2	*3.1*	*2.7*
EBIT	489	472	*491*	*520*
EBIT YoY %	8.1	-3.5	*4.0*	*5.8*
Net Income, Adjusted	206	199	*215*	*225*
Net Income YoY %	7.8	-3.4	*8.3*	*4.7*
Diluted EPS	2.25	2.34	*2.38*	*2.49*
Diluted EPS YoY %	6.9	-1.5	*8.5*	*4.4*
Free Cash Flow	184	-40	*-80*	*-22*
Free Cash Flow YoY %	-55.1	-121.8	*99.9*	*-72.0*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note: Our forecast could differ with as reported and consensus figures due to unique modeling conventions.

Profile

Atmos Energy is the largest natural gas-only distributor in the United States, serving more than 3.1 million meters. After selling its Illinois, Iowa, and Missouri segment, its utility operations will serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.80 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	C	BBB+	Utilities - Regulated

Morningstar Analysis

Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case.

Thesis 02 Dec 2011

As the nation's largest natural gas distribution utility, Atmos Energy brings together a patchwork of local distribution businesses from Virginia to Texas and a lower-risk investment opportunity for dividend-seeking investors. We like this company's focus on the basics and applaud the general efficiency of its overall rate structure, which should consistently provide healthy, if unexciting, returns.

After the sale of its Illinois, Iowa, and Missouri business, Atmos will have regulated distribution operations across nine states. A highly diversified regulatory environment is one of Atmos' strengths. Harmful rate changes imposed by regulators are the bane of any utility. Regulators' ability to set rates counters the natural monopoly position of the utility, resulting in a narrow economic moat for most utilities. With so many different jurisdictions, however, Atmos is more insulated from individual negative events. It also enjoys some favorable rate mechanisms in its territories. The company is protected from weather-related fluctuations in customer usage for the bulk of its meter base, with a completely decoupled rate structure for another slice of it. Even better, Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case. All of these factors help Atmos to generate relatively stable cash flows.

Atmos has historically grown through acquisition, purchasing 10 companies in the past 20 years. Its largest by far was the 2004 acquisition of TXU Gas, which added 1.5 million customers and a pipeline segment. These pipelines, which provide access to nine substantial natural gas basins in Texas, are a potential growth area for Atmos, especially if gas prices rise. But the system's contribution to the company's bottom line is still small compared with the gas utilities. Producers have also cut new investment substantially, threatening growth prospects, and competition is eating into unit margins.

Atmos took on large amounts of debt to complete the purchase and integration of the TXU assets and spent a few years trimming its balance sheet to a more favorable size. The company has succeeded in bringing its debt/capitalization ratio back in the neighborhood of 50%, which could have management on the prowl again despite high local distribution company valuations. Atmos' balance sheet is well capitalized to weather the current credit markets, and we expect the company's acquisitive streak to pick up again during the next few years.

Valuation, Growth and Profitability 02 Dec 2011

We are maintaining our fair value estimate of $31 per share after incorporating full-year 2011 results and guidance for 2012 and updating our estimates for operating expenses through 2016.

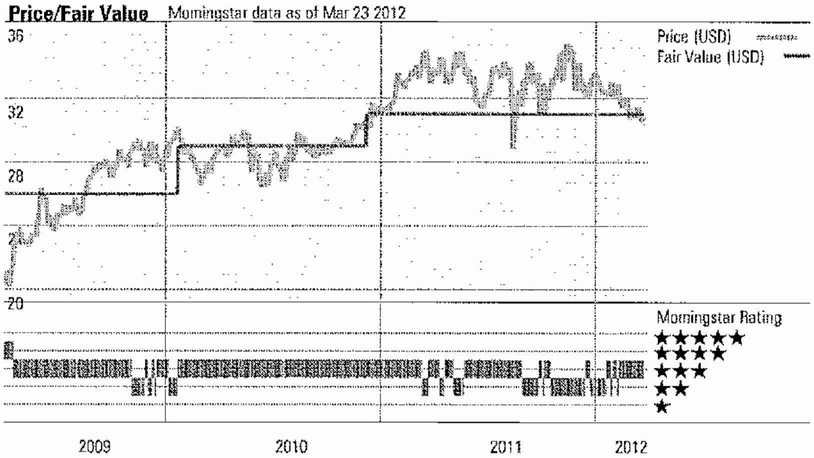
We expect that regulated growth expenditures will be concentrated at Atmos' mid- and west Texas utility and regulated pipelines, where the company can automatically implement recovery on an annual basis. Atmos has a substantial infrastructure program in these regions, supporting our projected 5.5% annualized gross margin growth through 2016. Our fair value estimate incorporates about $2.5 billion in regulated expenditures through 2016, driving average rate base growth of roughly 6% for 2012-16.

We project operating margins to average 10% during the same period, boosted by rate increases across Atmos' system. Our earnings growth estimate incorporates flat usage at the LDCs through 2016, assuming no growth through acquisitions. Although we anticipate that Atmos will begin testing the acquisition waters again, we do not explicitly project any activity. We use a 7.8% weighted average cost of capital in our discounted cash flow valuation based on an assumed cost of equity of 10% and current credit spreads.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.80 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	C	BBB+	Utilities - Regulated

Price/Fair Value Morningstar data as of Mar 23 2012



Scenario Analysis

Investors considering a position in Atmos should consider three major factors that could materially affect expected returns. The first, as with most regulated utilities, is the company's rate base growth. If we assume spending falls from our forecast levels by 25% annually, producing rate base growth of roughly 2.7%, our fair value estimate falls to $28 per share. If spending were to increase by a similar amount, rate base growth would climb more than 6% and our fair value estimate would rise to $34 per share, assuming full recovery.

Without decoupling mechanisms, Atmos' growth will be influenced by customer usage. A 50-basis-point change in this assumption would lead to a $1 change in our fair value estimate. Our assumed cost of equity has a significant impact on our valuation. A 50-basis-point change in our assumed cost of equity of 10% would lead to a $3 per share change in our fair value estimate.

Economic Moat

Atmos owns a difficult-to-replicate network of natural gas distribution and transmission assets and provides an essential energy source to customers. In exchange for its service territory monopoly, Atmos' returns are set by state and federal regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Atmos to earn its cost of capital and leads us to assign the company a narrow moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Atmos from establishing a wide economic moat.

Moat Trend

Atmos' investment program is focused almost entirely on its regulated natural gas distribution and transmission businesses. Furthermore, the company is concentrating its growth expenditures in the territories where its regulatory return is swiftest and most transparent, like Texas. We do not foresee a material change in the regulatory compact that allows utilities to earn at a level that adequately compensates capital providers while ensuring utilities do not take advantage of their service area monopoly by gouging customers.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.80 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	C	BBB+	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- Much of Atmos' meter base is covered by favorable rate mechanisms such as weather normalization and automated rate filings, which reduce regulatory risk.
- Atmos' regulated operations are distributed across 12 states, insulating companywide profitability from individual negative regulatory outcomes.
- Operating costs at Atmos' regulated utilities averaged $114 per customer versus a peer group average of $225 in 2010, and costs came down further in 2011.
- The company has increased its dividend consistently during the past 28 years, with 108 consecutive payouts.

Bears Say

- Although Atmos is protected from weather-related fluctuations, only a small percentage of its service area's rates are decoupled from usage patterns.
- Dividend-paying stocks such as Atmos are sensitive to interest rates. As interest rates go up, dividend-paying stocks can often underperform the broader market.
- Growth in production in the Barnett Shale in Texas fell off a cliff as the rig count dropped with natural gas prices, clipping pipeline throughput numbers.
- If the latest gas LDC deal comparables are any guide, Atmos could significantly overpay for any growth acquisitions, potentially destroying shareholder value.

Atmos Energy Corp ATO (NYSE) | ★★★

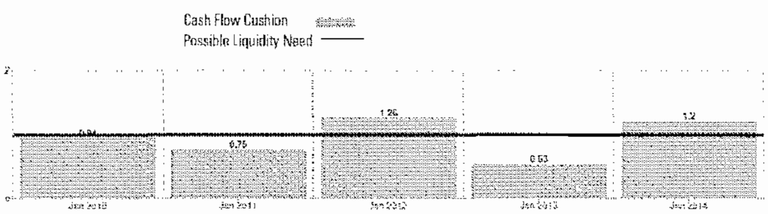
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.80 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	C	BBB+	Utilities - Regulated

Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	131	354	292	420	237
Adjusted Free Cash Flow	157	99	96	98	196
Total Cash Available before Debt Service	171	331	261	386	297
Principal Payments	-2	-250	0	-500	0
Interest Payments	-149	-162	-178	-202	-215
Other Cash Obligations and Commitments	30	30	30	33	33
Total Cash Obligations and Commitments	-182	-442	-207	-735	-248

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	131	7.3
Sum of 5-Year Adjusted Free Cash Flow	13	0.7
Sum of Cash and 5-Year Cash Generation	144	8.0
Revolver Availability	703	38.7
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	847	46.7
Sum of 5-Year Cash Commitments	-1,813	—

Credit Rating Pillars—Peer Group Comparison

	ATO	Sector	Universe
Business Risk	4	4.9	5.3
Cash Flow Cushion	10	8.9	6.1
Solvency Score	5	6.0	4.9
Distance to Default	5	2.9	3.8
Credit Rating	BBB+	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

At the end of fiscal 2011, the company's debt/capital ratio stood at 52%. Interest coverage should remain around 3 times. Total debt/EBITDA could tick up slightly, averaging 3.6 times through 2016. Atmos has typically grown through acquisitions, and we believe it could be on the lookout for opportunities, which could lead to a releveraging of the balance sheet.

Capital Structure

While Atmos' debt/capital has hovered near 50% recently, we think the company could be gearing up for merger and acquisition activity. Atmos could be in the market for more than $1 billion of debt and equity issuances during the next year or two, depending on the market for local distribution companies and pipelines. In that event, Atmos can issue as much as $350 million in equity per regulatory statute, along with a maximum of $950 million in debt. The pending sale of some regulated subsidiaries will lessen the need to new financing should Atmos choose to make a move.

Enterprise Risk

The primary uncertainty that this company faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, lower allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Overpaying for acquisitions is also a risk, as Atmos is likely to expand through further acquisitions.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
ROBERT W. BEST	Director	384,971	11 Nov 2011	—
MR. KIM R. COCKLIN	CEO/Director/President,Director	134,569	11 Nov 2011	—
RICHARD WARE,II	Director	34,079	03 Jan 2012	—
LOUIS P. GREGORY	General Counsel/Senior VP	33,938	29 Nov 2011	—
MR. FRED E. MEISENHEIMER	CFO/Senior VP	26,263	09 Mar 2012	1,000
MICHAEL E. HAEFNER	Senior VP, Divisional	16,976	08 Nov 2011	—
MARVIN L. SWEETIN	Senior VP, Divisional	10,299	11 Nov 2011	—
RICHARD W. DOUGLAS	Director	5,332	27 Feb 2012	3,163

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Allianz NFJ Small Cap Value Instl	★★★★★	2.21	0.82	0	29 Feb 2012
Vanguard Small Cap Index Inv	★★★	1.53	0.20	16	31 Dec 2011
Fidelity Mid-Cap Stock	★★	1.42	0.62	0	31 Jan 2012
Vanguard US Total Market Shares (AU) ETF		1.20	0.02	29	31 Dec 2011
SPDR S&P MidCap 400	★★★★	0.93	0.26	70	31 Jan 2012
Concentrated Holders					
New Alternatives	★	0.31	5.03	-25	31 Jan 2012
Speece Thorson Value Fund	★★★★	0.03	2.88	11	29 Feb 2012
StarCapital Priamos A EUR	★★	0.09	2.64	0	31 Dec 2011
JNL/Mellon Cap Mgmt S&P SMid 60 B	★★★★	0.40	2.46	-4	31 Dec 2011

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
TFS Market Neutral	★★★★★	0.14	0.23	125	31 Jul 2011
FBR Gas Utility Index Investor	★★★★★	0.39	2.19	92	31 Dec 2011
SPDR S&P MidCap 400	★★★★	0.93	0.26	70	31 Jan 2012
First Trust Utilities AlphaDEX	★★★	0.26	2.01	39	31 Jan 2012
Old Mutual Global Equity R	★★★★	0.04	0.50	34	31 Dec 2011
Top 5 Sellers					
Vanguard Strategic Equity Inv	★★★	0.08	0.08	-410	31 Dec 2011
Transamerica Large Cap Value I2	★★	0.01	0.08	-119	31 Dec 2011
AllianceBern Wealth Apprec Strat A	★	0.07	0.15	-36	31 Jan 2012
AllianceBern Balance Wealth Strat A	★★	0.04	0.08	-29	31 Jan 2012
LSV Value Equity	★★★	0.26	0.58	-27	31 Dec 2011

Stewardship: C 02 Dec 2011

Kim Cocklin replaced Robert Best as CEO in 2010. Cocklin had been president and COO of Atmos since 2008. Previously, he was a senior vice president in regulated operations for the company and had worked for Piedmont Gas for three years before that. We do not expect a significant shift in the company's strategy of growth through acquisition and emphasis on securing as much automatic rate relief as possible at the many utilities. Best had been president of Atmos since 1997 and served as the chairman of the American Gas Association in 2004. He oversaw seven acquisitions after inheriting the Atmos throne, expanding the company to the largest distribution utility in the United States. He received $875,372 in base salary and a $706,152 bonus in 2010. In 2010, Cocklin received a total of $2.8 million in compensation, after a big stock payout in 2009. We appreciate that most executive compensation comes from restricted-stock grants, aligning management's long-term interests with those of common shareholders. Management and directors combined hold a roughly 1.5% stake of the total common stock outstanding. The company earns a fair Stewardship Grade, which could be improved by declassifying the board of directors and removing the poison pill and supermajority voting requirements that could repel takeover attempts. We would also like to see performance incentives shifted away from earnings per share targets.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Sep 2009	Sep 2010	Sep 2011	Forecast Sep 2012	Forecast Sep 2013	5-Year Proj. CAGR
Revenue	-15.6	-31.2	-3.6	-9.2	3.1	2.7	—
EBIT	3.3	5.8	8.1	-3.5	4.0	5.8	5.1
EBITDA	3.9	6.6	5.4	-0.1	4.8	5.1	5.0
Net Income	3.3	5.9	7.8	-3.4	8.3	4.7	4.3
Diluted EPS	3.1	4.0	6.9	-1.5	8.5	4.4	4.1
Earnings Before Interest, after Tax	4.2	15.3	13.1	-13.1	-16.0	7.3	-1.5
Free Cash Flow to the Firm	-183.1	814.7	-47.2	-111.9	-578.9	-42.4	-243.1

Profitability	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Operating margin %	10.1	9.1	10.2	10.9	11.0	11.3	10.3
EBITDA margin %	14.8	13.5	14.8	16.2	16.5	16.9	15.4
Net margin %	4.2	3.8	4.3	4.6	4.8	4.9	4.4
Free Cash Flow to the Firm margin %	4.5	9.2	5.1	-0.7	3.1	1.7	2.0
ROIC with Goodwill %	8.9	9.1	9.7	7.8	6.1	6.3	5.9
ROIC w/out Goodwill %	10.1	10.5	11.2	8.8	6.9	7.0	6.5
Return on Assets, pretax %	6.9	7.0	7.5	6.3	6.6	6.6	6.6
Return on Equity %	9.2	9.0	9.5	9.0	9.4	9.2	9.1

Leverage	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Debt/Capital	0.51	0.51	0.51	0.52	0.53	0.52	0.53
Total Debt/EBITDA	3.34	3.35	3.25	3.42	3.60	3.53	3.58
EBITDA/Interest Expense	4.55	4.38	4.57	4.68	4.96	4.81	4.57

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.01	1.08	—	—
Price/Earnings	13.0	13.9	12.9	12.4
EV/EBITDA	6.8	7.4	7.1	6.8
EV/EBIT	9.8	11.0	10.8	10.2
Free Cash Flow Yield %	7.0	-1.4	-2.9	-0.8
Dividend Yield %	4.7	4.2	4.6	4.7

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.8
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	429	8.0	4.73
Present Value Stage II	4,910	92.0	54.22
Present Value of the Perpetuity	—	—	—
Total Firm Value	**5,339**	**100.0**	**—**
Cash and Equivalents	131	—	1.45
Debt	2,663	—	-26.66
Net balance sheet impact	-2,284	—	-25.21
Other Adjustments	-279	—	-3.08
Equity Value	**2,776**	**—**	**31.45**
Projected Diluted Shares	91		
Fair Value per Share (USD)	**31.00**		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

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Atmos Energy Corp ATO (NYSE) | ★★★

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30.80 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	C	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Total Revenue	**4,969**	**4,790**	**4,348**	***4,481***	***4,603***
Cost of Goods Sold	3,622	3,425	3,020	*3,089*	*3,148*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,392***	***1,455***
Selling, General & Administrative Expenses	494	468	449	*468*	*487*
Research & Development Expenses	0	0	0	*0*	*0*
Other Operating Expenses (Income)	183	191	179	*184*	*191*
Restructuring & Other Charges (Gains)	0	0	0	*-5*	*0*
Depreciation Expense (if reported separately)	217	217	227	*249*	*258*
Amortization of Other Intangibles (if reported seperately)	0	0	0	*0*	*0*
Amortization/Impairment of Goodwill	5	0	30	*0*	*0*
Total Expenses	**4,522**	**4,300**	**3,906**	***3,985***	***4,083***
Operating Income (EBIT)	**447**	**489**	**442**	***496***	***520***
Interest Expense	153	154	151	*149*	*162*
Interest & Other Income (Expense)	-3	0	21	*0*	*0*
Pre-Tax Income	**291**	**335**	**313**	***347***	***358***
Income Tax Expense (Benefit)	100	129	114	*128*	*132*
Income After Taxes	**191**	**206**	**199**	***219***	***225***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	0	0	0	*0*	*0*
(Preferred Dividends)	0	0	0	*0*	*0*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	9	*0*	*0*
Net Income (Loss)	**191**	**206**	**208**	***219***	***225***
Net Income (Loss) Excluding Charges	191	206	199	*215*	*225*
Diluted Shares Outstanding (Mil)	92	92	91	*90*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.42*	*2.49*
Diluted EPS Excluding Charges	2.30	2.25	2.34	*2.38*	*2.49*
Dividends Per Common Share	1.32	1.34	1.36	*1.40*	*1.45*
EBITDA	**670**	**707**	**706**	***745***	***777***
EBITDA without restructuring	**670**	**707**	**706**	***740***	***777***

Atmos Energy Corp ATO (NYSE) | ★★★

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30.80 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	C	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Assets	Sep 2009	Sep 2010	Sep 2011	*Forecast* Sep 2012	*Forecast* Sep 2013
Excess Cash & Investments	0	0	0	*289*	*227*
Operating Cash & Equivalents	111	132	131	*65*	*65*
Accounts Receivable	233	273	273	*295*	*277*
Inventory	353	319	290	*254*	*259*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,219***	***1,145***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,418*	*5,767*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,362*	*7,969*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,944*	*-2,202*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	0	0	0	*0*	*0*
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	0	0	0	*0*	*0*
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,761***	***8,036***
Liabilities					
Accounts Payable	207	266	291	*276*	*259*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***944***	***927***
Long-Term Debt	2,169	1,810	2,206	*2,363*	*2,447*
Incremental Debt Requirements	—	—	—	*0*	*0*
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,363***	***2,447***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,356***	***5,529***
Preferred Stock	**0**	**0**	**0**	***0***	***0***
Minority Interest	**0**	**0**	**0**	***0***	***0***
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,742*	*1,751*
Retained Earnings (Deficit)	405	487	570	*662*	*756*
(Treasury Stock)	0	0	0	*0*	*0*
Other Equity	-20	-23	-48	*0*	*0*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,404***	***2,507***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,761***	***8,036***
Difference, from analyst adjustments and restatements	0	0	0	*0*	*0*

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Net Income from Continuing Operations	191	206	208	*219*	*225*
Depreciation Expense	217	217	233	*249*	*258*
Amortization of Other Intangibles	0	0	0	*0*	*0*
Impairment of Goodwill	5	0	30	*0*	*0*
Other Non-Cash Adjustments to Operating Income	0	0	0	*-5*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*-21*	*17*
(Increase) Decrease in Inventory	194	54	28	*36*	*-5*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	*0*	*0*
Increase (Decrease) in Accounts Payable	-182	58	24	*-15*	*-17*
Increase (Decrease) in Other Current Liabilities	84	15	14	*0*	*0*
Cash from Operations	**919**	**726**	**583**	***558***	***585***
(Capital Expenditures)	-509	-543	-623	*-638*	*-607*
(Acquisitions)	0	0	0	*0*	*0*
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	*0*
Other Investing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash from Investing	**-517**	**-543**	**-627**	***-514***	***-607***
Common Stock (Purchase) or Sale	28	-93	2	*9*	*9*
Common Stock (Dividends)	-121	-124	-124	*-127*	*-131*
Preferred Stock Issue/(Purchase)/(Dividends)	0	0	0	*0*	*0*
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	*0*
Long Term Debt Issuance and (Retirement)	40	0	82	*157*	*84*
Minority Interest Addback of Income (Loss) Distribution	0	0	0	*0*	*0*
Other Financing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***130***	***-39***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	0	0	0	*48*	*0*
Net Change in Cash	**64**	**21**	**-1**	***222***	***-61***
Change in Cash on Balance Sheet	64	21	-1	*222*	*-61*
Difference, from analyst adjustments and restatements	0	0	0	*0*	*0*

MORNINGSTAR®

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings 2011	2012(E)	2013(E)	EV/EBITDA 2011	2012(E)	2013(E)	Price/Free Cash Flow 2011	2012(E)	2013(E)	Price/Book 2011	2012(E)	2013(E)	Price/Sales 2011	2012(E)	2013(E)
NiSource Inc NI USA	1.41	16.6	*18.1*	*16.9*	9.6	*9.1*	*8.7*	NM	*14.7*	*141.5*	1.4	*1.3*	*1.3*	1.0	*1.0*	*1.0*
Southern Union Co SUG USA	0.85	NA	*21.4*	*21.2*	NA	*8.4*	*8.2*	NA	*24.8*	*25.4*	NA	*1.8*	*1.7*	NA	*1.9*	*1.9*
AGL Resources, Inc. GAS USA	1.05	11.9	*14.7*	*12.1*	14.7	*15.3*	*13.1*	308.3	*49.9*	*92.3*	3.0	*2.6*	*2.4*	2.1	*2.0*	*1.9*
New Jersey Resources Corporation	1.17	16.6	*16.9*	*16.2*	13.3	*14.0*	*13.1*	24.3	*NM*	*63.0*	2.3	*2.2*	*2.1*	0.6	*0.6*	*0.6*
Average		15.0	*17.8*	*16.6*	12.5	*11.7*	*10.8*	166.3	*29.8*	*80.6*	2.2	*2.0*	*1.9*	1.2	*1.4*	*1.4*
Atmos Energy Corp ATO US	**0.99**	**13.9**	***12.9***	***12.4***	**7.4**	***7.1***	***6.8***	**NM**	***NM***	***NM***	**1.3**	***1.2***	***1.1***	**0.7**	***0.6***	***0.6***

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill % 2011	2012(E)	2013(E)	ROIC without Goodwill % 2011	2012(E)	2013(E)	Return on Equity % 2011	2012(E)	2013(E)	Return on Assets, Pretax % 2011	2012(E)	2013(E)	Dividend Yield % 2011	2012(E)	2013(E)
NiSource Inc NI USA	19,939 USD	6.0	*4.9*	*5.0*	7.9	*6.4*	*6.5*	6.0	*7.5*	*7.8*	4.7	*5.0*	*5.2*	3.8	*3.8*	*3.9*
Southern Union Co SUG USA	8,798 USD	8.0	*6.2*	*6.3*	8.1	*6.3*	*6.4*	9.6	*8.9*	*8.4*	7.1	*6.9*	*6.8*	NA	*1.5*	*1.6*
AGL Resources, Inc. GAS USA	6,710 USD	8.3	*6.9*	*7.1*	9.0	*7.4*	*7.6*	14.6	*13.0*	*14.8*	7.3	*6.4*	*7.2*	2.7	*3.1*	*3.2*
New Jersey Resources Corporation	2,649 USD	8.4	*7.1*	*6.7*	8.4	*7.1*	*6.7*	11.9	*12.2*	*11.9*	5.5	*5.4*	*5.4*	3.3	*3.4*	*3.6*
Average		7.7	*6.3*	*6.3*	8.4	*6.8*	*6.8*	10.5	*10.4*	*10.7*	6.2	*5.9*	*6.2*	3.3	*3.0*	*3.1*
Atmos Energy Corp ATO US	**7,283** USD	**7.8**	***6.1***	***6.3***	**8.8**	***6.9***	***7.0***	**9.0**	***9.4***	***9.2***	**6.3**	***6.6***	***6.6***	**4.2**	***4.6***	***4.7***

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth % 2011	2012(E)	2013(E)	EBIT Growth % 2011	2012(E)	2013(E)	EPS Growth % 2011	2012(E)	2013(E)	Free Cash Flow Growth % 2011	2012(E)	2013(E)	Dividend/Share Growth % 2011	2012(E)	2013(E)
NiSource Inc NI USA	6,422 USD	-3.4	*4.3*	*4.3*	12.5	*9.4*	*5.3*	20.2	*26.2*	*6.3*	-109.3	*-650.1*	*-89.6*	-0.6	*0.8*	*0.5*
Southern Union Co SUG USA	2,688 USD	7.9	*2.1*	*4.1*	6.0	*2.1*	*1.7*	5.8	*5.0*	*0.7*	142.9	*-33.3*	*-2.4*	0.6	*5.9*	*5.9*
AGL Resources, Inc. GAS USA	2,373 USD	2.4	*-3.6*	*4.1*	5.0	*-10.2*	*20.8*	4.5	*-12.5*	*21.9*	-86.2	*469.3*	*-45.9*	3.8	*5.4*	*4.4*
New Jersey Resources Corporation	3,009 USD	14.0	*3.1*	*4.4*	-24.0	*3.6*	*6.3*	-13.6	*8.4*	*3.9*	92.3	*-199.2*	*-140.8*	10.5	*8.0*	*6.0*
Average		5.2	*1.5*	*4.2*	-0.1	*1.2*	*8.5*	4.2	*6.8*	*8.2*	9.9	*-103.3*	*-69.7*	3.6	*5.0*	*4.2*
Atmos Energy Corp ATO US	**4,348** USD	**-9.2**	***3.1***	***2.7***	**-3.5**	***4.0***	***5.8***	**-1.5**	***8.5***	***4.4***	**-121.8**	***99.9***	***-72.0***	**1.7**	***2.7***	***3.0***

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
30.80 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	C	BBB+	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NiSource Inc NI USA	296 USD	53.7	53.4	53.1	23.7	24.1	24.1	14.4	15.1	15.2	4.6	5.6	5.7	-1.3	6.9	0.7
Southern Union Co SUG USA	235 USD	47.8	47.7	47.0	35.7	39.0	38.1	22.3	22.3	21.8	9.3	9.0	8.7	11.9	7.8	7.3
AGL Resources, Inc. GAS USA	234 USD	51.0	52.6	53.8	27.8	26.6	29.8	21.1	19.6	22.8	9.9	8.9	10.5	0.7	4.0	2.1
New Jersey Resources Corporation	101 USD	15.2	15.5	16.2	5.9	6.0	6.1	4.8	4.8	4.9	3.4	3.5	3.5	2.4	-2.3	0.9
Average		41.9	42.3	42.5	23.3	23.9	24.5	15.7	15.5	16.2	6.8	6.8	7.1	3.4	4.1	2.8
Atmos Energy Corp ATO US	**199** USD	**30.5**	**31.1**	**31.6**	**16.2**	**16.5**	**16.9**	**10.2**	**11.1**	**11.3**	**4.6**	**4.8**	**4.9**	**-0.9**	**-1.8**	**-0.5**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NiSource Inc NI USA	7,353 USD	149.4	149.2	148.5	59.9	59.9	59.8	3.9	3.8	3.7	4.8	4.7	4.6	4.1	4.0	3.9
Southern Union Co SUG USA	3,969 USD	146.9	138.3	130.8	59.5	58.0	56.7	4.0	4.1	4.1	4.1	3.7	3.6	3.3	3.1	3.1
AGL Resources, Inc. GAS USA	2,541 USD	153.8	182.0	170.1	60.6	64.5	63.0	6.1	5.5	5.4	3.9	5.2	4.5	4.1	4.3	4.1
New Jersey Resources Corporation	594 USD	76.5	87.5	85.6	43.3	46.7	46.1	9.0	8.8	8.2	3.4	4.0	3.9	3.4	3.4	3.3
Average		131.7	139.3	133.8	55.8	57.3	56.4	5.8	5.6	5.4	4.1	4.4	4.2	3.7	3.7	3.6
Atmos Energy Corp ATO US	**2,415** USD	**107.1**	**110.8**	**109.6**	**51.7**	**52.6**	**52.3**	**4.7**	**5.0**	**4.8**	**3.4**	**3.6**	**3.5**	**3.2**	**3.2**	**3.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NiSource Inc NI USA	6,778 USD	0.03	1.56	1.58	-26.22	-25.30	-25.88	2.57	5.37	3.89	-0.30	1.64	0.17	87.5	69.0	65.2
Southern Union Co SUG USA	5,294 USD	2.00	3.08	4.08	-29.90	-28.82	-27.82	5.18	4.12	4.34	2.57	1.72	1.67	29.9	32.0	33.7
AGL Resources, Inc. GAS USA	4,544 USD	0.21	6.79	5.77	-32.46	-33.93	-34.79	6.76	6.35	6.01	0.21	1.17	0.63	56.8	68.5	58.7
New Jersey Resources Corporation	1,850 USD	0.18	0.21	0.37	-14.10	-17.46	-18.06	6.02	3.73	4.58	1.75	-1.74	0.71	57.9	57.7	58.8
Average		0.6	2.9	3.0	-25.7	-26.4	-26.6	5.1	4.9	4.7	1.1	0.7	0.8	58.0	56.8	54.1
Atmos Energy Corp ATO US	**2,773** USD	**1.45**	**3.91**	**3.22**	**-25.19**	**-25.54**	**-27.06**	**6.43**	**6.17**	**6.44**	**-0.44**	**-0.89**	**-0.25**	**59.7**	**58.1**	**58.2**

Research Methodology for Valuing Companies

Components of Our Methodology

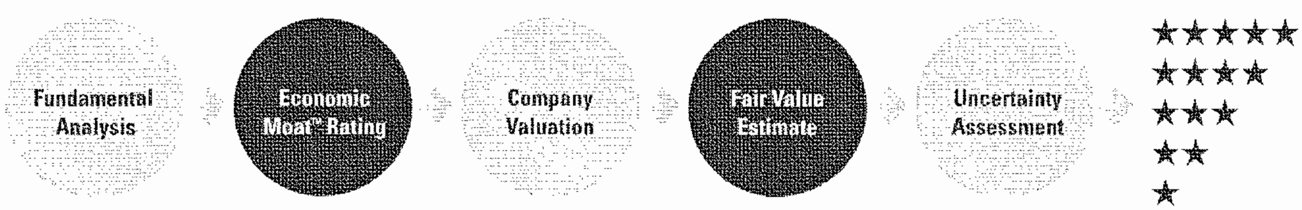
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Grades
- Financial Health Grades

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Analyst conducts company and industry research:

- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs (Microsoft)

Cost advantage (Wal-Mart)

Intangible assets (Johnson & Johnson)

Network Effect (Mastercard)

Efficient Scale (Lockheed Martin)

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.

The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme.

The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Grade Methodology
- Stock Grade Methodology for Financial Health

* Please contact a sales representative for more information.

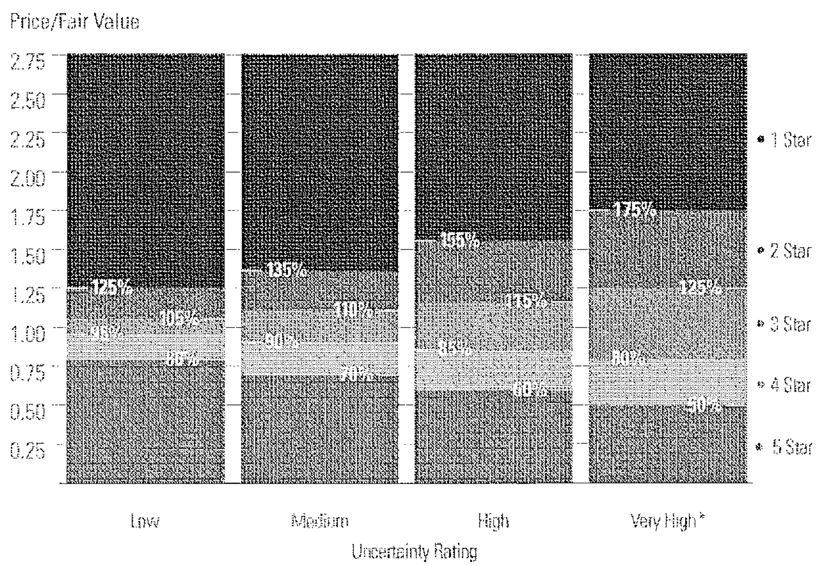
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

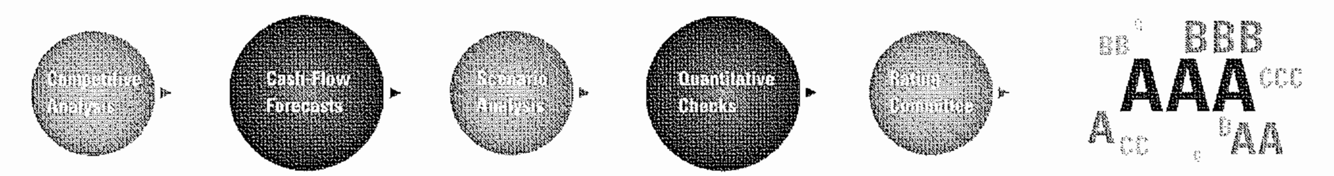
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Stress Test Score℠

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Bank Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.43 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	—	BBB+	Utilities - Regulated

Atmos Management Meeting: Shift Toward Internal Growth in Texas, M&A Looks Too Rich

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The primary analyst covering this company does not own its stock.

Research as of 07 May 2012
Estimates as of 23 Mar 2012
Pricing data through 04 May 2012
Rating updated as of 04 May 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 07 May 2012

Most of our discussion May 6 with Atmos' ATO management team, including president and CEO Kim Cocklin and CFO Fred Meisenheimer, at the American Gas Association Financial Forum in Scottsdale, Ariz., focused on the company's wide footprint of regulated operations.

Last week management said it is targeting 8.0%-8.5% rate base growth through 2016, up from its earlier 6.0%-6.5% forecast. Atmos has in the past been an acquisitive utility, but management sees such appealing growth opportunities at its regulated utilities, especially in Texas, that they have shifted their focus away from M&A toward increased investment in their system.

Management seems to agree with our view that utility valuations are overly rich at market prices given significant tax and inflation uncertainty as well as the difficulty of generating immediate earnings and value accretion from M&A. We will review our current 4% annual earnings growth projection through 2016 to incorporate the deluge of well-supported new regulatory spending and Atmos' move toward more organic growth. Driving much of the increased appetite for system investment is a supportive regulatory environment for its largest group of operations in Texas, where ratemaking continues to reduce investment lag and where management sees healthy upside from improving returns on equity at segments currently negotiating rate cases.

While distribution operations continue to improve, management is seeing material upside for its regulated Texas pipeline and storage business as well, driven by reliability improvements and higher associated gas production from oil drilling in West Texas. Management specifically highlighted the Waha hub as central to growth plans beyond planned projects like line W and X, which total

Vital Statistics

Market Cap (USD Mil)	2,920
52-Week High (USD)	35.55
52-Week Low (USD)	28.51
52-Week Total Return %	-1.2
YTD Total Return %	-1.7
Last Fiscal Year End	30 Sep 2011
5-Yr Forward Revenue CAGR %	8.5
5-Yr Forward EPS CAGR %	4.1
Price/Fair Value	1.05

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	13.0	13.9	*13.6*	*13.0*
EV/EBITDA	6.8	7.4	*7.1*	*6.8*
EV/EBIT	9.8	11.0	*10.7*	*10.1*
Free Cash Flow Yield %	7.0	-1.4	*-2.8*	*-0.8*
Dividend Yield %	4.7	4.2	*4.4*	*4.5*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	4,790	4,348	*4,481*	*4,603*
Revenue YoY %	-3.6	-9.2	*3.1*	*2.7*
EBIT	489	472	*491*	*520*
EBIT YoY %	8.1	-3.5	*4.0*	*5.8*
Net Income, Adjusted	206	199	*215*	*225*
Net Income YoY %	7.8	-3.4	*8.3*	*4.7*
Diluted EPS	2.25	2.34	*2.38*	*2.49*
Diluted EPS YoY %	6.9	-1.5	*8.5*	*4.4*
Free Cash Flow	184	-40	*-80*	*-22*
Free Cash Flow YoY %	-55.1	-121.8	*99.9*	*-72.0*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note: Our forecast could differ with as reported and consensus figures due to unique modeling conventions.

Profile

Atmos Energy is the largest natural gas-only distributor in the United States, serving more than 3.1 million meters. After selling its Illinois, Iowa, and Missouri segment, its utility operations will serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.43 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	—	BBB+	Utilities - Regulated

roughly $160 million in capital expenditure and qualify for expedited recovery under Texas' GRIP system. This segment had been hurt by a decline in gas drilling and volumes in the past few years but continued strong oil pricing for associated gas should provide favorable throughput continuing into 2013, supporting earnings improvement on top of new investment projects.

Like many of the management teams, Atmos' management team thinks the dividend tax issue is still unpredictable. However, parity in dividend and capital gains taxes is a priority for the industry and has the best likelihood of protecting utility valuations relative to the market in the event of an increase.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.43 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	—	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Sep 2009	Sep 2010	Sep 2011	*Forecast* Sep 2012	*Forecast* Sep 2013	5-Year Proj. CAGR
Revenue	-15.6	-31.2	-3.6	-9.2	3.1	2.7	—
EBIT	3.3	5.8	8.1	-3.5	4.0	5.8	5.1
EBITDA	3.9	6.6	5.4	-0.1	4.8	5.1	5.0
Net Income	3.3	5.9	7.8	-3.4	8.3	4.7	4.3
Diluted EPS	3.1	4.0	6.9	-1.5	8.5	4.4	4.1
Earnings Before Interest, after Tax	4.2	15.3	13.1	-13.1	-16.0	7.3	-1.5
Free Cash Flow to the Firm	-183.1	814.7	-47.2	-111.9	-578.9	-42.4	-243.1

Profitability	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Operating margin %	10.1	9.1	10.2	10.9	11.0	11.3	10.3
EBITDA margin %	14.8	13.5	14.8	16.2	16.5	16.9	15.4
Net margin %	4.2	3.8	4.3	4.6	4.8	4.9	4.4
Free Cash Flow to the Firm margin %	4.5	9.2	5.1	-0.7	3.1	1.7	2.0
ROIC with Goodwill %	8.9	9.1	9.7	7.8	6.1	6.3	5.9
ROIC w/out Goodwill %	10.1	10.5	11.2	8.8	6.9	7.0	6.5
Return on Assets, pretax %	6.9	7.0	7.5	6.3	6.6	6.6	6.6
Return on Equity %	9.2	9.0	9.5	9.0	9.4	9.2	9.1

Leverage	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Debt/Capital	0.51	0.51	0.51	0.52	0.53	0.52	0.53
Total Debt/EBITDA	3.34	3.35	3.25	3.42	3.60	3.53	3.58
EBITDA/Interest Expense	4.55	4.38	4.57	4.68	4.96	4.81	4.57

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.01	1.08	—	—
Price/Earnings	13.0	13.9	13.6	13.0
EV/EBITDA	6.8	7.4	7.1	6.8
EV/EBIT	9.8	11.0	10.7	10.1
Free Cash Flow Yield %	7.0	-1.4	-2.8	-0.8
Dividend Yield %	4.7	4.2	4.4	4.5

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.8
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	429	8.0	4.73
Present Value Stage II	4,910	92.0	54.22
Present Value of the Perpetuity	—	—	—
Total Firm Value	**5,339**	**100.0**	**—**
Cash and Equivalents	131	—	1.45
Debt	2,663	—	-26.66
Net balance sheet impact	-2,284	—	-25.21
Other Adjustments	-279	—	-3.08
Equity Value	**2,776**	**—**	**31.45**
Projected Diluted Shares	91		
Fair Value per Share (USD)	**31.00**		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.43 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	—	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	*Forecast* Sep 2012	*Forecast* Sep 2013
Total Revenue	**4,969**	**4,790**	**4,348**	***4,481***	***4,603***
Cost of Goods Sold	3,622	3,425	3,020	*3,089*	*3,148*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,392***	***1,455***
Selling, General & Administrative Expenses	494	468	449	*468*	*487*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	183	191	179	*184*	*191*
Restructuring & Other Charges (Gains)	—	—	—	*-5*	—
Depreciation Expense (if reported separately)	217	217	227	*249*	*258*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	5	—	30	—	—
Total Expenses	**4,522**	**4,300**	**3,906**	***3,985***	***4,083***
Operating Income (EBIT)	**447**	**489**	**442**	***496***	***520***
Interest Expense	153	154	151	*149*	*162*
Interest & Other Income (Expense)	-3	0	21	—	—
Pre-Tax Income	**291**	**335**	**313**	***347***	***358***
Income Tax Expense (Benefit)	100	129	114	*128*	*132*
Income After Taxes	**191**	**206**	**199**	***219***	***225***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
Net Income (Loss)	**191**	**206**	**208**	***219***	***225***
Net Income (Loss) Excluding Charges	191	206	199	*215*	*225*
Diluted Shares Outstanding (Mil)	92	92	91	*90*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.42*	*2.49*
Diluted EPS Excluding Charges	2.30	2.25	2.34	*2.38*	*2.49*
Dividends Per Common Share	1.32	1.34	1.36	*1.40*	*1.45*
EBITDA	**670**	**707**	**706**	***745***	***777***
EBITDA without restructuring	**670**	**707**	**706**	***740***	***777***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

				Forecast	
Assets	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Excess Cash & Investments	—	—	—	*289*	*227*
Operating Cash & Equivalents	111	132	131	*65*	*65*
Accounts Receivable	233	273	273	*295*	*277*
Inventory	353	319	290	*254*	*259*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,219***	***1,145***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,418*	*5,767*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,362*	*7,969*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,944*	*-2,202*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	—	—	—	—	—
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,761***	***8,036***
Liabilities					
Accounts Payable	207	266	291	*276*	*259*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***944***	***927***
Long-Term Debt	2,169	1,810	2,206	*2,363*	*2,447*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,363***	***2,447***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,356***	***5,529***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,742*	*1,751*
Retained Earnings (Deficit)	405	487	570	*662*	*756*
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	—	—
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,404***	***2,507***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,761***	***8,036***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.43 USD	31.00 USD	24.80 USD	38.80 USD	Low	Narrow	Stable	—	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Net Income from Continuing Operations	191	206	208	*219*	*225*
Depreciation Expense	217	217	233	*249*	*258*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-5*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*-21*	*17*
(Increase) Decrease in Inventory	194	54	28	*36*	*-5*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-15*	*-17*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***558***	***585***
(Capital Expenditures)	-509	-543	-623	*-638*	*-607*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-514***	***-607***
Common Stock (Purchase) or Sale	28	-93	2	*9*	*9*
Common Stock (Dividends)	-121	-124	-124	*-127*	*-131*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*157*	*84*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***130***	***-39***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*48*	—
Net Change in Cash	**64**	**21**	**-1**	***222***	***-61***
Change in Cash on Balance Sheet	64	21	-1	*222*	*-61*
Difference, from analyst adjustments and restatements	—	—	—	—	—

MORNINGSTAR®

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Atmos Management Meeting: Shift Toward Internal Growth in Texas, M&A Looks Too Rich

See Page 5 for the full Analyst Note from 07 May 2012

Morningstar Credit Committee
credit@morningstar.com

Committee members voting on rating do not own securities issued by the company.

Credit Analysis as of 05 Dec 2011
Business Analysis as of 05 Dec 2011
Estimates as of 23 Mar 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Credit Perspective 02 Dec 2011

At the end of fiscal 2011, Atmos' debt/capital ratio stood at 52%, in line with most utility peers. In addition, debt/last-12-months EBITDA was a modest 3.4 times, and EBITDA/interest coverage should hover around 4.5. While Atmos' credit metrics are currently very healthy, we believe the company is on the lookout for acquisition opportunities, which would probably lead to a releveraging of the balance sheet. The company could be in the market for more than $1 billion in combined debt and equity issuances over the next one to three years (maximum of $950 million of debt and $350 million of equity, per regulatory statute), depending on the market for gas local distribution company and pipeline acquisition targets. The sale of LDC assets for $124 million in 2012 should ease external financing needs.

The Cash Flow Cushion appears weak because utilities' regulatory compact requires continual investment and fund raising to maintain infrastructure performance. However, utilities receive full regulatory recovery of interest expense (interest plus amortized principal) along with a target return on equity. Dividends are paid out of excess cash flow from operations after the utility funds the regulatory allowed equity portion of growth capital, thus having little impact on bondholders.

The primary uncertainty that this company faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, a lowering of allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Also, Atmos could overpay in the expectation of improving regulation that may not be realized.

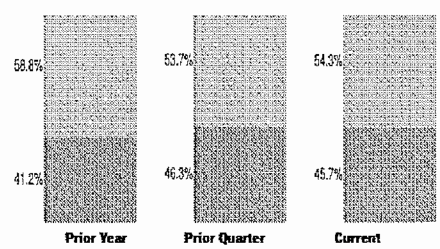
Credit Metrics (USD Mil)

	2010	2011	2012(E)	2013(E)
Cash And Equivalents	132	131	*354*	*292*
Total Debt	2,296	2,415	*2,663*	*2,747*
Interest Expense	162	158	*149*	*162*
EBITDA	707	706	*740*	*777*
Debt to Book Capital	—	—	—	—
Quick Ratio	0.3	0.5	*0.7*	*0.6*
Debt to EBITDA	3.2	3.4	*3.6*	*3.5*
EBITDA to Interest Expense	4.6	4.7	*5.0*	*4.8*

Operating Summary (USD Mil)

	2010	2011	2012(E)	2013(E)
Sales	4,790	4,348	*4,481*	*4,603*
% Change	-3.6	-9.2	*3.1*	*2.7*
EBIT	489	442	*496*	*520*
% Net Sales	10.2	10.2	*11.1*	*11.3*
Net Income	206	208	*219*	*225*
% Net Sales	4.3	4.8	*4.9*	*4.9*
Free Cash Flow	242	-29	*138*	*79*
% Net Sales	5.1	-0.7	*3.1*	*1.7*

Capital Structure



	Prior Year	Prior Quarter	Current
Market Equity	3.08 Bil	3.01 Bil	2.83 Bil
Preferred	—	—	—
Debt	2.16 Bil	2.6 Bil	2.38 Bil

Source: Morningstar

Issuer Profile

Atmos Energy is the largest natural gas-only distributor in the United States, serving more than 3.1 million meters. After selling its Illinois, Iowa, and Missouri segment, its utility operations will serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | BBB+

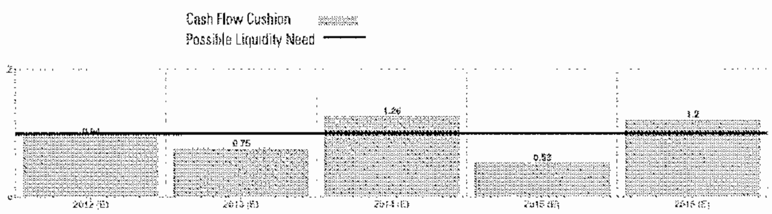
Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	131	354	292	420	237
Adjusted Free Cash Flow	157	99	96	98	196
Total Cash Available before Debt Service	171	331	261	386	297
Principal Payments	-2	-250	—	-500	—
Interest Payments	-149	-162	-178	-202	-215
Other Cash Obligations and Commitments	30	30	30	33	33
Total Cash Obligations and Commitments	-182	-442	-207	-735	-248

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	131	7.3
Sum of 5-Year Adjusted Free Cash Flow	13	0.7
Sum of Cash and 5-Year Cash Generation	144	8.0
Revolver Availability	703	38.7
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	847	46.7
Sum of 5-Year Cash Commitments	-1,813	—

Credit Rating Pillars—Peer Group Comparison

	ATO	Sector	Universe
Business Risk	4	5.1	5.3
Cash Flow Cushion	10	9.1	6.1
Solvency Score	5	6.3	5.1
Distance to Default	5	4.0	4.6
Credit Rating	BBB+	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

At the end of fiscal 2011, the company's debt/capital ratio stood at 52%. Interest coverage should remain around 3 times. Total debt/EBITDA could tick up slightly, averaging 3.6 times through 2016. Atmos has typically grown through acquisitions, and we believe it could be on the lookout for opportunities, which could lead to a releveraging of the balance sheet.

Capital Structure

While Atmos' debt/capital has hovered near 50% recently, we think the company could be gearing up for merger and acquisition activity. Atmos could be in the market for more than $1 billion of debt and equity issuances during the next year or two, depending on the market for local distribution companies and pipelines. In that event, Atmos can issue as much as $350 million in equity per regulatory statute, along with a maximum of $950 million in debt. The pending sale of some regulated subsidiaries will lessen the need to new financing should Atmos choose to make a move.

Enterprise Risk

The primary uncertainty that this company faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, lower allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Overpaying for acquisitions is also a risk, as Atmos is likely to expand through further acquisitions.

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Business Analysis

Thesis

As the nation's largest natural gas distribution utility, Atmos Energy brings together a patchwork of local distribution businesses from Virginia to Texas and a lower-risk investment opportunity for dividend-seeking investors. We like this company's focus on the basics and applaud the general efficiency of its overall rate structure, which should consistently provide healthy, if unexciting, returns.

After the sale of its Illinois, Iowa, and Missouri business, Atmos will have regulated distribution operations across nine states. A highly diversified regulatory environment is one of Atmos' strengths. Harmful rate changes imposed by regulators are the bane of any utility. Regulators' ability to set rates counters the natural monopoly position of the utility, resulting in a narrow economic moat for most utilities. With so many different jurisdictions, however, Atmos is more insulated from individual negative events. It also enjoys some favorable rate mechanisms in its territories. The company is protected from weather-related fluctuations in customer usage for the bulk of its meter base, with a completely decoupled rate structure for another slice of it. Even better, Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case. All of these factors help Atmos to generate relatively stable cash flows.

Atmos has historically grown through acquisition, purchasing 10 companies in the past 20 years. Its largest by far was the 2004 acquisition of TXU Gas, which added 1.5 million customers and a pipeline segment. These pipelines, which provide access to nine substantial natural gas basins in Texas, are a potential growth area for Atmos, especially if gas prices rise. But the system's contribution to the company's bottom line is still small compared with the gas utilities. Producers have also cut new investment substantially, threatening growth prospects, and competition is eating into unit margins.

Atmos took on large amounts of debt to complete the purchase and integration of the TXU assets and spent a few years trimming its balance sheet to a more favorable size. The company has succeeded in bringing its debt/capitalization ratio back in the neighborhood of 50%, which could have management on the prowl again despite high local distribution company valuations. Atmos' balance sheet is well capitalized to weather the current credit markets, and we expect the company's acquisitive streak to pick up again during the next few years.

Economic Moat

Atmos owns a difficult-to-replicate network of natural gas distribution and transmission assets and provides an essential energy source to customers. In exchange for its service territory monopoly, Atmos' returns are set by state and federal regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Atmos to earn its cost of capital and leads us to assign the company a narrow moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Atmos from establishing a wide economic moat.

Moat Trend

Atmos' investment program is focused almost entirely on its regulated natural gas distribution and transmission businesses. Furthermore, the company is concentrating its growth expenditures in the territories where its regulatory return is swiftest and most transparent, like Texas. We do not foresee a material change in the regulatory compact that allows utilities to earn at a level that adequately compensates capital providers while ensuring utilities do not take advantage of their service area monopoly by gouging customers.

Atmos Energy Corp ATO (NYSE) | BBB+

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Business Analysis

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Recent Notes from our Credit and Equity Analysts

Atmos Management Meeting: Shift Toward Internal Growth in Texas, M&A Looks Too Rich 07 May 2012

Most of our discussion May 6 with Atmos' ATO management team, including president and CEO Kim Cocklin and CFO Fred Meisenheimer, at the American Gas Association Financial Forum in Scottsdale, Ariz., focused on the company's wide footprint of regulated operations.

Last week management said it is targeting 8.0%-8.5% rate base growth through 2016, up from its earlier 6.0%-6.5% forecast. Atmos has in the past been an acquisitive utility, but management sees such appealing growth opportunities at its regulated utilities, especially in Texas, that they have shifted their focus away from M&A toward increased investment in their system.

Management seems to agree with our view that utility valuations are overly rich at market prices given significant tax and inflation uncertainty as well as the difficulty of generating immediate earnings and value accretion from M&A. We will review our current 4% annual earnings growth projection through 2016 to incorporate the deluge of well-supported new regulatory spending and Atmos' move toward more organic growth. Driving much of the increased appetite for system investment is a supportive regulatory environment for its largest group of operations in Texas, where ratemaking continues to reduce investment lag and where management sees healthy upside from improving returns on equity at segments currently negotiating rate cases.

While distribution operations continue to improve, management is seeing material upside for its regulated Texas pipeline and storage business as well, driven by reliability improvements and higher associated gas production from oil drilling in West Texas. Management specifically highlighted the Waha hub as central to growth plans beyond planned projects like line W and X, which total roughly $160 million in capital expenditure and qualify for expedited recovery under Texas' GRIP system. This segment had been hurt by a decline in gas drilling and volumes in the past few years but continued strong oil pricing for associated gas should provide favorable throughput continuing into 2013, supporting earnings improvement on top of new investment projects.

Like many of the management teams, Atmos' management team thinks the dividend tax issue is still unpredictable. However, parity in dividend and capital gains taxes is a priority for the industry and has the best likelihood of protecting utility valuations relative to the market in the event of an increase.

Atmos Energy Corp ATO (NYSE) | BBB+

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				Forecast	
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Income Tax Expense (Benefit)	100	129	114	*128*	*132*
Income After Taxes	**191**	**206**	**199**	***219***	***225***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
Net Income (Loss)	**191**	**206**	**208**	***219***	***225***
Net Income (Loss) Excluding Charges	191	206	199	*215*	*225*
Diluted Shares Outstanding (Mil)	92	92	91	*90*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.42*	*2.49*
Diluted EPS Excluding Charges	2.30	2.25	2.34	*2.38*	*2.49*
Dividends Per Common Share	1.32	1.34	1.36	*1.40*	*1.45*
EBITDA	**670**	**707**	**706**	***745***	***777***
EBITDA without restructuring	**670**	**707**	**706**	***740***	***777***

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Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

				Forecast	
Assets	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Excess Cash & Investments	—	—	—	*289*	*227*
Operating Cash & Equivalents	111	132	131	*65*	*65*
Accounts Receivable	233	273	273	*295*	*277*
Inventory	353	319	290	*254*	*259*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,219***	***1,145***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,418*	*5,767*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,362*	*7,969*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,944*	*-2,202*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	—	—	—	—	—
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,761***	***8,036***
Liabilities					
Accounts Payable	207	266	291	*276*	*259*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***944***	***927***
Long-Term Debt	2,169	1,810	2,206	*2,363*	*2,447*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,363***	***2,447***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,356***	***5,529***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,742*	*1,751*
Retained Earnings (Deficit)	405	487	570	*662*	*756*
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	—	—
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,404***	***2,507***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,761***	***8,036***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	Forecast *Sep 2012*	Forecast *Sep 2013*
Net Income from Continuing Operations	191	206	208	*219*	*225*
Depreciation Expense	217	217	233	*249*	*258*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-5*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*-21*	*17*
(Increase) Decrease in Inventory	194	54	28	*36*	*-5*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-15*	*-17*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***558***	***585***
(Capital Expenditures)	-509	-543	-623	*-638*	*-607*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-514***	***-607***
Common Stock (Purchase) or Sale	28	-93	2	*9*	*9*
Common Stock (Dividends)	-121	-124	-124	*-127*	*-131*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*97*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*157*	*84*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***130***	***-39***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*48*	—
Net Change in Cash	**64**	**21**	**-1**	***222***	***-61***
Change in Cash on Balance Sheet	64	21	-1	*222*	*-61*
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Fair	Fair	Narrow	Utilities - Regulated	Utilities

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
NiSource Inc NI USA	389 USD	57.5	65.6	63.0	24.0	28.4	28.2	14.8	18.4	18.5	5.2	7.5	7.9	-3.4	-0.9	-0.9
AGL Resources, Inc. GAS USA	204 USD	52.6	53.8	54.0	26.6	29.8	30.7	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
New Jersey Resources Corporation	101 USD	15.2	15.5	16.2	5.9	6.0	6.1	4.8	4.8	4.9	3.4	3.5	3.5	2.4	-2.3	0.9
Average		41.8	45.0	44.4	18.8	21.4	21.5	13.1	15.3	15.5	5.8	7.2	7.4	1.0	-0.4	1.4
Atmos Energy Corp ATO US	**199** USD	**30.5**	**31.1**	**31.6**	**16.2**	**16.5**	**16.9**	**10.2**	**11.1**	**11.3**	**4.6**	**4.8**	**4.9**	**-0.9**	**-1.8**	**-0.5**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
NiSource Inc NI USA	7,954 USD	159.2	143.7	142.2	61.4	59.0	58.7	3.8	4.0	4.2	5.5	5.1	4.8	4.1	3.9	3.9
AGL Resources, Inc. GAS USA	3,164 USD	182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
New Jersey Resources Corporation	594 USD	76.5	87.5	85.6	43.3	46.7	46.1	9.0	8.8	8.2	3.4	4.0	3.9	3.4	3.4	3.3
Average		139.2	133.8	128.5	56.4	56.2	55.3	6.1	6.1	6.0	4.7	4.5	4.3	3.9	3.8	3.7
Atmos Energy Corp ATO US	**2,415** USD	**107.1**	**110.8**	**109.6**	**51.7**	**52.6**	**52.3**	**4.7**	**5.0**	**4.8**	**3.4**	**3.6**	**3.5**	**3.2**	**3.2**	**3.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
NiSource Inc NI USA	7,051 USD	0.60	1.20	0.92	-26.97	-26.36	-25.53	3.19	4.65	4.18	-0.71	-0.17	-0.17	86.4	64.9	62.0
AGL Resources, Inc. GAS USA	4,494 USD	6.79	5.77	5.12	-33.93	-34.79	-35.05	6.35	6.01	5.82	1.17	0.63	1.30	68.5	58.7	57.5
New Jersey Resources Corporation	1,794 USD	0.18	0.21	0.37	-14.10	-17.46	-18.06	6.02	3.73	4.58	1.75	-1.74	0.71	57.9	57.7	58.8
Average		2.5	2.4	2.1	-25.0	-26.2	-26.2	5.2	4.8	4.9	0.7	-0.4	0.6	70.9	60.4	59.4
Atmos Energy Corp ATO US	**2,917** USD	**1.45**	**3.91**	**3.22**	**-25.19**	**-25.54**	**-27.06**	**6.43**	**6.17**	**6.44**	**-0.44**	**-0.89**	**-0.25**	**59.7**	**58.1**	**58.2**

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings

Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.30 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Constructive regulatory environments provide strong rate base growth opportunities.

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The primary analyst covering this company does not own its stock.

Research as of 23 Jul 2012
Estimates as of 17 Jul 2012
Pricing data through 23 Jul 2012
Rating updated as of 23 Jul 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 23 Jul 2012

With its massive, diverse portfolio of gas distribution businesses and a small gas infrastructure business, Atmos has leverage to a structural increase in natural gas use in the U.S. economy. Given current market conditions, management has shifted its focus from growth through acquisitions to internal capital investment opportunities, with management expectations to grow the rate base 8% annually through 2016. Atmos is investing in its most favorable regulatory regimes to drive earnings growth, which we forecast at 8% through 2016. Combined with a 4.0% dividend yield at our fair value estimate, Atmos' returns should be in the middle of the utility pack--not surprising for such a large, geographically diversified company.

Key Investment Considerations

- Trading at 15.8 times our 2012 earnings estimate as of late July, Atmos looks slightly overvalued.
- The formerly fast-growing pipeline and storage business in Texas provides for strong rate base growth in a constructive regulatory environment.
- Atmos management has shifted its growth strategy, and is now focusing on internal capital investment opportunities to drive 8.0% annual rate base growth through 2016.

Vital Statistics

Market Cap (USD Mil)	3,268
52-Week High (USD)	37.33
52-Week Low (USD)	28.51
52-Week Total Return %	10.3
YTD Total Return %	10.9
Last Fiscal Year End	30 Sep 2011
5-Yr Forward Revenue CAGR %	8.8
5-Yr Forward EPS CAGR %	8.5
Price/Fair Value	1.04

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	13.2	14.2	*15.5*	*14.8*
EV/EBITDA	6.8	7.4	*7.7*	*7.4*
EV/EBIT	9.8	11.0	*11.6*	*11.1*
Free Cash Flow Yield %	7.0	-1.4	*-3.6*	*-5.7*
Dividend Yield %	4.7	4.2	*3.9*	*4.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	4,790	4,348	*3,846*	*3,897*
Revenue YoY %	-3.6	-9.2	*-11.5*	*1.3*
EBIT	489	472	*481*	*503*
EBIT YoY %	8.1	-3.5	*1.9*	*4.5*
Net Income, Adjusted	206	199	*212*	*224*
Net Income YoY %	7.8	-3.4	*6.5*	*5.9*
Diluted EPS	2.22	2.28	*2.34*	*2.45*
Diluted EPS YoY %	6.9	-1.5	*6.6*	*4.9*
Free Cash Flow	184	-40	*-119*	*-185*
Free Cash Flow YoY %	-55.1	-121.8	*196.9*	*55.3*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note: Our forecast could differ with as reported and consensus figures due to unique modeling conventions.

Profile

Atmos Energy is the largest natural gas-only distributor in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

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36.30 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analysis

Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case.

Thesis 23 Jul 2012

As the nation's largest natural gas distribution utility, Atmos Energy brings together a patchwork of local distribution businesses from Virginia to Texas and a lower-risk investment opportunity for dividend-seeking investors. We like this company's focus on the basics and applaud the general efficiency of its overall rate structure, which should consistently provide healthy, if unexciting, returns.

After the sale of its Illinois, Iowa, and Missouri business expected to close in August, Atmos will have regulated distribution operations across nine states. A highly diversified regulatory environment is one of Atmos' strengths. Harmful rate changes imposed by regulators are the bane of any utility. Regulators' ability to set rates counters the natural monopoly position of the utility, resulting in a narrow economic moat for most utilities.

With so many different jurisdictions Atmos is more insulated from individual negative events. It also enjoys some favorable rate mechanisms in its territories. The company is protected from weather-related fluctuations in customer usage for the bulk of its meter base, with full rate decoupling for another slice of it. Even better, Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case. All these factors help Atmos generate relatively stable cash flows.

Atmos has historically grown through acquisition, purchasing 10 companies in the past 20 years. Its largest by far was the 2004 acquisition of TXU Gas, which added 1.5 million customers and a pipelines that access nine substantial natural gas basins in Texas. Atmos took on large amounts of debt to complete the purchase and integrate the TXU assets. It spent a few years trimming its balance sheet to a more favorable size and now maintains near-equal levels of debt and equity, in line with other gas utilities.

Atmos is now focused on organic growth, with most of its $2.4 billion in growth investments in the constructive regulatory Texas jurisdictions. The company benefits from Texas Rule 8.209 on distribution infrastructure investments, allowing the company pre-approval by the Texas Railroad Commission and regulatory asset treatment for carrying costs. The company's state transmission and storage investments experience regulatory lag of up to a year while still earning comparatively favorable returns among peer regulated returns. Management has built strong working relationships with regulators that should continue to result in strong shareholder returns.

Valuation, Growth and Profitability 23 Jul 2012

We are raising our fair value estimate to $35 per share from $31 per share after transitioning coverage to a new analyst. Our revised forecasts incorporate normal weather and an updated five-year company outlook.

We expect regulated growth expenditures will be concentrated at Atmos' mid- and west Texas utilities and regulated pipelines where the company can automatically implement recovery on an annual basis. Atmos has a substantial infrastructure program in these regions, supporting our projected 8.0% annualized rate base growth through 2016. Our fair value estimate incorporates about $3.8 billion in regulated expenditures through 2016. Additionally, our earnings growth estimate incorporates 1% customer growth at the LDCs through 2016, assuming no growth through acquisitions.

We use a 7.7% weighted average cost of capital in our discounted cash flow valuation based on an assumed cost of equity of 10% and current credit spreads.

Scenario Analysis

Investors considering a position in Atmos should consider three major factors that could materially affect expected returns. The first, as with most regulated utilities, is the company's rate base growth. If we assume spending falls

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Price/Fair Value Morningstar data as of Jul 23, 2012

from our forecast levels by 25% annually our fair value estimate falls to $33 per share. If spending were to increase by a similar amount our fair value estimate would rise to $37 per share, assuming full recovery.

Without decoupling mechanisms, Atmos' growth will be influenced by customer usage. A 50-basis-point change in our core customer growth assumption would lead to a $1 per share change in our fair value estimate.

Our assumed cost of equity has a significant impact on our valuation. A 50-basis-point change in our assumed cost of equity would lead to a $4 per share change in our fair value estimate.

Economic Moat

Atmos owns a difficult-to-replicate network of natural gas distribution and transmission assets and provides an essential energy source to customers. In exchange for its service territory monopoly, Atmos' returns are set by state and federal regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Atmos to earn its cost of capital and leads us to assign the company a narrow moat.

Moat Trend

We do not foresee a material change in the regulatory compact that allows utilities to earn at a level that adequately compensates capital providers while ensuring utilities do not take advantage of their service area monopoly by gouging customers. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Atmos from establishing a wide economic moat.

Atmos' investment program is focused almost entirely on its regulated natural gas distribution and transmission businesses. Furthermore, the company is concentrating its growth expenditures in the territories where its regulatory return is swiftest and most transparent, like Texas.

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Bulls Say/Bears Say

Bulls Say

- Much of Atmos' meter base is covered by favorable rate mechanisms such as weather normalization and automated rate filings, which reduce regulatory risk.
- Atmos' regulated operations are distributed across nine states, insulating companywide profitability from individual negative regulatory outcomes.
- The company has increased its dividend consistently during the past 28 years, with 108 consecutive payouts.

Bears Say

- Although Atmos is protected from weather-related fluctuations, only a small percentage of its service area's rates are decoupled from usage patterns.
- Dividend-paying stocks such as Atmos are sensitive to interest rates. As interest rates go up, dividend-paying stocks can often underperform the broader market.
- If the latest gas LDC deal comparables are any guide, Atmos might significantly overpay for any growth acquisitions, potentially destroying shareholder value.

Atmos Energy Corp ATO (NYSE) | ★★★

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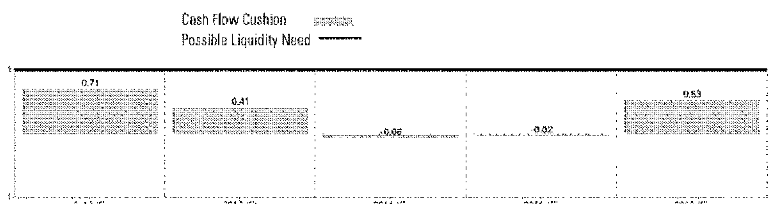
Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	131	341	161	201	221
Adjusted Free Cash Flow	119	-62	-77	-95	65
Total Cash Available before Debt Service	142	185	-13	-13	155
Principal Payments	—	-250	—	-500	—
Interest Payments	-150	-165	-183	-224	-254
Other Cash Obligations and Commitments	50	31	33	35	37
Total Cash Obligations and Commitments	-200	-446	-216	-759	-291

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	131	6.9
Sum of 5-Year Adjusted Free Cash Flow	-600	-31.4
Sum of Cash and 5-Year Cash Generation	-469	-24.5
Revolver Availability	703	36.7
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	234	12.2
Sum of 5-Year Cash Commitments	-1,912	—

Credit Rating Pillars–Peer Group Comparison

	ATO	Sector	Universe
Business Risk	4	5.0	5.2
Cash Flow Cushion	10	9.1	6.1
Solvency Score	3	5.9	5.1
Distance to Default	4	4.5	4.4
Credit Rating	BBB+	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

Even with its large capital expenditure program, Atmos maintains a strong balance sheet and an investment-grade credit rating. At the end of fiscal 2011, the company's debt/capital ratio was 52%, in line with its peers. Total debt/EBITDA could tick up slightly, averaging 3.6 times through 2016. We believe Atmos' dividend is well covered by its regulated utilities' earnings and expect the dividend payout to remain between 50% and 60%.

Capital Structure

With $3.8 billion of capital spending planned between 2012 and 2016, we expect Amos will be a frequent debt issuer. The company has $250 million of long-term debt maturities in 2013 and $500 million in 2015. We expect Atmos will be able to refinance its debt as it comes due and will maintain its debt/capital ratio by funding about half of its growth capital expenditure with new debt. Given Atmos' cash from operations and healthy cash position, we do not expect the firm to tap the equity markets in the near term to fund its growth plans.

Enterprise Risk

The primary uncertainty Atmos faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, lower allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Overpaying for acquisitions is also a risk given the company's acquisitive past.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.30 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. J. D. WOODWARD,III		728,364	03 Apr 2006	—
ROBERT W. BEST	Director	410,290	04 May 2012	—
MR. KIM R. COCKLIN	CEO/Director/President,Director	145,069	04 May 2012	—
MR. JOHN (PAT) PATRICK REDDY		79,685	31 Dec 2008	—
CARL S. QUINN	Director	57,769	01 Jul 2004	—
R. EARL FISCHER		55,540	09 Nov 2006	—
WYNN D. MCGREGOR		46,289	06 Feb 2009	—
THOMAS J. GARLAND	Director	45,082	03 Feb 2010	—
DAN BUSBEE	Director	41,366	04 Feb 2009	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Allianz NFJ Small Cap Value Instl	★★★★★	2.18	1.02	-32	30 Jun 2012
Vanguard Small Cap Index Inv	★★★★	1.57	0.17	39	31 Mar 2012
Vanguard Small Cap Index		1.57	0.17	1,415	31 Mar 2012
Vanguard US Total Market Shares (AU) ETF		1.22	0.02	27	31 Mar 2012
Vanguard Total Stock Mkt Idx		1.22	0.02	1,103	31 Mar 2012
Concentrated Holders					
New Alternatives	★	0.25	5.21	-25	30 Jun 2012
Speece Thorson Value Fund	★★★★★	0.03	3.41	—	30 Jun 2012
First Trust Utilities AlphaDEX	★★★	0.16	2.89	-5	31 May 2012
DWS RREEF Global Infrastructure A	★★★★★	0.39	2.50	141	31 May 2012

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Vanguard Small Cap Index		1.57	0.17	1,415	31 Mar 2012
Vanguard Total Stock Mkt Idx		1.22	0.02	1,103	31 Mar 2012
SSgA S&P MidCap 400 Index Strategy		0.60	0.22	544	31 Mar 2012
Fidelity Series Small Cap Opps	★★★★	0.29	0.38	262	30 Apr 2012
Fidelity Stock Selector Sm Cp	★★	0.20	0.38	179	30 Apr 2012
Top 5 Sellers					
Columbia Mid Cap Index Z	★★★★	0.18	0.26	-69	31 May 2012
LSV Value Equity	★★★	0.15	0.45	-66	30 Jun 2012
Allianz NFJ Small Cap Value Instl	★★★★★	2.18	1.02	-32	30 Jun 2012
JPMorgan Market Expansion Index A	★★★	0.05	0.14	-27	31 May 2012
New Alternatives	★	0.25	5.21	-25	30 Jun 2012

Stewardship: 23 Jul 2012

Overall, we think Atmos' management team has been a good steward of shareholder capital. Management has been consistent with paying--and increasing--its dividend over the past 28 years. We think management has been disciplined in acquisitions, providing shareholder value by creating the largest distribution utility in favorable regulatory jurisdictions.

Kim Cocklin replaced Robert Best as CEO in 2010. Cocklin had been president and COO of Atmos since 2008. Previously, he was a senior vice president in regulated operations for the company and had worked for Piedmont Gas for three years before that. Best had been president of Atmos since 1997 and served as the chairman of the American Gas Association in 2004. He oversaw seven acquisitions after inheriting the Atmos throne, expanding the company to the largest distribution utility in the U.S.

Atmos Energy Corp ATO (NYSE) | ★★★

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Analyst Notes

Atmos Management Meeting: Shift Toward Internal Growth in Texas, M&A Looks Too Rich 07 May 2012

Most of our discussion May 6 with Atmos' ATO management team, including president and CEO Kim Cocklin and CFO Fred Meisenheimer, at the American Gas Association Financial Forum in Scottsdale, Ariz., focused on the company's wide footprint of regulated operations.

Last week management said it is targeting 8.0%-8.5% rate base growth through 2016, up from its earlier 6.0%-6.5% forecast. Atmos has in the past been an acquisitive utility, but management sees such appealing growth opportunities at its regulated utilities, especially in Texas, that they have shifted their focus away from M&A toward increased investment in their system.

Management seems to agree with our view that utility valuations are overly rich at market prices given significant tax and inflation uncertainty as well as the difficulty of generating immediate earnings and value accretion from M&A. We will review our current 4% annual earnings growth projection through 2016 to incorporate the deluge of well-supported new regulatory spending and Atmos' move toward more organic growth. Driving much of the increased appetite for system investment is a supportive regulatory environment for its largest group of operations in Texas, where ratemaking continues to reduce investment lag and where management sees healthy upside from improving returns on equity at segments currently negotiating rate cases.

While distribution operations continue to improve, management is seeing material upside for its regulated Texas pipeline and storage business as well, driven by reliability improvements and higher associated gas production from oil drilling in West Texas. Management specifically highlighted the Waha hub as central to growth plans beyond planned projects like line W and X, which total roughly $160 million in capital expenditure and qualify for expedited recovery under Texas' GRIP system. This segment had been hurt by a decline in gas drilling and volumes in the past few years but continued strong oil pricing for associated gas should provide favorable throughput continuing into 2013, supporting earnings improvement on top of new investment projects.

Like many of the management teams, Atmos' management team thinks the dividend tax issue is still unpredictable. However, parity in dividend and capital gains taxes is a priority for the industry and has the best likelihood of protecting utility valuations relative to the market in the event of an increase.

Atmos Energy Corp ATO (NYSE) | ★★★

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36.30 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Sep 2009	Sep 2010	Sep 2011	Forecast Sep 2012	Forecast Sep 2013	5-Year Proj. CAGR
Revenue	-15.6	-31.2	-3.6	-9.2	-11.5	1.3	—
EBIT	3.3	5.8	8.1	-3.5	1.9	4.5	9.0
EBITDA	3.9	6.6	5.4	-0.1	3.1	3.4	7.7
Net Income	3.3	5.9	7.8	-3.4	6.5	5.9	9.2
Diluted EPS	3.1	4.0	6.9	-1.5	6.6	4.9	8.5
Earnings Before Interest, after Tax	4.2	15.3	13.1	-13.1	-17.2	6.7	1.8
Free Cash Flow to the Firm	-183.1	814.7	-47.2	-111.9	-443.0	-191.6	-202.1

Profitability	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Operating Margin %	10.1	9.1	10.2	10.9	12.5	12.9	11.8
EBITDA Margin %	14.8	13.5	14.8	16.2	18.9	19.3	17.5
Net Margin %	4.2	3.8	4.3	4.6	5.5	5.8	5.2
Free Cash Flow to the Firm margin %	4.5	9.2	5.1	-0.7	2.6	-2.3	-0.7
ROIC with Goodwill %	8.9	9.1	9.7	7.8	6.0	6.0	5.8
ROIC w/out Goodwill %	10.1	10.5	11.2	8.8	6.7	6.7	6.4
Return on Assets, pretax %	6.9	7.0	7.5	6.3	6.5	6.4	6.8
Return on Equity %	9.2	9.0	9.5	9.0	9.4	9.1	9.7

Leverage	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Debt/Capital	0.51	0.51	0.51	0.52	0.53	0.53	0.54
Total Debt/EBITDA	3.34	3.35	3.25	3.42	3.71	3.72	3.75
EBITDA/Interest Expense	4.55	4.38	4.57	4.68	4.84	4.57	4.43

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.01	1.05	—	—
Price/Earnings	13.2	14.2	15.5	14.8
EV/EBITDA	6.8	7.4	7.7	7.4
EV/EBIT	9.8	11.0	11.6	11.1
Free Cash Flow Yield %	7.0	-1.4	-3.6	-5.7
Dividend Yield %	4.7	4.2	3.9	4.0

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.0
Weighted Average Cost of Capital %	7.7
Long-Run Tax Rate %	36.5
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	24.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-145	-2.6	-1.59
Present Value Stage II	5,702	102.6	62.77
Present Value of the Perpetuity	—	—	—
Total Firm Value	**5,557**	**100.0**	—
Cash and Equivalents	131	—	1.45
Debt	2,700	—	-26.59
Net balance sheet impact	-2,284	—	-25.14
Other Adjustments	-271	—	-2.98
Equity Value	**3,003**	—	**34.59**
Projected Diluted Shares	91		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.30 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Total Revenue	**4,969**	**4,790**	**4,348**	***3,846***	***3,897***
Cost of Goods Sold	3,622	3,425	3,020	*2,501*	*2,487*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,345***	***1,410***
Selling, General & Administrative Expenses	494	468	449	*464*	*478*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	183	191	179	*153*	*180*
Restructuring & Other Charges (Gains)	—	—	—	*-10*	—
Depreciation Expense (if reported separately)	217	217	227	*246*	*249*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	5	—	30	—	—
Total Expenses	**4,522**	**4,300**	**3,906**	***3,355***	***3,394***
Operating Income (EBIT)	**447**	**489**	**442**	***491***	***503***
Interest Expense	153	154	151	*150*	*165*
Interest & Other Income (Expense)	-3	0	21	*3*	*15*
Pre-Tax Income	**291**	**335**	**313**	***343***	***353***
Income Tax Expense (Benefit)	100	129	114	*125*	*129*
Income After Taxes	**191**	**206**	**199**	***218***	***224***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
Net Income (Loss)	**191**	**206**	**208**	***218***	***224***
Net Income (Loss) Excluding Charges	191	206	199	*212*	*224*
Diluted Shares Outstanding (Mil)	92	92	91	*91*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.41*	*2.45*
Diluted EPS Excluding Charges	2.08	2.22	2.28	*2.34*	*2.45*
Dividends Per Common Share	1.32	1.34	1.36	*1.39*	*1.42*
EBITDA	**670**	**707**	**706**	***737***	***752***
EBITDA without restructuring	**670**	**707**	**706**	***727***	***752***

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Atmos Energy Corp ATO (NYSE) | ★★★

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36.30 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Assets	Sep 2009	Sep 2010	Sep 2011	*Forecast* Sep 2012	*Forecast* Sep 2013
Excess Cash & Investments	—	—	—	*226*	*45*
Operating Cash & Equivalents	111	132	131	*115*	*117*
Accounts Receivable	233	273	273	*253*	*235*
Inventory	353	319	290	*206*	*204*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,116***	***917***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,489*	*6,009*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,426*	*8,195*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,936*	*-2,186*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	—	—	—	—	—
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Liabilities					
Accounts Payable	207	266	291	*219*	*204*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***886***	***872***
Long-Term Debt	2,169	1,810	2,206	*2,400*	*2,500*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,400***	***2,500***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,336***	***5,527***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,751*	*1,786*
Retained Earnings (Deficit)	405	487	570	*663*	*757*
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	*-20*	*-20*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,394***	***2,523***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | ★★★

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36.30 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Net Income from Continuing Operations	191	206	208	*218*	*224*
Depreciation Expense	217	217	233	*246*	*249*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-10*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*20*	*18*
(Increase) Decrease in Inventory	194	54	28	*84*	*1*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-73*	*-14*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***582***	***584***
(Capital Expenditures)	-509	-543	-623	*-702*	*-769*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-578***	***-769***
Common Stock (Purchase) or Sale	28	-93	2	*18*	*35*
Common Stock (Dividends)	-121	-124	-124	*-126*	*-130*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*194*	*100*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***176***	***5***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*28*	—
Net Change in Cash	**64**	**21**	**-1**	***210***	***-180***
Change in Cash on Balance Sheet	64	21	-1	*210*	*-180*
Difference, from analyst adjustments and restatements	—	—	—	—	—

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings 2011	2012(E)	2013(E)	EV/EBITDA 2011	2012(E)	2013(E)	Price/Free Cash Flow 2011	2012(E)	2013(E)	Price/Book 2011	2012(E)	2013(E)	Price/Sales 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	1.05	15.1	12.4	11.5	14.5	12.4	11.8	51.2	94.6	45.6	2.7	2.5	2.3	2.0	2.0	1.9
New Jersey Resources Corporation	1.17	16.6	16.8	16.2	13.3	13.6	12.7	24.3	NM	65.0	2.3	2.2	2.1	0.6	0.7	0.6
Average		15.9	14.6	13.9	13.9	13.0	12.3	37.8	94.6	55.3	2.5	2.4	2.2	1.3	1.4	1.3
Atmos Energy Corp ATO US	**1.04**	**14.2**	***15.5***	***14.8***	**7.4**	***7.7***	***7.4***	**NM**	***NM***	***NM***	**1.3**	***1.4***	***1.3***	**0.7**	***0.8***	***0.8***

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill % 2011	2012(E)	2013(E)	ROIC without Goodwill % 2011	2012(E)	2013(E)	Return on Equity % 2011	2012(E)	2013(E)	Return on Assets, Pretax % 2011	2012(E)	2013(E)	Dividend Yield % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	— USD	6.9	7.1	7.0	7.4	7.6	7.6	13.0	14.8	14.8	6.4	7.2	7.4	3.0	3.2	3.3
New Jersey Resources Corporation	2,649 USD	8.4	7.5	7.2	8.4	7.5	7.2	11.9	12.5	12.2	5.5	5.3	5.4	3.3	3.4	3.6
Average		7.7	7.3	7.1	7.9	7.6	7.4	12.5	13.7	13.5	6.0	6.3	6.4	3.2	3.3	3.5
Atmos Energy Corp ATO US	**7,283** USD	**7.8**	***6.0***	***6.0***	**8.8**	***6.7***	***6.7***	**9.0**	***9.4***	***9.1***	**6.3**	***6.5***	***6.4***	**4.2**	***3.9***	***4.0***

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth % 2011	2012(E)	2013(E)	EBIT Growth % 2011	2012(E)	2013(E)	EPS Growth % 2011	2012(E)	2013(E)	Free Cash Flow Growth % 2011	2012(E)	2013(E)	Dividend/Share Growth % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	2,287 USD	-3.6	4.1	4.7	-10.2	20.8	6.0	-12.5	21.9	7.1	469.3	-45.9	107.7	5.4	4.4	4.9
New Jersey Resources Corporation	3,009 USD	14.0	-12.8	15.6	-24.0	-0.7	6.2	-13.6	11.0	3.9	92.3	-119.2	-309.0	10.5	8.0	6.0
Average		5.2	-4.4	10.2	-17.1	10.1	6.1	-13.1	16.5	5.5	280.8	-82.6	-100.7	8.0	6.2	5.5
Atmos Energy Corp ATO US	**4,348** USD	**-9.2**	***-11.5***	***1.3***	**-3.5**	***1.9***	***4.5***	**-1.5**	***6.6***	***4.9***	**-121.8**	***196.9***	***55.3***	**1.7**	***1.7***	***2.0***

Atmos Energy Corp ATO (NYSE) | ★★★

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	204 USD	52.6	53.8	54.0	26.6	29.8	30.1	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
New Jersey Resources Corporation	101 USD	15.2	17.7	16.9	5.9	7.0	6.5	4.8	5.4	5.0	3.4	4.3	3.9	2.4	-0.5	1.0
Average		33.9	35.8	35.5	16.3	18.4	18.3	12.2	14.1	14.1	6.2	7.4	7.4	3.2	0.8	2.6
Atmos Energy Corp ATO US	**199** USD	**30.5**	**35.0**	**36.2**	**16.2**	**18.9**	**19.3**	**10.2**	**12.8**	**12.9**	**4.6**	**5.5**	**5.8**	**-0.9**	**-3.1**	**-4.8**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	3,164 USD	182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
New Jersey Resources Corporation	594 USD	76.5	77.7	76.1	43.3	43.7	43.2	9.0	9.5	8.9	3.4	3.5	3.5	3.4	3.2	3.2
Average		129.3	123.9	116.9	53.9	53.4	52.2	7.3	7.5	7.3	4.3	4.0	3.9	3.9	3.7	3.6
Atmos Energy Corp ATO US	**2,415** USD	**107.1**	**112.8**	**111.0**	**51.7**	**53.0**	**52.6**	**4.7**	**4.8**	**4.6**	**3.4**	**3.7**	**3.7**	**3.2**	**3.2**	**3.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	4,661 USD	6.79	5.77	5.12	-33.93	-34.79	-35.05	6.35	6.01	5.82	1.17	0.63	1.30	68.5	58.7	57.5
New Jersey Resources Corporation	1,889 USD	0.18	0.18	0.18	-14.10	-15.58	-16.26	6.02	5.13	4.57	1.75	-0.34	0.70	57.9	56.3	57.5
Average		3.5	3.0	2.7	-24.0	-25.2	-25.7	6.2	5.6	5.2	1.5	0.1	1.0	63.2	57.5	57.5
Atmos Energy Corp ATO US	**3,268** USD	**1.45**	**3.77**	**1.77**	**-25.19**	**-26.04**	**-28.85**	**6.43**	**6.43**	**6.39**	**-0.44**	**-1.32**	**-2.02**	**59.7**	**57.8**	**57.9**

Research Methodology for Valuing Companies

Components of Our Methodology

- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies

Analyst conducts company and industry research: ▸ Financial statement analysis ▸ Channel checks ▸ Trade-show visits ▸ Industry and company reports and journals ▸ Conference calls ▸ Management and site visits	Strength of competitive advantage is rated: None, Narrow, or Wide Advantages that confer an economic moat: **High Switching Costs** (Microsoft) **Cost advantage** (Wal-Mart) **Intangible assets** (Johnson & Johnson) **Network Effect** (Mastercard) **Efficient Scale** (Lockheed Martin)	Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows. Assumptions are entered into Morningstar's proprietary discounted cash-flow model.	Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.	The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme. The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.	The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks. The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information

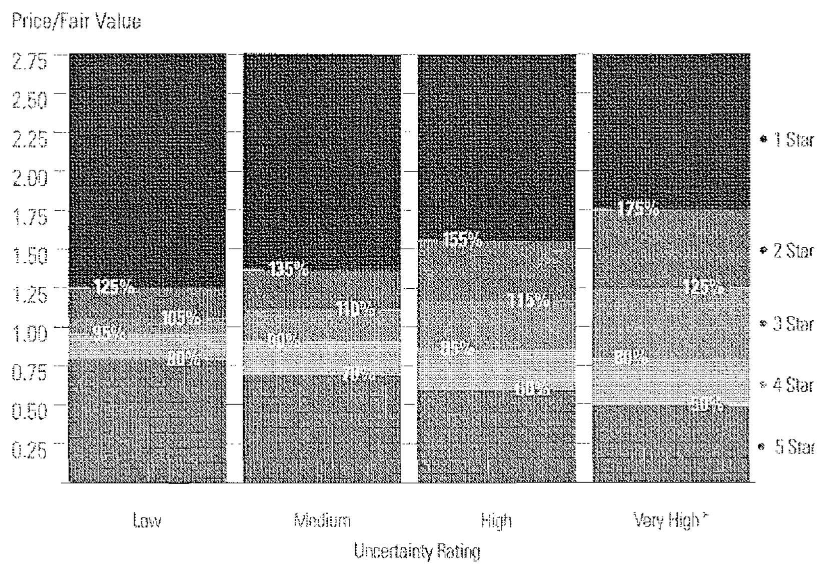
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

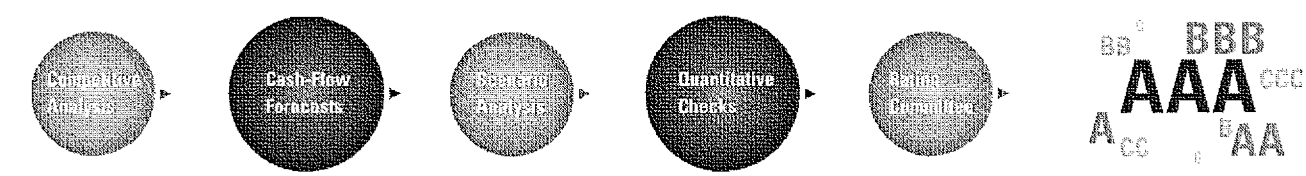
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score℠

The Morningstar Solvency Score℠ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Constructive regulatory environments provide strong rate base growth opportunities.

Morningstar Credit Committee
credit@morningstar.com

Committee members voting on rating do not own securities issued by the company.

Credit Analysis as of 23 Jul 2012
Business Analysis as of 23 Jul 2012
Estimates as of 17 Jul 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Credit Perspective 28 Jun 2012

Atmos Energy Corp (BBB+) distributes natural gas to regulated utility customers across nine states. Atmos' business includes unregulated marketing and procurement services as well as natural gas storage and pipelines. Like all regulated utility businesses, we assign Atmos a narrow moat recognizing the implicit contract Atmos maintains with its state regulators to provide stable natural gas distribution in return for regulated returns. Our rating reflects the benefit Atmos receives from decoupling and weather-related fluctuations in customer usage. Moreover, our rating incorporates Atmos' ability to raise revenue without filing a formal rate case via advantageous rate mechanisms. We acknowledge that Atmos has grown considerably through acquisitions over the past 20 years, most notably levering its balance sheet to roughly 4.5 times in 2004 to purchase TXU gas (pipelines) in Texas. However, Atmos has maintained discipline reducing its leverage by a turn to 3.5 times, where we expect it to stay barring any near-term acquisitions. Interest coverage remains healthy at roughly 5 times. While Atmos' credit metrics are currently very healthy, we believe Atmos is likely on the lookout for acquisitions, which could lead to re-leveraging the balance sheet. Atmos can raise over $1 billion in combined debt and equity issuances over the next 1-3 years (maximum of $950 million of debt and $350 million of equity, per regulatory statute), depending on the market for gas local distribution and pipeline acquisition targets. However, Atmos faces the risk of overpaying for an overvalued target with the expectation of improving regulatory returns, which may never come to fruition. It's notable that the company has publicly expressed a preference for internal investment over acquisitions in the current climate. Atmos' size precludes any one regulatory decision from having a drastic impact.

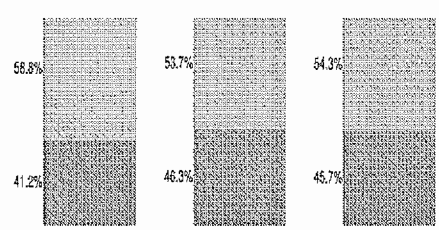
Credit Metrics (USD Mil)

	2010	2011	*2012(E)*	*2013(E)*
Cash And Equivalents	132	131	*341*	*161*
Total Debt	2,296	2,415	*2,700*	*2,800*
Interest Expense	162	158	*150*	*165*
EBITDA	707	706	*727*	*752*
Debt to Book Capital	—	—	—	—
Quick Ratio	0.3	0.5	*0.7*	*0.5*
Debt to EBITDA	3.2	3.4	*3.7*	*3.7*
EBITDA to Interest Expense	4.6	4.7	*4.9*	*4.6*

Operating Summary (USD Mil)

	2010	2011	*2012(E)*	*2013(E)*
Sales	4,790	4,348	*3,846*	*3,897*
% Change	-3.6	-9.2	*-11.5*	*1.3*
EBIT	489	442	*491*	*503*
% Net Sales	10.2	10.2	*12.8*	*12.9*
Net Income	206	208	*218*	*224*
% Net Sales	4.3	4.8	*5.7*	*5.8*
Free Cash Flow	242	-29	*98*	*-90*
% Net Sales	5.1	-0.7	*2.6*	*-2.3*

Capital Structure



	Prior Year	Prior Quarter	Current
Market Equity	3.08 Bil	3.01 Bil	2.83 Bil
Preferred	—	—	—
Debt	2.16 Bil	2.6 Bil	2.38 Bil

Source: Morningstar

Issuer Profile

Atmos Energy is the largest natural gas-only distributor in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | BBB+

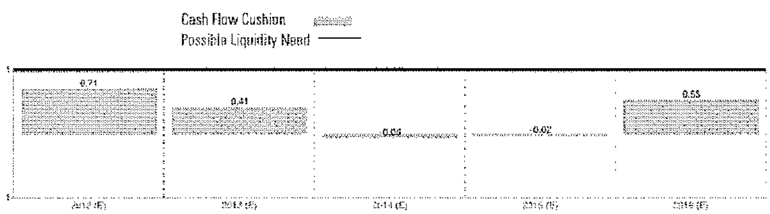
Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	131	341	161	201	221
Adjusted Free Cash Flow	119	-62	-77	-95	65
Total Cash Available before Debt Service	142	185	-13	-13	155
Principal Payments	—	-250	—	-500	—
Interest Payments	-150	-165	-183	-224	-254
Other Cash Obligations and Commitments	50	31	33	35	37
Total Cash Obligations and Commitments	-200	-446	-216	-759	-291

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	131	6.9
Sum of 5-Year Adjusted Free Cash Flow	-600	-31.4
Sum of Cash and 5-Year Cash Generation	-469	-24.5
Revolver Availability	703	36.7
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	234	12.2
Sum of 5-Year Cash Commitments	-1,912	—

Credit Rating Pillars--Peer Group Comparison

	ATO	Sector	Universe
Business Risk	4	5.0	5.2
Cash Flow Cushion	10	9.1	6.1
Solvency Score	3	5.9	5.1
Distance to Default	4	4.5	4.4
Credit Rating	BBB+	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

Even with its large capital expenditure program, Atmos maintains a strong balance sheet and an investment-grade credit rating. At the end of fiscal 2011, the company's debt/capital ratio was 52%, in line with its peers. Total debt/EBITDA could tick up slightly, averaging 3.6 times through 2016. We believe Atmos' dividend is well covered by its regulated utilities' earnings and expect the dividend payout to remain between 50% and 60%.

Capital Structure

With $3.8 billion of capital spending planned between 2012 and 2016, we expect Amos will be a frequent debt issuer. The company has $250 million of long-term debt maturities in 2013 and $500 million in 2015. We expect Atmos will be able to refinance its debt as it comes due and will maintain its debt/capital ratio by funding about half of its growth capital expenditure with new debt. Given Atmos' cash from operations and healthy cash position, we do not expect the firm to tap the equity markets in the near term to fund its growth plans.

Enterprise Risk

The primary uncertainty Atmos faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, lower allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Overpaying for acquisitions is also a risk given the company's acquisitive past.

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Business Analysis

Thesis

As the nation's largest natural gas distribution utility, Atmos Energy brings together a patchwork of local distribution businesses from Virginia to Texas and a lower-risk investment opportunity for dividend-seeking investors. We like this company's focus on the basics and applaud the general efficiency of its overall rate structure, which should consistently provide healthy, if unexciting, returns.

After the sale of its Illinois, Iowa, and Missouri business expected to close in August, Atmos will have regulated distribution operations across nine states. A highly diversified regulatory environment is one of Atmos' strengths. Harmful rate changes imposed by regulators are the bane of any utility. Regulators' ability to set rates counters the natural monopoly position of the utility, resulting in a narrow economic moat for most utilities.

With so many different jurisdictions Atmos is more insulated from individual negative events. It also enjoys some favorable rate mechanisms in its territories. The company is protected from weather-related fluctuations in customer usage for the bulk of its meter base, with full rate decoupling for another slice of it. Even better, Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case. All these factors help Atmos generate relatively stable cash flows.

Atmos has historically grown through acquisition, purchasing 10 companies in the past 20 years. Its largest by far was the 2004 acquisition of TXU Gas, which added 1.5 million customers and a pipelines that access nine substantial natural gas basins in Texas. Atmos took on large amounts of debt to complete the purchase and integrate the TXU assets. It spent a few years trimming its balance sheet to a more favorable size and now maintains near-equal levels of debt and equity, in line with other gas utilities.

Atmos is now focused on organic growth, with most of its $2.4 billion in growth investments in the constructive regulatory Texas jurisdictions. The company benefits from Texas Rule 8.209 on distribution infrastructure investments, allowing the company pre-approval by the Texas Railroad Commission and regulatory asset treatment for carrying costs. The company's state transmission and storage investments experience regulatory lag of up to a year while still earning comparatively favorable returns among peer regulated returns. Management has built strong working relationships with regulators that should continue to result in strong shareholder returns.

Economic Moat

Atmos owns a difficult-to-replicate network of natural gas distribution and transmission assets and provides an essential energy source to customers. In exchange for its service territory monopoly, Atmos' returns are set by state and federal regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Atmos to earn its cost of capital and leads us to assign the company a narrow moat.

Moat Trend

We do not foresee a material change in the regulatory compact that allows utilities to earn at a level that adequately compensates capital providers while ensuring utilities do not take advantage of their service area monopoly by gouging customers. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Atmos from establishing a wide economic moat. Atmos' investment program is focused almost entirely on its regulated natural gas distribution and transmission businesses. Furthermore, the company is concentrating its growth expenditures in the territories where its regulatory return is swiftest and most transparent, like Texas.

CASE NO. 2013-00148
ATTACHMENT 1
TO OAG DR NO. 1-183

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Business Analysis

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Recent Notes from our Credit and Equity Analysts

Atmos Management Meeting: Shift Toward Internal Growth in Texas, M&A Looks Too Rich 07 May 2012

Most of our discussion May 6 with Atmos' ATO management team, including president and CEO Kim Cocklin and CFO Fred Meisenheimer, at the American Gas Association Financial Forum in Scottsdale, Ariz., focused on the company's wide footprint of regulated operations.

Last week management said it is targeting 8.0%-8.5% rate base growth through 2016, up from its earlier 6.0%-6.5% forecast. Atmos has in the past been an acquisitive utility, but management sees such appealing growth opportunities at its regulated utilities, especially in Texas, that they have shifted their focus away from M&A toward increased investment in their system.

Management seems to agree with our view that utility valuations are overly rich at market prices given significant tax and inflation uncertainty as well as the difficulty of generating immediate earnings and value accretion from M&A. We will review our current 4% annual earnings growth projection through 2016 to incorporate the deluge of well-supported new regulatory spending and Atmos' move toward more organic growth. Driving much of the increased appetite for system investment is a supportive regulatory environment for its largest group of operations in Texas, where ratemaking continues to reduce investment lag and where management sees healthy upside from improving returns on equity at segments currently negotiating rate cases.

While distribution operations continue to improve, management is seeing material upside for its regulated Texas pipeline and storage business as well, driven by reliability improvements and higher associated gas production from oil drilling in West Texas. Management specifically highlighted the Waha hub as central to growth plans beyond planned projects like line W and X, which total roughly $160 million in capital expenditure and qualify for expedited recovery under Texas' GRIP system. This segment had been hurt by a decline in gas drilling and volumes in the past few years but continued strong oil pricing for associated gas should provide favorable throughput continuing into 2013, supporting earnings improvement on top of new investment projects.

Like many of the management teams, Atmos' management team thinks the dividend tax issue is still unpredictable. However, parity in dividend and capital gains taxes is a priority for the industry and has the best likelihood of protecting utility valuations relative to the market in the event of an increase.

MORNINGSTAR®

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Income Statement (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Total Revenue	**4,969**	**4,790**	**4,348**	***3,846***	***3,897***
Cost of Goods Sold	3,622	3,425	3,020	*2,501*	*2,487*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,345***	***1,410***
Selling, General & Administrative Expenses	494	468	449	*464*	*478*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	183	191	179	*153*	*180*
Restructuring & Other Charges (Gains)	—	—	—	*-10*	—
Depreciation Expense (if reported separately)	217	217	227	*246*	*249*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	5	—	30	—	—
Total Expenses	**4,522**	**4,300**	**3,906**	***3,355***	***3,394***
Operating Income (EBIT)	**447**	**489**	**442**	***491***	***503***
Interest Expense	153	154	151	*150*	*165*
Interest & Other Income (Expense)	-3	0	21	*3*	*15*
Pre-Tax Income	**291**	**335**	**313**	***343***	***353***
Income Tax Expense (Benefit)	100	129	114	*125*	*129*
Income After Taxes	**191**	**206**	**199**	***218***	***224***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
Net Income (Loss)	**191**	**206**	**208**	***218***	***224***
Net Income (Loss) Excluding Charges	191	206	199	*212*	*224*
Diluted Shares Outstanding (Mil)	92	92	91	*91*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.41*	*2.45*
Diluted EPS Excluding Charges	2.08	2.22	2.28	*2.34*	*2.45*
Dividends Per Common Share	1.32	1.34	1.36	*1.39*	*1.42*
EBITDA	**670**	**707**	**706**	***737***	***752***
EBITDA without restructuring	**670**	**707**	**706**	***727***	***752***

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

				Forecast	
Assets	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Excess Cash & Investments	—	—	—	*226*	*45*
Operating Cash & Equivalents	111	132	131	*115*	*117*
Accounts Receivable	233	273	273	*253*	*235*
Inventory	353	319	290	*206*	*204*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,116***	***917***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,489*	*6,009*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,426*	*8,195*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,936*	*-2,186*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	—	—	—	—	—
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Liabilities					
Accounts Payable	207	266	291	*219*	*204*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***886***	***872***
Long-Term Debt	2,169	1,810	2,206	*2,400*	*2,500*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,400***	***2,500***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,336***	***5,527***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,751*	*1,786*
Retained Earnings (Deficit)	405	487	570	*663*	*757*
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	*-20*	*-20*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,394***	***2,523***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Net Income from Continuing Operations	191	206	208	*218*	*224*
Depreciation Expense	217	217	233	*246*	*249*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-10*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*20*	*18*
(Increase) Decrease in Inventory	194	54	28	*84*	*1*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-73*	*-14*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***582***	***584***
(Capital Expenditures)	-509	-543	-623	*-702*	*-769*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-578***	***-769***
Common Stock (Purchase) or Sale	28	-93	2	*18*	*35*
Common Stock (Dividends)	-121	-124	-124	*-126*	*-130*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*194*	*100*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***176***	***5***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*28*	—
Net Change in Cash	**64**	**21**	**-1**	***210***	***-180***
Change in Cash on Balance Sheet	64	21	-1	*210*	*-180*
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	204 USD	52.6	53.8	54.0	26.6	29.8	30.1	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
New Jersey Resources Corporation	101 USD	15.2	17.7	16.9	5.9	7.0	6.5	4.8	5.4	5.0	3.4	4.3	3.9	2.4	-0.5	1.0
Average		33.9	35.8	35.5	16.3	18.4	18.3	12.2	14.1	14.1	6.2	7.4	7.4	3.2	0.8	2.6
Atmos Energy Corp ATO US	**199** USD	**30.5**	**35.0**	**36.2**	**16.2**	**18.9**	**19.3**	**10.2**	**12.8**	**12.9**	**4.6**	**5.5**	**5.8**	**-0.9**	**-3.1**	**-4.8**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	3,164 USD	182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
New Jersey Resources Corporation	594 USD	76.5	77.7	76.1	43.3	43.7	43.2	9.0	9.5	8.9	3.4	3.5	3.5	3.4	3.2	3.2
Average		129.3	123.9	116.9	53.9	53.4	52.2	7.3	7.5	7.3	4.3	4.0	3.9	3.9	3.7	3.6
Atmos Energy Corp ATO US	**2,415** USD	**107.1**	**112.8**	**111.0**	**51.7**	**53.0**	**52.6**	**4.7**	**4.8**	**4.6**	**3.4**	**3.7**	**3.7**	**3.2**	**3.2**	**3.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	4,661 USD	6.79	5.77	5.12	-33.93	-34.79	-35.05	6.35	6.01	5.82	1.17	0.63	1.30	68.5	58.7	57.5
New Jersey Resources Corporation	1,889 USD	0.18	0.18	0.18	-14.10	-15.58	-16.26	6.02	5.13	4.57	1.75	-0.34	0.70	57.9	56.3	57.5
Average		3.5	3.0	2.7	-24.0	-25.2	-25.7	6.2	5.6	5.2	1.5	0.1	1.0	63.2	57.5	57.5
Atmos Energy Corp ATO US	**3,268** USD	**1.45**	**3.77**	**1.77**	**-25.19**	**-26.04**	**-28.85**	**6.43**	**6.43**	**6.39**	**-0.44**	**-1.32**	**-2.02**	**59.7**	**57.8**	**57.9**

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

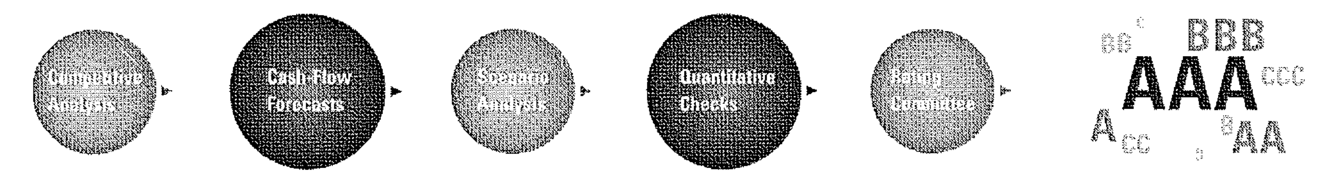
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score℠

The Morningstar Solvency Score℠ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.39 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Unregulated Operations Provide Lift to Atmos Energy's 3Q Results

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The primary analyst covering this company does not own its stock.

Research as of 09 Aug 2012
Estimates as of 17 Jul 2012
Pricing data through 08 Aug 2012
Rating updated as of 08 Aug 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 09 Aug 2012

Atmos Energy ATO reported third-quarter earnings per share of $0.34 compared with a loss of $0.01 in the year-ago quarter. Management maintained its full-year EPS guidance of $2.30-$2.40 and five-year 6%-8% growth forecast. We are reaffirming our $35 fair value estimate and our 2012 EPS estimate.

Nonregulated gross profit grew 75%, as the company booked $18.2 million from a profitable trading strategy implemented earlier this year. The company opportunistically took advantage of falling gas prices, storing cheap gas and rolling forward the positions into the current quarter. Investors shouldn't expect additional asset optimization performance, as management noted that little benefit remains for the remainder of the year from the strategy.

At its regulated operations, the company continues to benefit from constructive regulatory environments and timely rate increases. In the current quarter, the company added $14 million in incremental margin and $48 million in margin during the last nine months from rate increases. The company is effectively protected from weather impacts, as weather adjustment mechanisms provide for reimbursements from lower consumption during warm weather periods. These adjustments provided $50 million in rate relief to date for Atmos.

Finally, the company announced the sale its Georgia assets for $141 million to Liberty Energy, a subsidiary of Algonquin Power & Utilities. Management indicated growth opportunities were relatively constrained because of competitive operations in Georgia. Management also completed the sale of its Missouri, Illinois, and Iowa distribution assets Aug. 1, with proceeds to be used to pay down outstanding commercial paper. We would be surprised to see management sell additional assets, as

Vital Statistics

Market Cap (USD Mil)	3,276
52-Week High (USD)	37.33
52-Week Low (USD)	28.51
52-Week Total Return %	30.8
YTD Total Return %	11.2
Last Fiscal Year End	30 Sep 2011
5-Yr Forward Revenue CAGR %	8.8
5-Yr Forward EPS CAGR %	8.5
Price/Fair Value	1.04

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	13.2	14.2	*15.6*	*14.9*
EV/EBITDA	6.8	7.4	*7.7*	*7.5*
EV/EBIT	9.8	11.0	*11.7*	*11.2*
Free Cash Flow Yield %	7.0	-1.4	*-3.6*	*-5.7*
Dividend Yield %	4.7	4.2	*3.8*	*4.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	4,790	4,348	*3,846*	*3,897*
Revenue YoY %	-3.6	-9.2	*-11.5*	*1.3*
EBIT	489	472	*481*	*503*
EBIT YoY %	8.1	-3.5	*1.9*	*4.5*
Net Income, Adjusted	206	199	*212*	*224*
Net Income YoY %	7.8	-3.4	*6.5*	*5.9*
Diluted EPS	2.22	2.28	*2.34*	*2.45*
Diluted EPS YoY %	6.9	-1.5	*6.6*	*4.9*
Free Cash Flow	184	-40	*-119*	*-185*
Free Cash Flow YoY %	-55.1	-121.8	*196.9*	*55.3*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note: Our forecast could differ with as reported and consensus figures due to unique modeling conventions.

Profile

Atmos Energy is the largest natural gas-only distributor in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.39 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

remaining assets are in constructive regulatory jurisdictions with strong growth opportunities.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.39 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Sep 2009	Sep 2010	Sep 2011	Forecast Sep 2012	Forecast Sep 2013	5-Year Proj. CAGR
Revenue	-15.6	-31.2	-3.6	-9.2	-11.5	1.3	—
EBIT	3.3	5.8	8.1	-3.5	1.9	4.5	9.0
EBITDA	3.9	6.6	5.4	-0.1	3.1	3.4	7.7
Net Income	3.3	5.9	7.8	-3.4	6.5	5.9	9.2
Diluted EPS	3.1	4.0	6.9	-1.5	6.6	4.9	8.5
Earnings Before Interest, after Tax	4.2	15.3	13.1	-13.1	-17.2	6.7	1.8
Free Cash Flow to the Firm	-183.1	814.7	-47.2	-111.9	-443.0	-191.6	-202.1

Profitability	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Operating Margin %	10.1	9.1	10.2	10.9	12.5	12.9	11.8
EBITDA Margin %	14.8	13.5	14.8	16.2	18.9	19.3	17.5
Net Margin %	4.2	3.8	4.3	4.6	5.5	5.8	5.2
Free Cash Flow to the Firm margin %	4.5	9.2	5.1	-0.7	2.6	-2.3	-0.7
ROIC with Goodwill %	8.9	9.1	9.7	7.8	6.0	6.0	5.8
ROIC w/out Goodwill %	10.1	10.5	11.2	8.8	6.7	6.7	6.4
Return on Assets, pretax %	6.9	7.0	7.5	6.3	6.5	6.4	6.8
Return on Equity %	9.2	9.0	9.5	9.0	9.4	9.1	9.7

Leverage	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Debt/Capital	0.51	0.51	0.51	0.52	0.53	0.53	0.54
Total Debt/EBITDA	3.34	3.35	3.25	3.42	3.71	3.72	3.75
EBITDA/Interest Expense	4.55	4.38	4.57	4.68	4.84	4.57	4.43

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.01	1.05	—	—
Price/Earnings	13.2	14.2	15.6	14.9
EV/EBITDA	6.8	7.4	7.7	7.5
EV/EBIT	9.8	11.0	11.7	11.2
Free Cash Flow Yield %	7.0	-1.4	-3.6	-5.7
Dividend Yield %	4.7	4.2	3.8	4.0

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.0
Weighted Average Cost of Capital %	7.7
Long-Run Tax Rate %	36.5
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	24.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-145	-2.6	-1.59
Present Value Stage II	5,702	102.6	62.77
Present Value of the Perpetuity	—	—	—
Total Firm Value	**5,557**	**100.0**	**—**
Cash and Equivalents	131	—	1.45
Debt	2,700	—	-26.59
Net balance sheet impact	-2,284	—	-25.14
Other Adjustments	-271	—	-2.98
Equity Value	**3,003**	**—**	**34.59**
Projected Diluted Shares	91		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.39 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Total Revenue	**4,969**	**4,790**	**4,348**	***3,846***	***3,897***
Cost of Goods Sold	3,622	3,425	3,020	*2,501*	*2,487*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,345***	***1,410***
Selling, General & Administrative Expenses	494	468	449	*464*	*478*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	183	191	179	*153*	*180*
Restructuring & Other Charges (Gains)	—	—	—	*-10*	—
Depreciation Expense (if reported separately)	217	217	227	*246*	*249*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	5	—	30	—	—
Total Expenses	**4,522**	**4,300**	**3,906**	***3,355***	***3,394***
Operating Income (EBIT)	**447**	**489**	**442**	***491***	***503***
Interest Expense	153	154	151	*150*	*165*
Interest & Other Income (Expense)	-3	0	21	*3*	*15*
Pre-Tax Income	**291**	**335**	**313**	***343***	***353***
Income Tax Expense (Benefit)	100	129	114	*125*	*129*
Income After Taxes	**191**	**206**	**199**	***218***	***224***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
Net Income (Loss)	**191**	**206**	**208**	***218***	***224***
Net Income (Loss) Excluding Charges	191	206	199	*212*	*224*
Diluted Shares Outstanding (Mil)	92	92	91	*91*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.41*	*2.45*
Diluted EPS Excluding Charges	2.08	2.22	2.28	*2.34*	*2.45*
Dividends Per Common Share	1.32	1.34	1.36	*1.39*	*1.42*
EBITDA	**670**	**707**	**706**	***737***	***752***
EBITDA without restructuring	**670**	**707**	**706**	***727***	***752***

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.39 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

				Forecast	
Assets	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Excess Cash & Investments	—	—	—	*226*	*45*
Operating Cash & Equivalents	111	132	131	*115*	*117*
Accounts Receivable	233	273	273	*253*	*235*
Inventory	353	319	290	*206*	*204*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,116***	***917***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,489*	*6,009*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,426*	*8,195*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,936*	*-2,186*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	—	—	—	—	—
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Liabilities					
Accounts Payable	207	266	291	*219*	*204*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***886***	***872***
Long-Term Debt	2,169	1,810	2,206	*2,400*	*2,500*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,400***	***2,500***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,336***	***5,527***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,751*	*1,786*
Retained Earnings (Deficit)	405	487	570	*663*	*757*
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	*-20*	*-20*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,394***	***2,523***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
36.39 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Net Income from Continuing Operations	191	206	208	*218*	*224*
Depreciation Expense	217	217	233	*246*	*249*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-10*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*20*	*18*
(Increase) Decrease in Inventory	194	54	28	*84*	*1*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-73*	*-14*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***582***	***584***
(Capital Expenditures)	-509	-543	-623	*-702*	*-769*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-578***	***-769***
Common Stock (Purchase) or Sale	28	-93	2	*18*	*35*
Common Stock (Dividends)	-121	-124	-124	*-126*	*-130*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*194*	*100*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***176***	***5***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*28*	—
Net Change in Cash	**64**	**21**	**-1**	***210***	***-180***
Change in Cash on Balance Sheet	64	21	-1	*210*	*-180*
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Unregulated Operations Provide Lift to Atmos Energy's 3Q Results

See Page 5 for the full Analyst Note from 09 Aug 2012

Morningstar Credit Committee
credit@morningstar.com

Committee members voting on rating do not own securities issued by the company.

Credit Analysis as of 23 Jul 2012
Business Analysis as of 23 Jul 2012
Estimates as of 17 Jul 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Credit Perspective 28 Jun 2012

Atmos Energy Corp (BBB+) distributes natural gas to regulated utility customers across nine states. Atmos' business includes unregulated marketing and procurement services as well as natural gas storage and pipelines. Like all regulated utility businesses, we assign Atmos a narrow moat recognizing the implicit contract Atmos maintains with its state regulators to provide stable natural gas distribution in return for regulated returns. Our rating reflects the benefit Atmos receives from decoupling and weather-related fluctuations in customer usage. Moreover, our rating incorporates Atmos' ability to raise revenue without filing a formal rate case via advantageous rate mechanisms. We acknowledge that Atmos has grown considerably through acquisitions over the past 20 years, most notably levering its balance sheet to roughly 4.5 times in 2004 to purchase TXU gas (pipelines) in Texas. However, Atmos has maintained discipline reducing its leverage by a turn to 3.5 times, where we expect it to stay barring any near-term acquisitions. Interest coverage remains healthy at roughly 5 times. While Atmos' credit metrics are currently very healthy, we believe Atmos is likely on the lookout for acquisitions, which could lead to re-leveraging the balance sheet. Atmos can raise over $1 billion in combined debt and equity issuances over the next 1-3 years (maximum of $950 million of debt and $350 million of equity, per regulatory statute), depending on the market for gas local distribution and pipeline acquisition targets. However, Atmos faces the risk of overpaying for an overvalued target with the expectation of improving regulatory returns, which may never come to fruition. It's notable that the company has publicly expressed a preference for internal investment over acquisitions in the current climate. Atmos' size precludes any one regulatory decision from having a drastic impact.

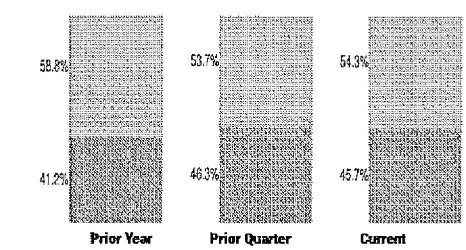
Credit Metrics (USD Mil)

	2010	2011	2012(E)	2013(E)
Cash And Equivalents	132	131	341	161
Total Debt	2,296	2,415	2,700	2,800
Interest Expense	162	158	150	165
EBITDA	707	706	727	752
Debt to Book Capital	—	—	—	—
Quick Ratio	0.3	0.5	0.7	0.5
Debt to EBITDA	3.2	3.4	3.7	3.7
EBITDA to Interest Expense	4.6	4.7	4.9	4.6

Operating Summary (USD Mil)

	2010	2011	2012(E)	2013(E)
Sales	4,790	4,348	3,846	3,897
% Change	-3.6	-9.2	-11.5	1.3
EBIT	489	442	491	503
% Net Sales	10.2	10.2	12.8	12.9
Net Income	206	208	218	224
% Net Sales	4.3	4.8	5.7	5.8
Free Cash Flow	242	-29	98	-90
% Net Sales	5.1	-0.7	2.6	-2.3

Capital Structure



	Prior Year	Prior Quarter	Current
Market Equity	3.08 Bil	3.01 Bil	2.83 Bil
Preferred	—	—	—
Debt	2.16 Bil	2.6 Bil	2.38 Bil

Source: Morningstar

Issuer Profile

Atmos Energy is the largest natural gas-only distributor in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

MORNINGSTAR®

Atmos Energy Corp ATO (NYSE) | BBB+

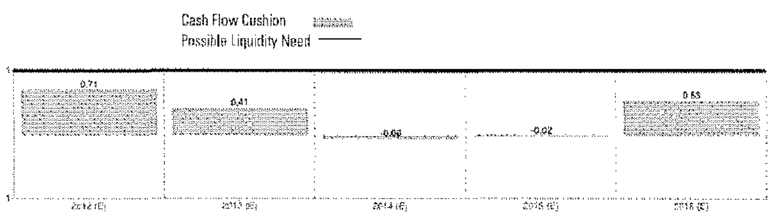
Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	131	341	161	201	221
Adjusted Free Cash Flow	119	-62	-77	-95	65
Total Cash Available before Debt Service	142	185	-13	-13	155
Principal Payments	—	-250	—	-500	—
Interest Payments	-150	-165	-183	-224	-254
Other Cash Obligations and Commitments	50	31	33	35	37
Total Cash Obligations and Commitments	-200	-446	-216	-759	-291

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	131	6.9
Sum of 5-Year Adjusted Free Cash Flow	-600	-31.4
Sum of Cash and 5-Year Cash Generation	-469	-24.5
Revolver Availability	703	36.7
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	234	12.2
Sum of 5-Year Cash Commitments	-1,912	—

Credit Rating Pillars—Peer Group Comparison

	ATO	Sector	Universe
Business Risk	4	5.0	5.2
Cash Flow Cushion	10	9.1	6.1
Solvency Score	3	5.9	5.1
Distance to Default	4	4.5	4.3
Credit Rating	BBB+	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

Even with its large capital expenditure program, Atmos maintains a strong balance sheet and an investment-grade credit rating. At the end of fiscal 2011, the company's debt/capital ratio was 52%, in line with its peers. Total debt/EBITDA could tick up slightly, averaging 3.6 times through 2016. We believe Atmos' dividend is well covered by its regulated utilities' earnings and expect the dividend payout to remain between 50% and 60%.

Capital Structure

With $3.8 billion of capital spending planned between 2012 and 2016, we expect Amos will be a frequent debt issuer. The company has $250 million of long-term debt maturities in 2013 and $500 million in 2015. We expect Atmos will be able to refinance its debt as it comes due and will maintain its debt/capital ratio by funding about half of its growth capital expenditure with new debt. Given Atmos' cash from operations and healthy cash position, we do not expect the firm to tap the equity markets in the near term to fund its growth plans.

Enterprise Risk

The primary uncertainty Atmos faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, lower allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Overpaying for acquisitions is also a risk given the company's acquisitive past.

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Business Analysis

Thesis

As the nation's largest natural gas distribution utility, Atmos Energy brings together a patchwork of local distribution businesses from Virginia to Texas and a lower-risk investment opportunity for dividend-seeking investors. We like this company's focus on the basics and applaud the general efficiency of its overall rate structure, which should consistently provide healthy, if unexciting, returns.

After the sale of its Illinois, Iowa, and Missouri business expected to close in August, Atmos will have regulated distribution operations across nine states. A highly diversified regulatory environment is one of Atmos' strengths. Harmful rate changes imposed by regulators are the bane of any utility. Regulators' ability to set rates counters the natural monopoly position of the utility, resulting in a narrow economic moat for most utilities.

With so many different jurisdictions Atmos is more insulated from individual negative events. It also enjoys some favorable rate mechanisms in its territories. The company is protected from weather-related fluctuations in customer usage for the bulk of its meter base, with full rate decoupling for another slice of it. Even better, Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case. All these factors help Atmos generate relatively stable cash flows.

Atmos has historically grown through acquisition, purchasing 10 companies in the past 20 years. Its largest by far was the 2004 acquisition of TXU Gas, which added 1.5 million customers and a pipelines that access nine substantial natural gas basins in Texas. Atmos took on large amounts of debt to complete the purchase and integrate the TXU assets. It spent a few years trimming its balance sheet to a more favorable size and now maintains near-equal levels of debt and equity, in line with other gas utilities.

Atmos is now focused on organic growth, with most of its $2.4 billion in growth investments in the constructive regulatory Texas jurisdictions. The company benefits from Texas Rule 8.209 on distribution infrastructure investments, allowing the company pre-approval by the Texas Railroad Commission and regulatory asset treatment for carrying costs. The company's state transmission and storage investments experience regulatory lag of up to a year while still earning comparatively favorable returns among peer regulated returns. Management has built strong working relationships with regulators that should continue to result in strong shareholder returns.

Economic Moat

Atmos owns a difficult-to-replicate network of natural gas distribution and transmission assets and provides an essential energy source to customers. In exchange for its service territory monopoly, Atmos' returns are set by state and federal regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Atmos to earn its cost of capital and leads us to assign the company a narrow moat.

Moat Trend

We do not foresee a material change in the regulatory compact that allows utilities to earn at a level that adequately compensates capital providers while ensuring utilities do not take advantage of their service area monopoly by gouging customers. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Atmos from establishing a wide economic moat.Atmos' investment program is focused almost entirely on its regulated natural gas distribution and transmission businesses. Furthermore, the company is concentrating its growth expenditures in the territories where its regulatory return is swiftest and most transparent, like Texas.

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Recent Notes from our Credit and Equity Analysts

Unregulated Operations Provide Lift to Atmos Energy's 3Q Results 09 Aug 2012

Atmos Energy ATO reported third-quarter earnings per share of $0.34 compared with a loss of $0.01 in the year-ago quarter. Management maintained its full-year EPS guidance of $2.30-$2.40 and five-year 6%-8% growth forecast. We are reaffirming our $35 fair value estimate and our 2012 EPS estimate.

Nonregulated gross profit grew 75%, as the company booked $18.2 million from a profitable trading strategy implemented earlier this year. The company opportunistically took advantage of falling gas prices, storing cheap gas and rolling forward the positions into the current quarter. Investors shouldn't expect additional asset optimization performance, as management noted that little benefit remains for the remainder of the year from the strategy.

At its regulated operations, the company continues to benefit from constructive regulatory environments and timely rate increases. In the current quarter, the company added $14 million in incremental margin and $48 million in margin during the last nine months from rate increases. The company is effectively protected from weather impacts, as weather adjustment mechanisms provide for reimbursements from lower consumption during warm weather periods. These adjustments provided $50 million in rate relief to date for Atmos.

Finally, the company announced the sale its Georgia assets for $141 million to Liberty Energy, a subsidiary of Algonquin Power & Utilities. Management indicated growth opportunities were relatively constrained because of competitive operations in Georgia. Management also completed the sale of its Missouri, Illinois, and Iowa distribution assets Aug. 1, with proceeds to be used to pay down outstanding commercial paper. We would be surprised to see management sell additional assets, as remaining assets are in constructive regulatory jurisdictions with strong growth opportunities.

Atmos Management Meeting: Shift Toward Internal Growth in Texas, M&A Looks Too Rich 07 May 2012

Most of our discussion May 6 with Atmos' ATO management team, including president and CEO Kim Cocklin and CFO Fred Meisenheimer, at the American Gas Association Financial Forum in Scottsdale, Ariz., focused on the company's wide footprint of regulated operations.

Last week management said it is targeting 8.0%-8.5% rate base growth through 2016, up from its earlier 6.0%-6.5% forecast. Atmos has in the past been an acquisitive utility, but management sees such appealing growth opportunities at its regulated utilities, especially in Texas, that they have shifted their focus away from M&A toward increased investment in their system.

Management seems to agree with our view that utility valuations are overly rich at market prices given significant tax and inflation uncertainty as well as the difficulty of generating immediate earnings and value accretion from M&A. We will review our current 4% annual earnings growth projection through 2016 to incorporate the deluge of well-supported new regulatory spending and Atmos' move toward more organic growth. Driving much of the increased appetite for system investment is a supportive regulatory environment for its largest group of operations in Texas, where ratemaking continues to reduce investment lag and where management sees healthy upside from improving returns on equity at segments currently negotiating rate cases.

While distribution operations continue to improve, management is seeing material upside for its regulated Texas pipeline and storage business as well, driven by

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reliability improvements and higher associated gas production from oil drilling in West Texas. Management specifically highlighted the Waha hub as central to growth plans beyond planned projects like line W and X, which total roughly $160 million in capital expenditure and qualify for expedited recovery under Texas' GRIP system. This segment had been hurt by a decline in gas drilling and volumes in the past few years but continued strong oil pricing for associated gas should provide favorable throughput continuing into 2013, supporting earnings improvement on top of new investment projects.

Like many of the management teams, Atmos' management team thinks the dividend tax issue is still unpredictable. However, parity in dividend and capital gains taxes is a priority for the industry and has the best likelihood of protecting utility valuations relative to the market in the event of an increase.

Atmos Energy Corp ATO (NYSE) | BBB+

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After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
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Diluted EPS Including Charges	2.08	2.23	2.29	*2.41*	*2.45*
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EBITDA	**670**	**707**	**706**	***737***	***752***
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Accounts Payable	207	266	291	*219*	*204*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***886***	***872***
Long-Term Debt	2,169	1,810	2,206	*2,400*	*2,500*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,400***	***2,500***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,336***	***5,527***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,751*	*1,786*
Retained Earnings (Deficit)	405	487	570	*663*	*757*
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	*-20*	*-20*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,394***	***2,523***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	Forecast *Sep 2012*	*Sep 2013*
Net Income from Continuing Operations	191	206	208	*218*	*224*
Depreciation Expense	217	217	233	*246*	*249*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-10*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*20*	*18*
(Increase) Decrease in Inventory	194	54	28	*84*	*1*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-73*	*-14*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***582***	***584***
(Capital Expenditures)	-509	-543	-623	*-702*	*-769*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-578***	***-769***
Common Stock (Purchase) or Sale	28	-93	2	*18*	*35*
Common Stock (Dividends)	-121	-124	-124	*-126*	*-130*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*194*	*100*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***176***	***5***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*28*	—
Net Change in Cash	**64**	**21**	**-1**	***210***	***-180***
Change in Cash on Balance Sheet	64	21	-1	*210*	*-180*
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	204 USD	52.6	53.8	54.0	26.6	29.8	30.1	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
New Jersey Resources Corporation	101 USD	15.2	17.7	16.9	5.9	7.0	6.5	4.8	5.4	5.0	3.4	4.3	3.9	2.4	-0.5	1.0
Average		33.9	35.8	35.5	16.3	18.4	18.3	12.2	14.1	14.1	6.2	7.4	7.4	3.2	0.8	2.6
Atmos Energy Corp ATO US	**199** USD	**30.5**	**35.0**	**36.2**	**16.2**	**18.9**	**19.3**	**10.2**	**12.8**	**12.9**	**4.6**	**5.5**	**5.8**	**-0.9**	**-3.1**	**-4.8**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	3,164 USD	182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
New Jersey Resources Corporation	594 USD	76.5	77.7	76.1	43.3	43.7	43.2	9.0	9.5	8.9	3.4	3.5	3.5	3.4	3.2	3.2
Average		129.3	123.9	116.9	53.9	53.4	52.2	7.3	7.5	7.3	4.3	4.0	3.9	3.9	3.7	3.6
Atmos Energy Corp ATO US	**2,415** USD	**107.1**	**112.8**	**111.0**	**51.7**	**53.0**	**52.6**	**4.7**	**4.8**	**4.6**	**3.4**	**3.7**	**3.7**	**3.2**	**3.2**	**3.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	4,757 USD	6.79	5.77	5.12	-33.93	-34.79	-35.05	6.35	6.01	5.82	1.17	0.63	1.30	68.5	58.7	57.5
New Jersey Resources Corporation	1,891 USD	0.18	0.18	0.18	-14.10	-15.58	-16.26	6.02	5.13	4.57	1.75	-0.34	0.70	57.9	56.3	57.5
Average		3.5	3.0	2.7	-24.0	-25.2	-25.7	6.2	5.6	5.2	1.5	0.1	1.0	63.2	57.5	57.5
Atmos Energy Corp ATO US	**3,296** USD	**1.45**	**3.77**	**1.77**	**-25.19**	**-26.04**	**-28.85**	**6.43**	**6.43**	**6.39**	**-0.44**	**-1.32**	**-2.02**	**59.7**	**57.8**	**57.9**

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

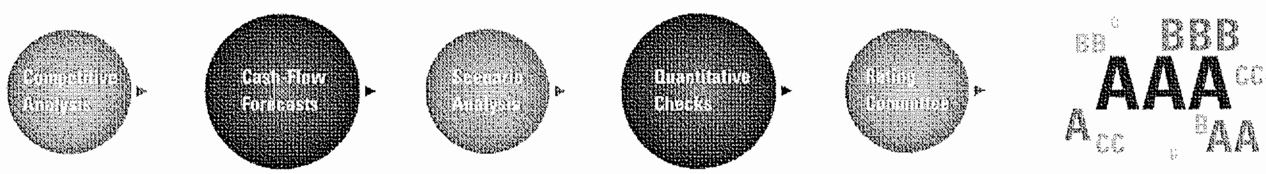
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Competitive Analysis

Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Cash Flow Forecasts

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Scenario Analysis

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

Quantitative Checks

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Rating Committee

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
35.93 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Constructive regulatory environments provide strong rate base growth opportunities.

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The primary analyst covering this company does not own its stock.

Research as of 21 Aug 2012
Estimates as of 17 Jul 2012
Pricing data through 21 Aug 2012
Rating updated as of 21 Aug 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 21 Aug 2012

With its massive, diverse portfolio of gas distribution businesses and a small gas infrastructure business, Atmos has leverage to a structural increase in natural gas use in the U.S. economy. Given current market conditions, management has shifted its focus from growth through acquisitions to internal capital investment opportunities, with management expectations to grow the rate base 8% annually through 2016. Atmos is investing in its most favorable regulatory regimes to drive earnings growth, which we forecast at 8% through 2016. Combined with a 4.0% dividend yield at our fair value estimate, Atmos' returns should be in the middle of the utility pack--not surprising for such a large, geographically diversified company.

Key Investment Considerations

- Trading at 15.8 times our 2012 earnings estimate as of late July, Atmos looks slightly overvalued.
- The formerly fast-growing pipeline and storage business in Texas provides for strong rate base growth in a constructive regulatory environment.
- Atmos management has shifted its growth strategy, and is now focusing on internal capital investment opportunities to drive 8.0% annual rate base growth through 2016.

Vital Statistics

Market Cap (USD Mil)	3,240
52-Week High (USD)	37.33
52-Week Low (USD)	30.00
52-Week Total Return %	17.5
YTD Total Return %	9.8
Last Fiscal Year End	30 Sep 2011
5-Yr Forward Revenue CAGR %	8.8
5-Yr Forward EPS CAGR %	8.5
Price/Fair Value	1.03

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings	13.2	14.2	*15.4*	*14.7*
EV/EBITDA	6.8	7.4	*7.7*	*7.5*
EV/EBIT	9.8	11.0	*11.7*	*11.2*
Free Cash Flow Yield %	7.0	-1.4	*-3.7*	*-5.7*
Dividend Yield %	4.7	4.2	*3.9*	*4.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue	4,790	4,348	*3,846*	*3,897*
Revenue YoY %	-3.6	-9.2	*-11.5*	*1.3*
EBIT	489	472	*481*	*503*
EBIT YoY %	8.1	-3.5	*1.9*	*4.5*
Net Income, Adjusted	206	199	*212*	*224*
Net Income YoY %	7.8	-3.4	*6.5*	*5.9*
Diluted EPS	2.22	2.28	*2.34*	*2.45*
Diluted EPS YoY %	6.9	-1.5	*6.6*	*4.9*
Free Cash Flow	184	-40	*-119*	*-185*
Free Cash Flow YoY %	-55.1	-121.8	*196.9*	*55.3*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note: Our forecast could differ with as reported and consensus figures due to unique modeling conventions.

Profile

Atmos Energy is one of the largest natural gas-only distributor in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

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35.93 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analysis

Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case.

Thesis 21 Aug 2012

As the nation's largest natural gas distribution utility, Atmos Energy brings together a patchwork of local distribution businesses from Virginia to Texas and a lower-risk investment opportunity for dividend-seeking investors. We like this company's focus on the basics and applaud the general efficiency of its overall rate structure, which should consistently provide healthy, if unexciting, returns.

After the sale of its Illinois, Iowa, and Missouri business expected to close in August, Atmos will have regulated distribution operations across nine states. A highly diversified regulatory environment is one of Atmos' strengths. Harmful rate changes imposed by regulators are the bane of any utility. Regulators' ability to set rates counters the natural monopoly position of the utility, resulting in a narrow economic moat for most utilities.

With so many different jurisdictions Atmos is more insulated from individual negative events. It also enjoys some favorable rate mechanisms in its territories. The company is protected from weather-related fluctuations in customer usage for the bulk of its meter base, with full rate decoupling for another slice of it. Even better, Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case. All these factors help Atmos generate relatively stable cash flows.

Atmos has historically grown through acquisition, purchasing 10 companies in the past 20 years. Its largest by far was the 2004 acquisition of TXU Gas, which added 1.5 million customers and pipelines that access nine substantial natural gas basins in Texas. Atmos took on large amounts of debt to complete the purchase and integrate the TXU assets. It spent a few years trimming its balance sheet to a more favorable size and now maintains near-equal levels of debt and equity, in line with other gas utilities.

Atmos is now focused on organic growth, with most of its $2.4 billion in growth investments in the constructive regulatory Texas jurisdictions. The company benefits from Texas Rule 8.209 on distribution infrastructure investments, allowing the company pre-approval by the Texas Railroad Commission and regulatory asset treatment for carrying costs. The company's state transmission and storage investments experience regulatory lag of up to a year while still earning comparatively favorable returns among peer regulated returns. Management has built strong working relationships with regulators that should continue to result in strong shareholder returns.

Valuation, Growth and Profitability 21 Aug 2012

We are maintaining our fair value estimate of $35 per share. Our forecasts incorporate normal weather and an updated five-year company outlook.

We expect regulated growth expenditures will be concentrated at Atmos' mid- and west Texas utilities and regulated pipelines where the company can automatically implement recovery on an annual basis. Atmos has a substantial infrastructure program in these regions, supporting our projected 8.0% annualized rate base growth through 2016. Our fair value estimate incorporates about $3.8 billion in regulated expenditures through 2016. Additionally, our earnings growth estimate incorporates 1% customer growth at the LDCs through 2016, assuming no growth through acquisitions.

We use a 7.7% weighted average cost of capital in our discounted cash flow valuation based on an assumed cost of equity of 10% and current credit spreads.

Scenario Analysis

Investors considering a position in Atmos should consider three major factors that could materially affect expected returns. The first, as with most regulated utilities, is the company's rate base growth. If we assume spending falls from our forecast levels by 25% annually our fair value

Atmos Energy Corp ATO (NYSE) | ★★★

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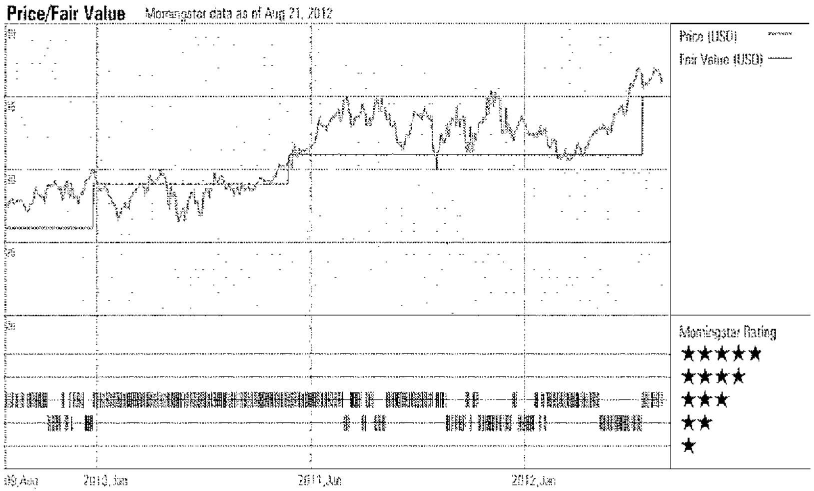
Price/Fair Value Morningstar data as of Aug 21, 2012



estimate falls to $33 per share. If spending were to increase by a similar amount our fair value estimate would rise to $37 per share, assuming full recovery.

Without decoupling mechanisms, Atmos' growth will be influenced by customer usage. A 50-basis-point change in our core customer growth assumption would lead to a $1 per share change in our fair value estimate.

Our assumed cost of equity has a significant impact on our valuation. A 50-basis-point change in our assumed cost of equity would lead to a $4 per share change in our fair value estimate.

Economic Moat

Atmos owns a difficult-to-replicate network of natural gas distribution and transmission assets and provides an essential energy source to customers. In exchange for its service territory monopoly, Atmos' returns are set by state and federal regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Atmos to earn its cost of capital and leads us to assign the company a narrow moat.

Moat Trend

We do not foresee a material change in the regulatory compact that allows utilities to earn at a level that adequately compensates capital providers while ensuring utilities do not take advantage of their service area monopoly by gouging customers. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Atmos from establishing a wide economic moat.

Atmos' investment program is focused almost entirely on its regulated natural gas distribution and transmission businesses. Furthermore, the company is concentrating its growth expenditures in the territories where its regulatory return is swiftest and most transparent, like Texas.

Atmos Energy Corp ATO (NYSE) | ★★★

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Bulls Say/Bears Say

Bulls Say

- Much of Atmos' meter base is covered by favorable rate mechanisms such as weather normalization and automated rate filings, which reduce regulatory risk.
- Atmos' regulated operations are distributed across nine states, insulating companywide profitability from individual negative regulatory outcomes.
- The company has increased its dividend consistently during the past 28 years, with 108 consecutive payouts.

Bears Say

- Although Atmos is protected from weather-related fluctuations, only a small percentage of its service area's rates are decoupled from usage patterns.
- Dividend-paying stocks such as Atmos are sensitive to interest rates. As interest rates go up, dividend-paying stocks can often underperform the broader market.
- If the latest gas LDC deal comparables are any guide, Atmos might significantly overpay for any growth acquisitions, potentially destroying shareholder value.

Atmos Energy Corp ATO (NYSE) | ★★★

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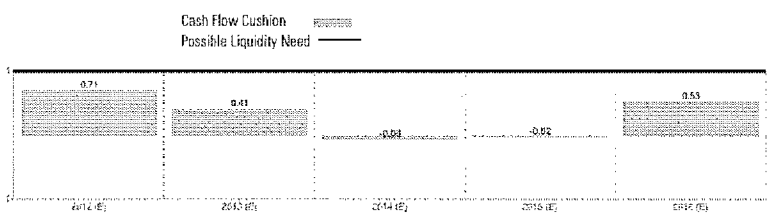
Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	131	341	161	201	221
Adjusted Free Cash Flow	119	-62	-77	-95	65
Total Cash Available before Debt Service	142	185	-13	-13	155
Principal Payments	—	-250	—	-500	—
Interest Payments	-150	-165	-183	-224	-254
Other Cash Obligations and Commitments	50	31	33	35	37
Total Cash Obligations and Commitments	-200	-446	-216	-759	-291

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	131	6.9
Sum of 5-Year Adjusted Free Cash Flow	-600	-31.4
Sum of Cash and 5-Year Cash Generation	-469	-24.5
Revolver Availability	703	36.7
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	234	12.2
Sum of 5-Year Cash Commitments	-1,912	—

Credit Rating Pillars—Peer Group Comparison

	ATO	Sector	Universe
Business Risk	4	5.0	5.2
Cash Flow Cushion	10	9.2	6.2
Solvency Score	3	6.0	5.1
Distance to Default	4	4.6	4.4
Credit Rating	BBB+	BBB+	BBB+

Source: Morningstar Estimates
Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

Even with its large capital expenditure program, Atmos maintains a strong balance sheet and an investment-grade credit rating. At the end of fiscal 2011, the company's debt/capital ratio was 52%, in line with its peers. Total debt/EBITDA could tick up slightly, averaging 3.6 times through 2016. We believe Atmos' dividend is well covered by its regulated utilities' earnings and expect the dividend payout to remain between 50% and 60%.

Capital Structure

With $3.8 billion of capital spending planned between 2012 and 2016, we expect Amos will be a frequent debt issuer. The company has $250 million of long-term debt maturities in 2013 and $500 million in 2015. We expect Atmos will be able to refinance its debt as it comes due and will maintain its debt/capital ratio by funding about half of its growth capital expenditure with new debt. Given Atmos' cash from operations and healthy cash position, we do not expect the firm to tap the equity markets in the near term to fund its growth plans.

Enterprise Risk

The primary uncertainty Atmos faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, lower allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Overpaying for acquisitions is also a risk given the company's acquisitive past.

Atmos Energy Corp ATO (NYSE) | ★★★

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. J. D. WOODWARD,III		728,364	03 Apr 2006	—
ROBERT W. BEST	Director	414,292	14 Aug 2012	62,900
MR. KIM R. COCKLIN	CEO/Director/President,Director	145,069	04 May 2012	—
MR. JOHN (PAT) PATRICK REDDY		79,685	31 Dec 2008	—
CARL S. QUINN	Director	57,769	01 Jul 2004	—
R. EARL FISCHER		55,540	09 Nov 2006	—
WYNN D. MCGREGOR		46,289	06 Feb 2009	—
THOMAS J. GARLAND	Director	45,082	03 Feb 2010	—
DAN BUSBEE	Director	41,366	04 Feb 2009	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Allianz NFJ Small Cap Value Instl	★★★★★	2.12	1.00	-54	31 Jul 2012
SPDR S&P Dividend	★★★★★	2.02	0.71	—	15 Aug 2012
Vanguard Small Cap Index Inv	★★★★	1.61	0.20	39	30 Jun 2012
Vanguard Small Cap Index		1.57	0.17	1,415	31 Mar 2012
Vanguard US Total Market Shares (AU) ETF		1.26	0.02	38	30 Jun 2012
Concentrated Holders					
New Alternatives	★	0.25	5.66	-25	30 Jun 2012
Magellan Infrastructure		0.27	3.79	—	30 Jun 2012
Speece Thorson Value Fund	★★★★★	0.03	3.41	—	30 Jun 2012
First Trust Utilities AlphaDEX	★★★★	0.15	2.89	-14	30 Jun 2012

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Vanguard Small Cap Index		1.57	0.17	1,415	31 Mar 2012
Vanguard Total Stock Mkt Idx		1.22	0.02	1,103	31 Mar 2012
SSgA S&P MidCap 400 Index Strategy		0.60	0.22	544	31 Mar 2012
Fidelity Series Small Cap Opps	★★★★	0.29	0.38	262	30 Apr 2012
Fidelity Stock Selector Sm Cp	★★	0.20	0.38	179	30 Apr 2012
Top 5 Sellers					
Columbia Mid Cap Index Z	★★★★	0.18	0.26	-69	31 May 2012
LSV Value Equity	★★★	0.15	0.45	-66	30 Jun 2012
Allianz NFJ Small Cap Value Instl	★★★★★	2.12	1.00	-54	31 Jul 2012
Uni-Global Minimum Variance US D1	★★★★	0.19	0.51	-50	30 Jun 2012
JPMorgan Large Cap Value Select	★★	0.05	0.27	-29	30 Jun 2012

Stewardship: 21 Aug 2012

Overall, we think Atmos' management team has been a good steward of shareholder capital. Management has been consistent with paying--and increasing--its dividend over the past 28 years. We think management has been disciplined in acquisitions, providing shareholder value by creating the largest distribution utility in favorable regulatory jurisdictions.

Kim Cocklin replaced Robert Best as CEO in 2010. Cocklin had been president and COO of Atmos since 2008. Previously, he was a senior vice president in regulated operations for the company and had worked for Piedmont Gas for three years before that. Best had been president of Atmos since 1997 and served as the chairman of the American Gas Association in 2004. He oversaw seven acquisitions after inheriting the Atmos throne, expanding the company to the largest distribution utility in the U.S.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
35.93 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Analyst Notes

Unregulated Operations Provide Lift to Atmos Energy's 3Q Results 09 Aug 2012

Atmos Energy ATO reported third-quarter earnings per share of $0.34 compared with a loss of $0.01 in the year-ago quarter. Management maintained its full-year EPS guidance of $2.30-$2.40 and five-year 6%-8% growth forecast. We are reaffirming our $35 fair value estimate and our 2012 EPS estimate.

Nonregulated gross profit grew 75%, as the company booked $18.2 million from a profitable trading strategy implemented earlier this year. The company opportunistically took advantage of falling gas prices, storing cheap gas and rolling forward the positions into the current quarter. Investors shouldn't expect additional asset optimization performance, as management noted that little benefit remains for the remainder of the year from the strategy.

At its regulated operations, the company continues to benefit from constructive regulatory environments and timely rate increases. In the current quarter, the company added $14 million in incremental margin and $48 million in margin during the last nine months from rate increases. The company is effectively protected from weather impacts, as weather adjustment mechanisms provide for reimbursements from lower consumption during warm weather periods. These adjustments provided $50 million in rate relief to date for Atmos.

Finally, the company announced the sale its Georgia assets for $141 million to Liberty Energy, a subsidiary of Algonquin Power & Utilities. Management indicated growth opportunities were relatively constrained because of competitive operations in Georgia. Management also completed the sale of its Missouri, Illinois, and Iowa distribution assets Aug. 1, with proceeds to be used to pay down outstanding commercial paper. We would be surprised to see management sell additional assets, as remaining assets are in constructive regulatory jurisdictions with strong growth opportunities.

Atmos Management Meeting: Shift Toward Internal Growth in Texas, M&A Looks Too Rich 07 May 2012

Most of our discussion May 6 with Atmos' ATO management team, including president and CEO Kim Cocklin and CFO Fred Meisenheimer, at the American Gas Association Financial Forum in Scottsdale, Ariz., focused on the company's wide footprint of regulated operations.

Last week management said it is targeting 8.0%-8.5% rate base growth through 2016, up from its earlier 6.0%-6.5% forecast. Atmos has in the past been an acquisitive utility, but management sees such appealing growth opportunities at its regulated utilities, especially in Texas, that they have shifted their focus away from M&A toward increased investment in their system.

Management seems to agree with our view that utility valuations are overly rich at market prices given significant tax and inflation uncertainty as well as the difficulty of generating immediate earnings and value accretion from M&A. We will review our current 4% annual earnings growth projection through 2016 to incorporate the deluge of well-supported new regulatory spending and Atmos' move toward more organic growth. Driving much of the increased appetite for system investment is a supportive regulatory environment for its largest group of operations in Texas, where ratemaking continues to reduce investment lag and where management sees healthy upside from improving returns on equity at segments currently negotiating rate cases.

While distribution operations continue to improve, management is seeing material upside for its regulated Texas pipeline and storage business as well, driven by

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Analyst Notes

reliability improvements and higher associated gas production from oil drilling in West Texas. Management specifically highlighted the Waha hub as central to growth plans beyond planned projects like line W and X, which total roughly $160 million in capital expenditure and qualify for expedited recovery under Texas' GRIP system. This segment had been hurt by a decline in gas drilling and volumes in the past few years but continued strong oil pricing for associated gas should provide favorable throughput continuing into 2013, supporting earnings improvement on top of new investment projects.

Like many of the management teams, Atmos' management team thinks the dividend tax issue is still unpredictable. However, parity in dividend and capital gains taxes is a priority for the industry and has the best likelihood of protecting utility valuations relative to the market in the event of an increase.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Sep 2009	Sep 2010	Sep 2011	Forecast Sep 2012	Forecast Sep 2013	5-Year Proj. CAGR
Revenue	-15.6	-31.2	-3.6	-9.2	-11.5	1.3	—
EBIT	3.3	5.8	8.1	-3.5	1.9	4.5	9.0
EBITDA	3.9	6.6	5.4	-0.1	3.1	3.4	7.7
Net Income	3.3	5.9	7.8	-3.4	6.5	5.9	9.2
Diluted EPS	3.1	4.0	6.9	-1.5	6.6	4.9	8.5
Earnings Before Interest, after Tax	4.2	15.3	13.1	-13.1	-17.2	6.7	1.8
Free Cash Flow to the Firm	-183.1	814.7	-47.2	-111.9	-443.0	-191.6	-202.1

Profitability	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Operating Margin %	10.1	9.1	10.2	10.9	12.5	12.9	11.8
EBITDA Margin %	14.8	13.5	14.8	16.2	18.9	19.3	17.5
Net Margin %	4.2	3.8	4.3	4.6	5.5	5.8	5.2
Free Cash Flow to the Firm margin %	4.5	9.2	5.1	-0.7	2.6	-2.3	-0.7
ROIC with Goodwill %	8.9	9.1	9.7	7.8	6.0	6.0	5.8
ROIC w/out Goodwill %	10.1	10.5	11.2	8.8	6.7	6.7	6.4
Return on Assets, pretax %	6.9	7.0	7.5	6.3	6.5	6.4	6.8
Return on Equity %	9.2	9.0	9.5	9.0	9.4	9.1	9.7

Leverage	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Debt/Capital	0.51	0.51	0.51	0.52	0.53	0.53	0.54
Total Debt/EBITDA	3.34	3.35	3.25	3.42	3.71	3.72	3.75
EBITDA/Interest Expense	4.55	4.38	4.57	4.68	4.84	4.57	4.43

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.01	1.05	—	—
Price/Earnings	13.2	14.2	15.4	14.7
EV/EBITDA	6.8	7.4	7.7	7.5
EV/EBIT	9.8	11.0	11.7	11.2
Free Cash Flow Yield %	7.0	-1.4	-3.7	-5.7
Dividend Yield %	4.7	4.2	3.9	4.0

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.0
Weighted Average Cost of Capital %	7.7
Long-Run Tax Rate %	36.5
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	24.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-145	-2.6	-1.59
Present Value Stage II	5,702	102.6	62.77
Present Value of the Perpetuity	—	—	—
Total Firm Value	**5,557**	**100.0**	—
Cash and Equivalents	131	—	1.45
Debt	2,700	—	-26.59
Net balance sheet impact	-2,284	—	-25.14
Other Adjustments	-271	—	-2.98
Equity Value	**3,003**	—	**34.59**
Projected Diluted Shares	91		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	*Forecast* Sep 2012	*Forecast* Sep 2013
Total Revenue	**4,969**	**4,790**	**4,348**	***3,846***	***3,897***
Cost of Goods Sold	3,622	3,425	3,020	*2,501*	*2,487*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,345***	***1,410***
Selling, General & Administrative Expenses	494	468	449	*464*	*478*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	183	191	179	*153*	*180*
Restructuring & Other Charges (Gains)	—	—	—	*-10*	—
Depreciation Expense (if reported separately)	217	217	227	*246*	*249*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	5	—	30	—	—
Total Expenses	**4,522**	**4,300**	**3,906**	***3,355***	***3,394***
Operating Income (EBIT)	**447**	**489**	**442**	***491***	***503***
Interest Expense	153	154	151	*150*	*165*
Interest & Other Income (Expense)	-3	0	21	*3*	*15*
Pre-Tax Income	**291**	**335**	**313**	***343***	***353***
Income Tax Expense (Benefit)	100	129	114	*125*	*129*
Income After Taxes	**191**	**206**	**199**	***218***	***224***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
Net Income (Loss)	**191**	**206**	**208**	***218***	***224***
Net Income (Loss) Excluding Charges	191	206	199	*212*	*224*
Diluted Shares Outstanding (Mil)	92	92	91	*91*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.41*	*2.45*
Diluted EPS Excluding Charges	2.08	2.22	2.28	*2.34*	*2.45*
Dividends Per Common Share	1.32	1.34	1.36	*1.39*	*1.42*
EBITDA	**670**	**707**	**706**	***737***	***752***
EBITDA without restructuring	**670**	**707**	**706**	***727***	***752***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Assets	Sep 2009	Sep 2010	Sep 2011	Forecast Sep 2012	Forecast Sep 2013
Excess Cash & Investments	—	—	—	226	45
Operating Cash & Equivalents	111	132	131	115	117
Accounts Receivable	233	273	273	253	235
Inventory	353	319	290	206	204
Other Short Term Operating Assets	132	151	316	316	316
Total Current Assets	**829**	**875**	**1,011**	**1,116**	**917**
Property Plant & Equipment, Net	4,439	4,793	5,148	5,489	6,009
Property Plant & Equipment, Gross	6,087	6,542	6,817	7,426	8,195
(Accumulated Depreciation)	-1,648	-1,749	-1,669	-1,936	-2,186
Goodwill, Net	740	740	740	740	740
Other Intangibles	—	—	—	—	—
Other Long-Term Operating Assets	251	251	313	313	313
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	85	105	71	71	71
Total Assets	**6,344**	**6,764**	**7,283**	**7,729**	**8,050**
Liabilities					
Accounts Payable	207	266	291	219	204
Short-Term Debt	73	486	209	300	300
Other Current Liabilities	457	414	368	368	368
Total Current Liabilities	**737**	**1,166**	**868**	**886**	**872**
Long-Term Debt	2,169	1,810	2,206	2,400	2,500
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	**2,400**	**2,500**
Long-Term Operating Liabilities	119	49	22	22	22
Deferred Tax Liabilities	571	829	960	1,056	1,162
Long-Term Non-Operating Liabilities	571	731	971	971	971
Total Liabilities	**4,167**	**4,585**	**5,027**	**5,336**	**5,527**
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	0	0
Additional Paid in Capital	1,791	1,714	1,733	1,751	1,786
Retained Earnings (Deficit)	405	487	570	663	757
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	-20	-20
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	**2,394**	**2,523**
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	**7,729**	**8,050**
Difference, from analyst adjustments and restatements	—	—	—	—	—

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35.93 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	Forecast Sep 2012	Forecast Sep 2013
Net Income from Continuing Operations	191	206	208	*218*	*224*
Depreciation Expense	217	217	233	*246*	*249*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-10*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*20*	*18*
(Increase) Decrease in Inventory	194	54	28	*84*	*1*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-73*	*-14*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***582***	***584***
(Capital Expenditures)	-509	-543	-623	*-702*	*-769*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-578***	***-769***
Common Stock (Purchase) or Sale	28	-93	2	*18*	*35*
Common Stock (Dividends)	-121	-124	-124	*-126*	*-130*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*194*	*100*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***176***	***5***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*28*	—
Net Change in Cash	**64**	**21**	**-1**	***210***	***-180***
Change in Cash on Balance Sheet	64	21	-1	*210*	*-180*
Difference, from analyst adjustments and restatements	—	—	—	—	—

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	1.05	15.1	12.4	11.6	14.5	12.4	11.8	51.3	94.9	45.7	2.7	2.5	2.3	2.0	2.0	1.9
New Jersey Resources Corporation	1.18	16.6	16.9	16.3	13.3	14.3	13.3	24.3	NM	65.7	2.3	2.3	2.1	0.6	0.7	0.6
Average		15.9	14.7	14.0	13.9	13.4	12.6	37.8	94.9	55.7	2.5	2.4	2.2	1.3	1.4	1.3
Atmos Energy Corp ATO US	**1.03**	**14.2**	**15.4**	**14.7**	**7.4**	**7.7**	**7.5**	**NM**	**NM**	**NM**	**1.3**	**1.4**	**1.3**	**0.7**	**0.8**	**0.8**

Returns Analysis

		ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	— USD	6.9	7.1	7.0	7.4	7.6	7.6	13.0	14.8	14.8	6.4	7.2	7.4	3.0	3.1	3.3
New Jersey Resources Corporation	2,649 USD	8.4	7.5	7.2	8.4	7.5	7.2	11.9	12.5	12.2	5.5	5.3	5.4	3.3	3.3	3.5
Average		7.7	7.3	7.1	7.9	7.6	7.4	12.5	13.7	13.5	6.0	6.3	6.4	3.2	3.2	3.4
Atmos Energy Corp ATO US	**7,283** USD	**7.8**	**6.0**	**6.0**	**8.8**	**6.7**	**6.7**	**9.0**	**9.4**	**9.1**	**6.3**	**6.5**	**6.4**	**4.2**	**3.9**	**4.0**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	2,287 USD	-3.6	4.1	4.7	-10.2	20.8	6.0	-12.5	21.9	7.1	469.3	-45.9	107.7	5.4	4.4	4.9
New Jersey Resources Corporation	3,009 USD	14.0	-12.8	15.6	-24.0	-0.7	6.2	-13.6	11.0	3.9	92.3	-119.2	-309.0	10.5	8.0	6.0
Average		5.2	-4.4	10.2	-17.1	10.1	6.1	-13.1	16.5	5.5	280.8	-82.6	-100.7	8.0	6.2	5.5
Atmos Energy Corp ATO US	**4,348** USD	**-9.2**	**-11.5**	**1.3**	**-3.5**	**1.9**	**4.5**	**-1.5**	**6.6**	**4.9**	**-121.8**	**196.9**	**55.3**	**1.7**	**1.7**	**2.0**

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Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	204 USD	52.6	53.8	54.0	26.6	29.8	30.1	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
New Jersey Resources Corporation	101 USD	15.2	17.7	16.9	5.9	7.0	6.5	4.8	5.4	5.0	3.4	4.3	3.9	2.4	-0.5	1.0
Average		33.9	35.8	35.5	16.3	18.4	18.3	12.2	14.1	14.1	6.2	7.4	7.4	3.2	0.8	2.6
Atmos Energy Corp ATO US	**199** USD	**30.5**	**35.0**	**36.2**	**16.2**	**18.9**	**19.3**	**10.2**	**12.8**	**12.9**	**4.6**	**5.5**	**5.8**	**-0.9**	**-3.1**	**-4.8**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	3,164 USD	182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
New Jersey Resources Corporation	594 USD	76.5	77.7	76.1	43.3	43.7	43.2	9.0	9.5	8.9	3.4	3.5	3.5	3.4	3.2	3.2
Average		129.3	123.9	116.9	53.9	53.4	52.2	7.3	7.5	7.3	4.3	4.0	3.9	3.9	3.7	3.6
Atmos Energy Corp ATO US	**2,415** USD	**107.1**	**112.8**	**111.0**	**51.7**	**53.0**	**52.6**	**4.7**	**4.8**	**4.6**	**3.4**	**3.7**	**3.7**	**3.2**	**3.2**	**3.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	4,676 USD	6.79	5.77	5.12	-33.93	-34.79	-35.05	6.35	6.01	5.82	1.17	0.63	1.30	68.5	58.7	57.5
New Jersey Resources Corporation	1,909 USD	0.18	0.18	0.18	-14.10	-15.58	-16.26	6.02	5.13	4.57	1.75	-0.34	0.70	57.9	56.3	57.5
Average		3.5	3.0	2.7	-24.0	-25.2	-25.7	6.2	5.6	5.2	1.5	0.1	1.0	63.2	57.5	57.5
Atmos Energy Corp ATO US	**3,240** USD	**1.45**	**3.77**	**1.77**	**-25.19**	**-26.04**	**-28.85**	**6.43**	**6.43**	**6.39**	**-0.44**	**-1.32**	**-2.02**	**59.7**	**57.8**	**57.9**

Research Methodology for Valuing Companies

Components of Our Methodology

- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies

Fundamental Analysis → **Economic Moat™ Rating** → **Company Valuation** → **Fair Value Estimate** → **Uncertainty Assessment** → ★★★★★ ★★★★ ★★★ ★★ ★

Analyst conducts company and industry research:

- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs (Microsoft)

Cost advantage (Wal-Mart)

Intangible assets (Johnson & Johnson)

Network Effect (Mastercard)

Efficient Scale (Lockheed Martin)

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.

The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme.

The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

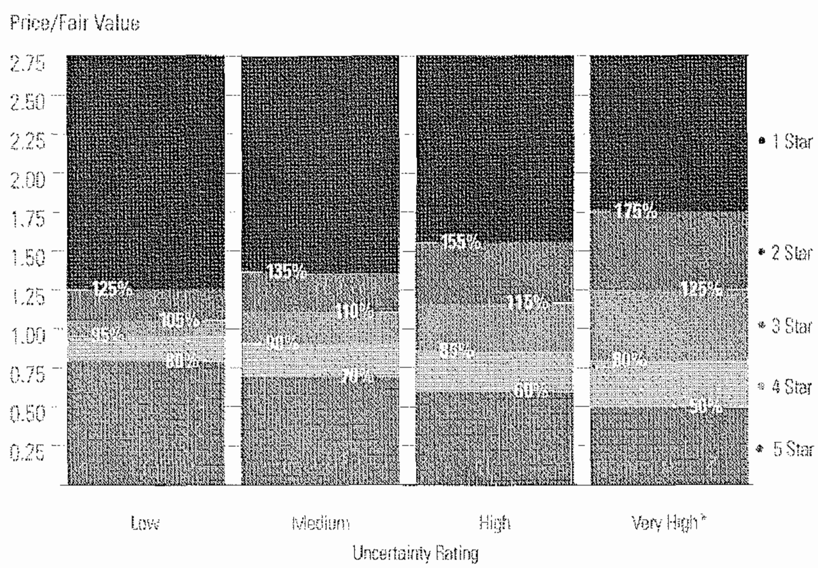
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

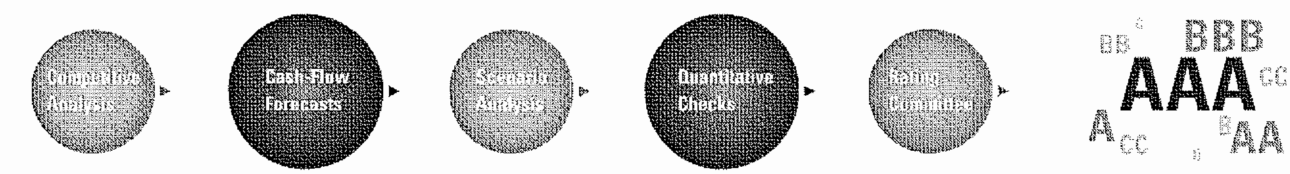
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score℠

The Morningstar Solvency Score℠ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Constructive regulatory environments provide strong rate base growth opportunities.

Morningstar Credit Committee
credit@morningstar.com

Committee members voting on rating do not own securities issued by the company.

Credit Analysis as of 21 Aug 2012
Business Analysis as of 21 Aug 2012
Estimates as of 17 Jul 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Credit Perspective 28 Jun 2012

Atmos Energy Corp (BBB+) distributes natural gas to regulated utility customers across nine states. Atmos' business includes unregulated marketing and procurement services as well as natural gas storage and pipelines. Like all regulated utility businesses, we assign Atmos a narrow moat recognizing the implicit contract Atmos maintains with its state regulators to provide stable natural gas distribution in return for regulated returns. Our rating reflects the benefit Atmos receives from decoupling and weather-related fluctuations in customer usage. Moreover, our rating incorporates Atmos' ability to raise revenue without filing a formal rate case via advantageous rate mechanisms. We acknowledge that Atmos has grown considerably through acquisitions over the past 20 years, most notably levering its balance sheet to roughly 4.5 times in 2004 to purchase TXU gas (pipelines) in Texas. However, Atmos has maintained discipline reducing its leverage by a turn to 3.5 times, where we expect it to stay barring any near-term acquisitions. Interest coverage remains healthy at roughly 5 times. While Atmos' credit metrics are currently very healthy, we believe Atmos is likely on the lookout for acquisitions, which could lead to re-leveraging the balance sheet. Atmos can raise over $1 billion in combined debt and equity issuances over the next 1-3 years (maximum of $950 million of debt and $350 million of equity, per regulatory statute), depending on the market for gas local distribution and pipeline acquisition targets. However, Atmos faces the risk of overpaying for an overvalued target with the expectation of improving regulatory returns, which may never come to fruition. It's notable that the company has publicly expressed a preference for internal investment over acquisitions in the current climate. Atmos' size precludes any one regulatory decision from having a drastic impact.

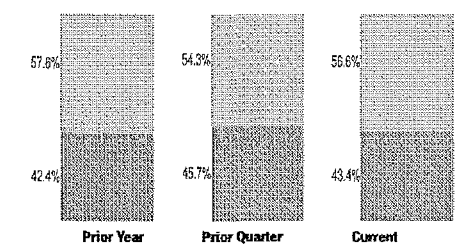
Credit Metrics (USD Mil)

	2010	2011	2012(E)	2013(E)
Cash And Equivalents	132	131	341	161
Total Debt	2,296	2,415	2,700	2,800
Interest Expense	162	158	150	165
EBITDA	707	706	727	752
Debt to Book Capital	—	—	—	—
Quick Ratio	0.3	0.5	0.7	0.5
Debt to EBITDA	3.2	3.4	3.7	3.7
EBITDA to Interest Expense	4.6	4.7	4.9	4.6

Operating Summary (USD Mil)

	2010	2011	2012(E)	2013(E)
Sales	4,790	4,348	3,846	3,897
% Change	-3.6	-9.2	-11.5	1.3
EBIT	489	442	491	503
% Net Sales	10.2	10.2	12.8	12.9
Net Income	206	208	218	224
% Net Sales	4.3	4.8	5.7	5.8
Free Cash Flow	242	-29	98	-90
% Net Sales	5.1	-0.7	2.6	-2.3

Capital Structure



	Prior Year	Prior Quarter	Current
Market Equity	3 Bil	2.63 Bil	3.16 Bil
Preferred	—	—	—
Debt	2.21 Bil	2.38 Bil	2.42 Bil

Source: Morningstar

Issuer Profile

Atmos Energy is one of the largest natural gas-only distributor in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

MORNINGSTAR

Atmos Energy Corp ATO (NYSE) | BBB+

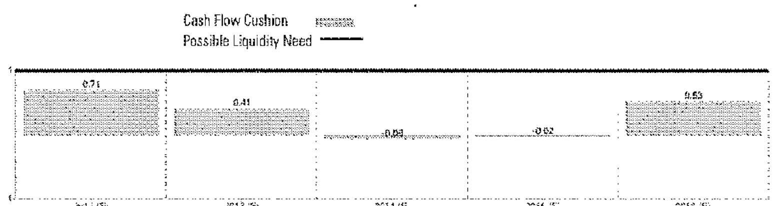
Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	131	341	161	201	221
Adjusted Free Cash Flow	119	-62	-77	-95	65
Total Cash Available before Debt Service	142	185	-13	-13	155
Principal Payments	—	-250	—	-500	—
Interest Payments	-150	-165	-183	-224	-254
Other Cash Obligations and Commitments	50	31	33	35	37
Total Cash Obligations and Commitments	-200	-446	-216	-759	-291

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	131	6.9
Sum of 5-Year Adjusted Free Cash Flow	-600	-31.4
Sum of Cash and 5-Year Cash Generation	-469	-24.5
Revolver Availability	703	36.7
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	234	12.2
Sum of 5-Year Cash Commitments	-1,912	—

Credit Rating Pillars—Peer Group Comparison

	ATO	Sector	Universe
Business Risk	4	5.0	5.2
Cash Flow Cushion	10	9.2	6.2
Solvency Score	3	6.0	5.1
Distance to Default	4	4.6	4.4
Credit Rating	BBB+	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

Even with its large capital expenditure program, Atmos maintains a strong balance sheet and an investment-grade credit rating. At the end of fiscal 2011, the company's debt/capital ratio was 52%, in line with its peers. Total debt/EBITDA could tick up slightly, averaging 3.6 times through 2016. We believe Atmos' dividend is well covered by its regulated utilities' earnings and expect the dividend payout to remain between 50% and 60%.

Capital Structure

With $3.8 billion of capital spending planned between 2012 and 2016, we expect Amos will be a frequent debt issuer. The company has $250 million of long-term debt maturities in 2013 and $500 million in 2015. We expect Atmos will be able to refinance its debt as it comes due and will maintain its debt/capital ratio by funding about half of its growth capital expenditure with new debt. Given Atmos' cash from operations and healthy cash position, we do not expect the firm to tap the equity markets in the near term to fund its growth plans.

Enterprise Risk

The primary uncertainty Atmos faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, lower allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Overpaying for acquisitions is also a risk given the company's acquisitive past.

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Business Analysis

Thesis

As the nation's largest natural gas distribution utility, Atmos Energy brings together a patchwork of local distribution businesses from Virginia to Texas and a lower-risk investment opportunity for dividend-seeking investors. We like this company's focus on the basics and applaud the general efficiency of its overall rate structure, which should consistently provide healthy, if unexciting, returns.

After the sale of its Illinois, Iowa, and Missouri business expected to close in August, Atmos will have regulated distribution operations across nine states. A highly diversified regulatory environment is one of Atmos' strengths. Harmful rate changes imposed by regulators are the bane of any utility. Regulators' ability to set rates counters the natural monopoly position of the utility, resulting in a narrow economic moat for most utilities.

With so many different jurisdictions Atmos is more insulated from individual negative events. It also enjoys some favorable rate mechanisms in its territories. The company is protected from weather-related fluctuations in customer usage for the bulk of its meter base, with full rate decoupling for another slice of it. Even better, Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case. All these factors help Atmos generate relatively stable cash flows.

Atmos has historically grown through acquisition, purchasing 10 companies in the past 20 years. Its largest by far was the 2004 acquisition of TXU Gas, which added 1.5 million customers and pipelines that access nine substantial natural gas basins in Texas. Atmos took on large amounts of debt to complete the purchase and integrate the TXU assets. It spent a few years trimming its balance sheet to a more favorable size and now maintains near-equal levels of debt and equity, in line with other gas utilities.

Atmos is now focused on organic growth, with most of its $2.4 billion in growth investments in the constructive regulatory Texas jurisdictions. The company benefits from Texas Rule 8.209 on distribution infrastructure investments, allowing the company pre-approval by the Texas Railroad Commission and regulatory asset treatment for carrying costs. The company's state transmission and storage investments experience regulatory lag of up to a year while still earning comparatively favorable returns among peer regulated returns. Management has built strong working relationships with regulators that should continue to result in strong shareholder returns.

Economic Moat

Atmos owns a difficult-to-replicate network of natural gas distribution and transmission assets and provides an essential energy source to customers. In exchange for its service territory monopoly, Atmos' returns are set by state and federal regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Atmos to earn its cost of capital and leads us to assign the company a narrow moat.

Moat Trend

We do not foresee a material change in the regulatory compact that allows utilities to earn at a level that adequately compensates capital providers while ensuring utilities do not take advantage of their service area monopoly by gouging customers. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Atmos from establishing a wide economic moat. Atmos' investment program is focused almost entirely on its regulated natural gas distribution and transmission businesses. Furthermore, the company is concentrating its growth expenditures in the territories where its regulatory return is swiftest and most transparent, like Texas.

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
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Business Analysis

Atmos Energy Corp ATO (NYSE) | BBB+

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Recent Notes from our Credit and Equity Analysts

Unregulated Operations Provide Lift to Atmos Energy's 3Q Results 09 Aug 2012

Atmos Energy ATO reported third-quarter earnings per share of $0.34 compared with a loss of $0.01 in the year-ago quarter. Management maintained its full-year EPS guidance of $2.30-$2.40 and five-year 6%-8% growth forecast. We are reaffirming our $35 fair value estimate and our 2012 EPS estimate.

Nonregulated gross profit grew 75%, as the company booked $18.2 million from a profitable trading strategy implemented earlier this year. The company opportunistically took advantage of falling gas prices, storing cheap gas and rolling forward the positions into the current quarter. Investors shouldn't expect additional asset optimization performance, as management noted that little benefit remains for the remainder of the year from the strategy.

At its regulated operations, the company continues to benefit from constructive regulatory environments and timely rate increases. In the current quarter, the company added $14 million in incremental margin and $48 million in margin during the last nine months from rate increases. The company is effectively protected from weather impacts, as weather adjustment mechanisms provide for reimbursements from lower consumption during warm weather periods. These adjustments provided $50 million in rate relief to date for Atmos.

Finally, the company announced the sale its Georgia assets for $141 million to Liberty Energy, a subsidiary of Algonquin Power & Utilities. Management indicated growth opportunities were relatively constrained because of competitive operations in Georgia. Management also completed the sale of its Missouri, Illinois, and Iowa distribution assets Aug. 1, with proceeds to be used to pay down outstanding commercial paper. We would be surprised to see management sell additional assets, as remaining assets are in constructive regulatory jurisdictions with strong growth opportunities.

Atmos Management Meeting: Shift Toward Internal Growth in Texas, M&A Looks Too Rich 07 May 2012

Most of our discussion May 6 with Atmos' ATO management team, including president and CEO Kim Cocklin and CFO Fred Meisenheimer, at the American Gas Association Financial Forum in Scottsdale, Ariz., focused on the company's wide footprint of regulated operations.

Last week management said it is targeting 8.0%-8.5% rate base growth through 2016, up from its earlier 6.0%-6.5% forecast. Atmos has in the past been an acquisitive utility, but management sees such appealing growth opportunities at its regulated utilities, especially in Texas, that they have shifted their focus away from M&A toward increased investment in their system.

Management seems to agree with our view that utility valuations are overly rich at market prices given significant tax and inflation uncertainty as well as the difficulty of generating immediate earnings and value accretion from M&A. We will review our current 4% annual earnings growth projection through 2016 to incorporate the deluge of well-supported new regulatory spending and Atmos' move toward more organic growth. Driving much of the increased appetite for system investment is a supportive regulatory environment for its largest group of operations in Texas, where ratemaking continues to reduce investment lag and where management sees healthy upside from improving returns on equity at segments currently negotiating rate cases.

While distribution operations continue to improve, management is seeing material upside for its regulated Texas pipeline and storage business as well, driven by

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Recent Notes from our Credit and Equity Analysts

reliability improvements and higher associated gas production from oil drilling in West Texas. Management specifically highlighted the Waha hub as central to growth plans beyond planned projects like line W and X, which total roughly $160 million in capital expenditure and qualify for expedited recovery under Texas' GRIP system. This segment had been hurt by a decline in gas drilling and volumes in the past few years but continued strong oil pricing for associated gas should provide favorable throughput continuing into 2013, supporting earnings improvement on top of new investment projects.

Like many of the management teams, Atmos' management team thinks the dividend tax issue is still unpredictable. However, parity in dividend and capital gains taxes is a priority for the industry and has the best likelihood of protecting utility valuations relative to the market in the event of an increase.

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Income Statement (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Total Revenue	**4,969**	**4,790**	**4,348**	***3,846***	***3,897***
Cost of Goods Sold	3,622	3,425	3,020	*2,501*	*2,487*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,345***	***1,410***
Selling, General & Administrative Expenses	494	468	449	*464*	*478*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	183	191	179	*153*	*180*
Restructuring & Other Charges (Gains)	—	—	—	*-10*	—
Depreciation Expense (if reported separately)	217	217	227	*246*	*249*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	5	—	30	—	—
Total Expenses	**4,522**	**4,300**	**3,906**	***3,355***	***3,394***
Operating Income (EBIT)	**447**	**489**	**442**	***491***	***503***
Interest Expense	153	154	151	*150*	*165*
Interest & Other Income (Expense)	-3	0	21	*3*	*15*
Pre-Tax Income	**291**	**335**	**313**	***343***	***353***
Income Tax Expense (Benefit)	100	129	114	*125*	*129*
Income After Taxes	**191**	**206**	**199**	***218***	***224***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
Net Income (Loss)	**191**	**206**	**208**	***218***	***224***
Net Income (Loss) Excluding Charges	191	206	199	*212*	*224*
Diluted Shares Outstanding (Mil)	92	92	91	*91*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.41*	*2.45*
Diluted EPS Excluding Charges	2.08	2.22	2.28	*2.34*	*2.45*
Dividends Per Common Share	1.32	1.34	1.36	*1.39*	*1.42*
EBITDA	**670**	**707**	**706**	***737***	***752***
EBITDA without restructuring	**670**	**707**	**706**	***727***	***752***

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

				Forecast	
Assets	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Excess Cash & Investments	—	—	—	*226*	*45*
Operating Cash & Equivalents	111	132	131	*115*	*117*
Accounts Receivable	233	273	273	*253*	*235*
Inventory	353	319	290	*206*	*204*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,116***	***917***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,489*	*6,009*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,426*	*8,195*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,936*	*-2,186*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	—	—	—	—	—
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Liabilities					
Accounts Payable	207	266	291	*219*	*204*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***886***	***872***
Long-Term Debt	2,169	1,810	2,206	*2,400*	*2,500*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,400***	***2,500***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,336***	***5,527***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,751*	*1,786*
Retained Earnings (Deficit)	405	487	570	*663*	*757*
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	*-20*	*-20*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,394***	***2,523***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	*Forecast* Sep 2012	*Forecast* Sep 2013
Net Income from Continuing Operations	191	206	208	*218*	*224*
Depreciation Expense	217	217	233	*246*	*249*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-10*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*20*	*18*
(Increase) Decrease in Inventory	194	54	28	*84*	*1*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-73*	*-14*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***582***	***584***
(Capital Expenditures)	-509	-543	-623	*-702*	*-769*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-578***	***-769***
Common Stock (Purchase) or Sale	28	-93	2	*18*	*35*
Common Stock (Dividends)	-121	-124	-124	*-126*	*-130*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*194*	*100*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***176***	***5***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*28*	—
Net Change in Cash	**64**	**21**	**-1**	***210***	***-180***
Change in Cash on Balance Sheet	64	21	-1	*210*	*-180*
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	204 USD	52.6	53.8	54.0	26.6	29.8	30.1	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
New Jersey Resources Corporation	101 USD	15.2	17.7	16.9	5.9	7.0	6.5	4.8	5.4	5.0	3.4	4.3	3.9	2.4	-0.5	1.0
Average		33.9	35.8	35.5	16.3	18.4	18.3	12.2	14.1	14.1	6.2	7.4	7.4	3.2	0.8	2.6
Atmos Energy Corp ATO US	**199** USD	**30.5**	**35.0**	**36.2**	**16.2**	**18.9**	**19.3**	**10.2**	**12.8**	**12.9**	**4.6**	**5.5**	**5.8**	**-0.9**	**-3.1**	**-4.8**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	3,164 USD	182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
New Jersey Resources Corporation	594 USD	76.5	77.7	76.1	43.3	43.7	43.2	9.0	9.5	8.9	3.4	3.5	3.5	3.4	3.2	3.2
Average		129.3	123.9	116.9	53.9	53.4	52.2	7.3	7.5	7.3	4.3	4.0	3.9	3.9	3.7	3.6
Atmos Energy Corp ATO US	**2,415** USD	**107.1**	**112.8**	**111.0**	**51.7**	**53.0**	**52.6**	**4.7**	**4.8**	**4.6**	**3.4**	**3.7**	**3.7**	**3.2**	**3.2**	**3.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	4,676 USD	6.79	5.77	5.12	-33.93	-34.79	-35.05	6.35	6.01	5.82	1.17	0.63	1.30	68.5	58.7	57.5
New Jersey Resources Corporation	1,909 USD	0.18	0.18	0.18	-14.10	-15.58	-16.26	6.02	5.13	4.57	1.75	-0.34	0.70	57.9	56.3	57.5
Average		3.5	3.0	2.7	-24.0	-25.2	-25.7	6.2	5.6	5.2	1.5	0.1	1.0	63.2	57.5	57.5
Atmos Energy Corp ATO US	**3,240** USD	**1.45**	**3.77**	**1.77**	**-25.19**	**-26.04**	**-28.85**	**6.43**	**6.43**	**6.39**	**-0.44**	**-1.32**	**-2.02**	**59.7**	**57.8**	**57.9**

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

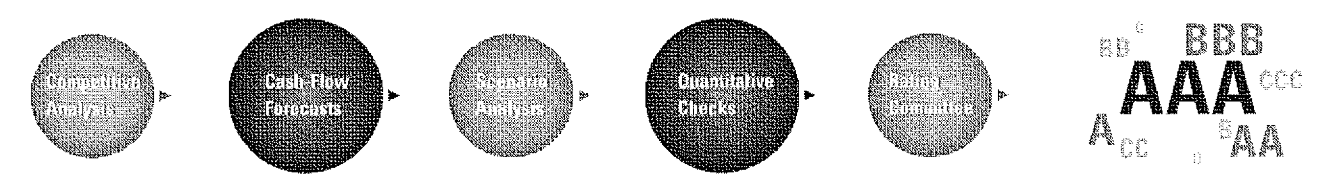
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Atmos Fiscal Year Earnings on Track and 2013 EPS Guidance in Line

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The primary analyst covering this company does not own its stock.

Research as of 08 Nov 2012
Estimates as of 17 Jul 2012
Pricing data through 08 Nov 2012
Rating updated as of 08 Nov 2012

Currency amounts expressed with '$' are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 08 Nov 2012

Atmos Energy ATO reported fiscal 2012 GAAP EPS of $2.37 compared with $2.27 in the year-ago quarter. Management initiated fiscal year 2013 of $2.40-$2.50 per share from ongoing operations, which will exclude unrealized margins and the planned sale of its Georgia assets. Management affirmed its previous 6%-8% annual earnings growth target. We are reaffirming our $35 fair value estimate and our 2013 $2.45 EPS estimate. The company plans to pay a $1.40 per share dividend in 2013, an increase of $0.02 per share.

Atmos continued to benefit from constructive regulatory environments and timely rate increases throughout 2012. At the company's natural gas distribution unit, full-year gross margin was $1.02 billion, up slightly from 2011. Atmos benefited from $17.7 million in incremental margin from rate adjustments. Distribution throughput declined 8% from warmer weather, but the company is effectively 94% protected from weather impacts as adjustment mechanisms provide for reimbursements from lower consumption during warmer months. Regulated transmission and storage gross profit increased 12.7% to $247 million in the current fiscal quarter. The company benefited from rate design changes at its Texas Pipeline and Gas Reliability Infrastructure Program filings in Texas.

At the company's nonregulated unit, gross profit declined 15% for the fiscal year to $55.1 million. Warmer weather translated into lower volumes and a $15 million drop in gross margin. This was offset from the effects of a favorable trading strategy implemented earlier in the year, which opportunistically took advantage of falling prices, storing cheap gas and rolling forward the positions.

On a consolidated basis, operation and maintenance expense edged up 2.4%, primarily from higher legal expenses and higher compensation costs. Capital

Vital Statistics

Market Cap (USD Mil)	3,109
52-Week High (USD)	37.33
52-Week Low (USD)	30.39
52-Week Total Return %	1.3
YTD Total Return %	6.5
Last Fiscal Year End	30 Sep 2011
5-Yr Forward Revenue CAGR %	8.8
5-Yr Forward EPS CAGR %	8.5
Price/Fair Value	0.99

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	13.2	14.2	*14.7*	*14.1*
EV/EBITDA	6.8	7.4	*7.6*	*7.3*
EV/EBIT	9.8	11.0	*11.4*	*10.9*
Free Cash Flow Yield %	7.0	-1.4	*-3.8*	*-6.0*
Dividend Yield %	4.7	4.2	*4.1*	*4.2*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	4,790	4,348	*3,846*	*3,897*
Revenue YoY %	-3.6	-9.2	*-11.5*	*1.3*
EBIT	489	472	*481*	*503*
EBIT YoY %	8.1	-3.5	*1.9*	*4.5*
Net Income, Adjusted	206	199	*212*	*224*
Net Income YoY %	7.8	-3.4	*6.5*	*5.9*
Diluted EPS	2.22	2.28	*2.34*	*2.45*
Diluted EPS YoY %	6.9	-1.5	*6.6*	*4.9*
Free Cash Flow	184	-40	*-119*	*-185*
Free Cash Flow YoY %	-55.1	-121.8	*196.9*	*55.3*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note: Our forecast could differ with as reported and consensus figures due to unique modeling conventions.

Profile

Atmos Energy is one of the largest natural gas-only distributor in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

investments of $733 million led to a 6% increase in depreciation expense. In 2013, management expects capital expenditures in a range of $770 million-$790 million. For the year, income taxes declined $8.6 million to $98.2 million, partially reflecting a tax benefit from the sale of its Missouri, Illinois, and Iowa assets.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Sep 2009	Sep 2010	Sep 2011	Forecast Sep 2012	Forecast Sep 2013	5-Year Proj. CAGR
Revenue	-15.6	-31.2	-3.6	-9.2	-11.5	1.3	—
EBIT	3.3	5.8	8.1	-3.5	1.9	4.5	9.0
EBITDA	3.9	6.6	5.4	-0.1	3.1	3.4	7.7
Net Income	3.3	5.9	7.8	-3.4	6.5	5.9	9.2
Diluted EPS	3.1	4.0	6.9	-1.5	6.6	4.9	8.5
Earnings Before Interest, after Tax	4.2	15.3	13.1	-13.1	-17.2	6.7	1.8
Free Cash Flow to the Firm	-183.1	814.7	-47.2	-111.9	-443.0	-191.6	-202.1

Profitability	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Operating Margin %	10.1	9.1	10.2	10.9	12.5	12.9	11.8
EBITDA Margin %	14.8	13.5	14.8	16.2	18.9	19.3	17.5
Net Margin %	4.2	3.8	4.3	4.6	5.5	5.8	5.2
Free Cash Flow to the Firm margin %	4.5	9.2	5.1	-0.7	2.6	-2.3	-0.7
ROIC with Goodwill %	8.9	9.1	9.7	7.8	6.0	6.0	5.8
ROIC w/out Goodwill %	10.1	10.5	11.2	8.8	6.7	6.7	6.4
Return on Assets, pretax %	6.9	7.0	7.5	6.3	6.5	6.4	6.8
Return on Equity %	9.2	9.0	9.5	9.0	9.4	9.1	9.7

Leverage	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Debt/Capital	0.51	0.51	0.51	0.52	0.53	0.53	0.54
Total Debt/EBITDA	3.34	3.35	3.25	3.42	3.71	3.72	3.75
EBITDA/Interest Expense	4.55	4.38	4.57	4.68	4.84	4.57	4.43

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.01	1.05	—	—
Price/Earnings	13.2	14.2	14.7	14.1
EV/EBITDA	6.8	7.4	7.6	7.3
EV/EBIT	9.8	11.0	11.4	10.9
Free Cash Flow Yield %	7.0	-1.4	-3.8	-6.0
Dividend Yield %	4.7	4.2	4.1	4.2

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.0
Weighted Average Cost of Capital %	7.7
Long-Run Tax Rate %	36.5
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	24.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-145	-2.6	-1.59
Present Value Stage II	5,702	102.6	62.77
Present Value of the Perpetuity	—	—	—
Total Firm Value	**5,557**	**100.0**	—
Cash and Equivalents	131	—	1.45
Debt	2,700	—	-26.59
Net balance sheet impact	-2,284	—	-25.14
Other Adjustments	-271	—	-2.98
Equity Value	**3,003**	—	**34.59**
Projected Diluted Shares	91		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	Forecast *Sep 2012*	 *Sep 2013*
Total Revenue	**4,969**	**4,790**	**4,348**	***3,846***	***3,897***
Cost of Goods Sold	3,622	3,425	3,020	*2,501*	*2,487*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,345***	***1,410***
Selling, General & Administrative Expenses	494	468	449	*464*	*478*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	183	191	179	*153*	*180*
Restructuring & Other Charges (Gains)	—	—	—	*-10*	—
Depreciation Expense (if reported separately)	217	217	227	*246*	*249*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	5	—	30	—	—
Total Expenses	**4,522**	**4,300**	**3,906**	***3,355***	***3,394***
Operating Income (EBIT)	**447**	**489**	**442**	***491***	***503***
Interest Expense	153	154	151	*150*	*165*
Interest & Other Income (Expense)	-3	0	21	*3*	*15*
Pre-Tax Income	**291**	**335**	**313**	***343***	***353***
Income Tax Expense (Benefit)	100	129	114	*125*	*129*
Income After Taxes	**191**	**206**	**199**	***218***	***224***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
Net Income (Loss)	**191**	**206**	**208**	***218***	***224***
Net Income (Loss) Excluding Charges	191	206	199	*212*	*224*
Diluted Shares Outstanding (Mil)	92	92	91	*91*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.41*	*2.45*
Diluted EPS Excluding Charges	2.08	2.22	2.28	*2.34*	*2.45*
Dividends Per Common Share	1.32	1.34	1.36	*1.39*	*1.42*
EBITDA	**670**	**707**	**706**	***737***	***752***
EBITDA without restructuring	**670**	**707**	**706**	***727***	***752***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

				Forecast	
Assets	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Excess Cash & Investments	—	—	—	*226*	*45*
Operating Cash & Equivalents	111	132	131	*115*	*117*
Accounts Receivable	233	273	273	*253*	*235*
Inventory	353	319	290	*206*	*204*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,116***	***917***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,489*	*6,009*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,426*	*8,195*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,936*	*-2,186*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	—	—	—	—	—
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Liabilities					
Accounts Payable	207	266	291	*219*	*204*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***886***	***872***
Long-Term Debt	2,169	1,810	2,206	*2,400*	*2,500*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,400***	***2,500***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,336***	***5,527***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,751*	*1,786*
Retained Earnings (Deficit)	405	487	570	*663*	*757*
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	*-20*	*-20*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,394***	***2,523***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | ★★★

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Net Income from Continuing Operations	191	206	208	*218*	*224*
Depreciation Expense	217	217	233	*246*	*249*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-10*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*20*	*18*
(Increase) Decrease in Inventory	194	54	28	*84*	*1*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-73*	*-14*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***582***	***584***
(Capital Expenditures)	-509	-543	-623	*-702*	*-769*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-578***	***-769***
Common Stock (Purchase) or Sale	28	-93	2	*18*	*35*
Common Stock (Dividends)	-121	-124	-124	*-126*	*-130*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*194*	*100*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***176***	***5***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*28*	—
Net Change in Cash	**64**	**21**	**-1**	***210***	***-180***
Change in Cash on Balance Sheet	64	21	-1	*210*	*-180*
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | ★★★

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Atmos Fiscal Year Earnings on Track and 2013 EPS Guidance in Line

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The primary analyst covering this company does not own its stock.

Research as of 08 Nov 2012
Estimates as of 17 Jul 2012
Pricing data through 08 Nov 2012
Rating updated as of 08 Nov 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 08 Nov 2012

Atmos Energy ATO reported fiscal 2012 GAAP EPS of $2.37 compared with $2.27 in the year-ago quarter. Management initiated fiscal year 2013 of $2.40-$2.50 per share from ongoing operations, which will exclude unrealized margins and the planned sale of its Georgia assets. Management affirmed its previous 6%-8% annual earnings growth target. We are reaffirming our $35 fair value estimate and our 2013 $2.45 EPS estimate. The company plans to pay a $1.40 per share dividend in 2013, an increase of $0.02 per share.

Atmos continued to benefit from constructive regulatory environments and timely rate increases throughout 2012. At the company's natural gas distribution unit, full-year gross margin was $1.02 billion, up slightly from 2011. Atmos benefited from $17.7 million in incremental margin from rate adjustments. Distribution throughput declined 8% from warmer weather, but the company is effectively 94% protected from weather impacts as adjustment mechanisms provide for reimbursements from lower consumption during warmer months. Regulated transmission and storage gross profit increased 12.7% to $247 million in the current fiscal quarter. The company benefited from rate design changes at its Texas Pipeline and Gas Reliability Infrastructure Program filings in Texas.

At the company's nonregulated unit, gross profit declined 15% for the fiscal year to $55.1 million. Warmer weather translated into lower volumes and a $15 million drop in gross margin. This was offset from the effects of a favorable trading strategy implemented earlier in the year, which opportunistically took advantage of falling prices, storing cheap gas and rolling forward the positions.

On a consolidated basis, operation and maintenance expense edged up 2.4%, primarily from higher legal expenses and higher compensation costs. Capital

Vital Statistics

Market Cap (USD Mil)	3,109
52-Week High (USD)	37.33
52-Week Low (USD)	30.39
52-Week Total Return %	1.3
YTD Total Return %	6.5
Last Fiscal Year End	30 Sep 2011
5-Yr Forward Revenue CAGR %	8.8
5-Yr Forward EPS CAGR %	8.5
Price/Fair Value	0.99

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	13.2	14.2	*14.7*	*14.1*
EV/EBITDA	6.8	7.4	*7.6*	*7.3*
EV/EBIT	9.8	11.0	*11.4*	*10.9*
Free Cash Flow Yield %	7.0	-1.4	*-3.8*	*-6.0*
Dividend Yield %	4.7	4.2	*4.1*	*4.2*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	4,790	4,348	*3,846*	*3,897*
Revenue YoY %	-3.6	-9.2	*-11.5*	*1.3*
EBIT	489	472	*481*	*503*
EBIT YoY %	8.1	-3.5	*1.9*	*4.5*
Net Income, Adjusted	206	199	*212*	*224*
Net Income YoY %	7.8	-3.4	*6.5*	*5.9*
Diluted EPS	2.22	2.28	*2.34*	*2.45*
Diluted EPS YoY %	6.9	-1.5	*6.6*	*4.9*
Free Cash Flow	184	-40	*-119*	*-185*
Free Cash Flow YoY %	-55.1	-121.8	*196.9*	*55.3*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note: Our forecast could differ with as reported and consensus figures due to unique modeling conventions.

Profile

Atmos Energy is one of the largest natural gas-only distributor in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

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investments of $733 million led to a 6% increase in depreciation expense. In 2013, management expects capital expenditures in a range of $770 million-$790 million. For the year, income taxes declined $8.6 million to $98.2 million, partially reflecting a tax benefit from the sale of its Missouri, Illinois, and Iowa assets.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Sep 2009	Sep 2010	Sep 2011	*Forecast* Sep 2012	*Forecast* Sep 2013	*Forecast* 5-Year Proj. CAGR
Revenue	-15.6	-31.2	-3.6	-9.2	-11.5	1.3	—
EBIT	3.3	5.8	8.1	-3.5	1.9	4.5	9.0
EBITDA	3.9	6.6	5.4	-0.1	3.1	3.4	7.7
Net Income	3.3	5.9	7.8	-3.4	6.5	5.9	9.2
Diluted EPS	3.1	4.0	6.9	-1.5	6.6	4.9	8.5
Earnings Before Interest, after Tax	4.2	15.3	13.1	-13.1	-17.2	6.7	1.8
Free Cash Flow to the Firm	-183.1	814.7	-47.2	-111.9	-443.0	-191.6	-202.1

Profitability	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Operating Margin %	10.1	9.1	10.2	10.9	12.5	12.9	11.8
EBITDA Margin %	14.8	13.5	14.8	16.2	18.9	19.3	17.5
Net Margin %	4.2	3.8	4.3	4.6	5.5	5.8	5.2
Free Cash Flow to the Firm margin %	4.5	9.2	5.1	-0.7	2.6	-2.3	-0.7
ROIC with Goodwill %	8.9	9.1	9.7	7.8	6.0	6.0	5.8
ROIC w/out Goodwill %	10.1	10.5	11.2	8.8	6.7	6.7	6.4
Return on Assets, pretax %	6.9	7.0	7.5	6.3	6.5	6.4	6.8
Return on Equity %	9.2	9.0	9.5	9.0	9.4	9.1	9.7

Leverage	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Debt/Capital	0.51	0.51	0.51	0.52	0.53	0.53	0.54
Total Debt/EBITDA	3.34	3.35	3.25	3.42	3.71	3.72	3.75
EBITDA/Interest Expense	4.55	4.38	4.57	4.68	4.84	4.57	4.43

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.01	1.05	—	—
Price/Earnings	13.2	14.2	14.7	14.1
EV/EBITDA	6.8	7.4	7.6	7.3
EV/EBIT	9.8	11.0	11.4	10.9
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Additional Paid in Capital	1,791	1,714	1,733	*1,751*	*1,786*
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Other Equity	-20	-23	-48	*-20*	*-20*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,394***	***2,523***
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Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	*Forecast* Sep 2012	*Forecast* Sep 2013
Net Income from Continuing Operations	191	206	208	*218*	*224*
Depreciation Expense	217	217	233	*246*	*249*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-10*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*20*	*18*
(Increase) Decrease in Inventory	194	54	28	*84*	*1*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-73*	*-14*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***582***	***584***
(Capital Expenditures)	-509	-543	-623	*-702*	*-769*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-578***	***-769***
Common Stock (Purchase) or Sale	28	-93	2	*18*	*35*
Common Stock (Dividends)	-121	-124	-124	*-126*	*-130*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*194*	*100*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***176***	***5***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*28*	—
Net Change in Cash	**64**	**21**	**-1**	***210***	***-180***
Change in Cash on Balance Sheet	64	21	-1	*210*	*-180*
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Atmos Fiscal Year Earnings on Track and 2013 EPS Guidance in Line

See Page 5 for the full Analyst Note from 08 Nov 2012

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Committee members voting on rating do not own securities issued by the company.

Credit Analysis as of 21 Aug 2012
Business Analysis as of 21 Aug 2012
Estimates as of 17 Jul 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Credit Perspective 28 Jun 2012

Atmos Energy Corp (BBB+) distributes natural gas to regulated utility customers across nine states. Atmos' business includes unregulated marketing and procurement services as well as natural gas storage and pipelines. Like all regulated utility businesses, we assign Atmos a narrow moat recognizing the implicit contract Atmos maintains with its state regulators to provide stable natural gas distribution in return for regulated returns. Our rating reflects the benefit Atmos receives from decoupling and weather-related fluctuations in customer usage. Moreover, our rating incorporates Atmos' ability to raise revenue without filing a formal rate case via advantageous rate mechanisms. We acknowledge that Atmos has grown considerably through acquisitions over the past 20 years, most notably levering its balance sheet to roughly 4.5 times in 2004 to purchase TXU gas (pipelines) in Texas. However, Atmos has maintained discipline reducing its leverage by a turn to 3.5 times, where we expect it to stay barring any near-term acquisitions. Interest coverage remains healthy at roughly 5 times. While Atmos' credit metrics are currently very healthy, we believe Atmos is likely on the lookout for acquisitions, which could lead to re-leveraging the balance sheet. Atmos can raise over $1 billion in combined debt and equity issuances over the next 1-3 years (maximum of $950 million of debt and $350 million of equity, per regulatory statute), depending on the market for gas local distribution and pipeline acquisition targets. However, Atmos faces the risk of overpaying for an overvalued target with the expectation of improving regulatory returns, which may never come to fruition. It's notable that the company has publicly expressed a preference for internal investment over acquisitions in the current climate. Atmos' size precludes any one regulatory decision from having a drastic impact.

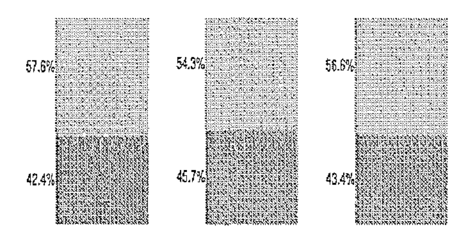
Credit Metrics (USD Mil)

	2010	2011	2012(E)	2013(E)
Cash And Equivalents	132	131	*341*	*161*
Total Debt	2,296	2,415	*2,700*	*2,800*
Interest Expense	162	158	*150*	*165*
EBITDA	707	706	*727*	*752*
Debt to Book Capital	—	—	—	—
Quick Ratio	0.3	0.5	*0.7*	*0.5*
Debt to EBITDA	3.2	3.4	*3.7*	*3.7*
EBITDA to Interest Expense	4.6	4.7	*4.9*	*4.6*

Operating Summary (USD Mil)

	2010	2011	2012(E)	2013(E)
Sales	4,790	4,348	*3,846*	*3,897*
% Change	-3.6	-9.2	*-11.5*	*1.3*
EBIT	469	442	*491*	*503*
% Net Sales	10.2	10.2	*12.8*	*12.9*
Net Income	206	208	*218*	*224*
% Net Sales	4.3	4.8	*5.7*	*5.8*
Free Cash Flow	242	-29	*98*	*-90*
% Net Sales	5.1	-0.7	*2.6*	*-2.3*

Capital Structure



	Prior Year	Prior Quarter	Current
Market Equity	3 Bil	2.83 Bil	3.16 Bil
Preferred	—	—	—
Debt	2.21 Bil	2.38 Bil	2.42 Bil

Source: Morningstar

Issuer Profile

Atmos Energy is one of the largest natural gas-only distributor in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

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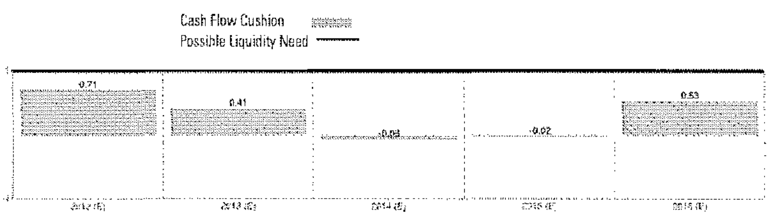
Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	131	341	161	201	221
Adjusted Free Cash Flow	119	-62	-77	-95	65
Total Cash Available before Debt Service	142	185	-13	-13	155
Principal Payments	—	-250	—	-500	—
Interest Payments	-150	-165	-183	-224	-254
Other Cash Obligations and Commitments	50	31	33	35	37
Total Cash Obligations and Commitments	-200	-446	-216	-759	-291

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	131	6.9
Sum of 5-Year Adjusted Free Cash Flow	-600	-31.4
Sum of Cash and 5-Year Cash Generation	-469	-24.5
Revolver Availability	703	36.7
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	234	12.2
Sum of 5-Year Cash Commitments	-1,912	—

Credit Rating Pillars–Peer Group Comparison

	ATO	Sector	Universe
Business Risk	4	5.2	5.2
Cash Flow Cushion	10	9.1	6.2
Solvency Score	3	6.1	5.1
Distance to Default	4	4.2	4.2
Credit Rating	BBB+	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

Even with its large capital expenditure program, Atmos maintains a strong balance sheet and an investment-grade credit rating. At the end of fiscal 2011, the company's debt/capital ratio was 52%, in line with its peers. Total debt/EBITDA could tick up slightly, averaging 3.6 times through 2016. We believe Atmos' dividend is well covered by its regulated utilities' earnings and expect the dividend payout to remain between 50% and 60%.

Capital Structure

With $3.8 billion of capital spending planned between 2012 and 2016, we expect Amos will be a frequent debt issuer. The company has $250 million of long-term debt maturities in 2013 and $500 million in 2015. We expect Atmos will be able to refinance its debt as it comes due and will maintain its debt/capital ratio by funding about half of its growth capital expenditure with new debt. Given Atmos' cash from operations and healthy cash position, we do not expect the firm to tap the equity markets in the near term to fund its growth plans.

Enterprise Risk

The primary uncertainty Atmos faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, lower allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Overpaying for acquisitions is also a risk given the company's acquisitive past.

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Business Analysis

Thesis

As the nation's largest natural gas distribution utility, Atmos Energy brings together a patchwork of local distribution businesses from Virginia to Texas and a lower-risk investment opportunity for dividend-seeking investors. We like this company's focus on the basics and applaud the general efficiency of its overall rate structure, which should consistently provide healthy, if unexciting, returns.

After the sale of its Illinois, Iowa, and Missouri business expected to close in August, Atmos will have regulated distribution operations across nine states. A highly diversified regulatory environment is one of Atmos' strengths. Harmful rate changes imposed by regulators are the bane of any utility. Regulators' ability to set rates counters the natural monopoly position of the utility, resulting in a narrow economic moat for most utilities.

With so many different jurisdictions Atmos is more insulated from individual negative events. It also enjoys some favorable rate mechanisms in its territories. The company is protected from weather-related fluctuations in customer usage for the bulk of its meter base, with full rate decoupling for another slice of it. Even better, Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case. All these factors help Atmos generate relatively stable cash flows.

Atmos has historically grown through acquisition, purchasing 10 companies in the past 20 years. Its largest by far was the 2004 acquisition of TXU Gas, which added 1.5 million customers and pipelines that access nine substantial natural gas basins in Texas. Atmos took on large amounts of debt to complete the purchase and integrate the TXU assets. It spent a few years trimming its balance sheet to a more favorable size and now maintains near-equal levels of debt and equity, in line with other gas utilities.

Atmos is now focused on organic growth, with most of its $2.4 billion in growth investments in the constructive regulatory Texas jurisdictions. The company benefits from Texas Rule 8.209 on distribution infrastructure investments, allowing the company pre-approval by the Texas Railroad Commission and regulatory asset treatment for carrying costs. The company's state transmission and storage investments experience regulatory lag of up to a year while still earning comparatively favorable returns among peer regulated returns. Management has built strong working relationships with regulators that should continue to result in strong shareholder returns.

Economic Moat

Atmos owns a difficult-to-replicate network of natural gas distribution and transmission assets and provides an essential energy source to customers. In exchange for its service territory monopoly, Atmos' returns are set by state and federal regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Atmos to earn its cost of capital and leads us to assign the company a narrow moat.

Moat Trend

We do not foresee a material change in the regulatory compact that allows utilities to earn at a level that adequately compensates capital providers while ensuring utilities do not take advantage of their service area monopoly by gouging customers. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Atmos from establishing a wide economic moat.Atmos' investment program is focused almost entirely on its regulated natural gas distribution and transmission businesses. Furthermore, the company is concentrating its growth expenditures in the territories where its regulatory return is swiftest and most transparent, like Texas.

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Recent Notes from our Credit and Equity Analysts

Atmos Fiscal Year Earnings on Track and 2013 EPS Guidance in Line 08 Nov 2012

Atmos Energy ATO reported fiscal 2012 GAAP EPS of $2.37 compared with $2.27 in the year-ago quarter. Management initiated fiscal year 2013 of $2.40-$2.50 per share from ongoing operations, which will exclude unrealized margins and the planned sale of its Georgia assets. Management affirmed its previous 6%-8% annual earnings growth target. We are reaffirming our $35 fair value estimate and our 2013 $2.45 EPS estimate. The company plans to pay a $1.40 per share dividend in 2013, an increase of $0.02 per share.

Atmos continued to benefit from constructive regulatory environments and timely rate increases throughout 2012. At the company's natural gas distribution unit, full-year gross margin was $1.02 billion, up slightly from 2011. Atmos benefited from $17.7 million in incremental margin from rate adjustments. Distribution throughput declined 8% from warmer weather, but the company is effectively 94% protected from weather impacts as adjustment mechanisms provide for reimbursements from lower consumption during warmer months. Regulated transmission and storage gross profit increased 12.7% to $247 million in the current fiscal quarter. The company benefited from rate design changes at its Texas Pipeline and Gas Reliability Infrastructure Program filings in Texas.

At the company's nonregulated unit, gross profit declined 15% for the fiscal year to $55.1 million. Warmer weather translated into lower volumes and a $15 million drop in gross margin. This was offset from the effects of a favorable trading strategy implemented earlier in the year, which opportunistically took advantage of falling prices, storing cheap gas and rolling forward the positions.

On a consolidated basis, operation and maintenance expense edged up 2.4%, primarily from higher legal expenses and higher compensation costs. Capital investments of $733 million led to a 6% increase in depreciation expense. In 2013, management expects capital expenditures in a range of $770 million-$790 million. For the year, income taxes declined $8.6 million to $98.2 million, partially reflecting a tax benefit from the sale of its Missouri, Illinois, and Iowa assets.

Atmos Energy Reports Marginally Improved Full-Year 2012 Earnings and Initiates 2013 Guidance 08 Nov 2012

Atmos Energy Corp (BBB+) reported marginally improved full-year 2012 earnings with adjusted EBITDA increasing by 1% to $689.1 million year over year, driven by regulated Texas pipeline and Gas Reliability Infrastructure Program rate increases within its transmission and storage segment, partially offset by increased operating and maintenance expenses. Reported EBITDA was adjusted for impairment charges of $5.3 million and $30.3 million in 2012 and 2011, respectively, related to Park City and Shrewsbury gathering assets as well as Atmos' Fort Necessity Gas Storage Project.

Atmos provided a 2013 cash flow generation guidance range of $159 million-$174 million (including only regulated maintenance capital expenditure and dividends, and excluding growth capital expenditure). Alternatively, we project 2013 negative free cash flow (including maintenance and growth capital expenditure as well as dividends) of $314.7 million.

Capital expenditure increased substantially by 17.6% year over year to $732.9 million in 2012, primarily driven by new billing and information systems in Atmos' natural gas distribution business. 2012 operating cash flow of $586.9 million was offset partially by $56.7 million in pension and post-retirement contributions. As such, Atmos' negative free cash flow of $271.8 million (including maintenance and growth capital expenditure as well as dividends) worsened in 2012 versus negative free cash flow of $164.1 million in

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2011.

Atmos' 2012 debt/equity capitalization ratio remained the same year over year standing at 52%/48%, respectively. Total 2012 leverage stood at 3.7 times versus 3.5 times year over year given an increase in commercial paper, partially used to redeem $250 million of 5.125% senior notes due January 2013. Atmos reported that it closed a $260 million term loan (L + 87.5 basis points) due 2013 used to repay commercial paper outstandings. Moreover, interest coverage improved to 4.9 times versus 4.5 times given lower-cost refinancing. Atmos' debt maturity schedule is well-tiered with no lumpy maturities over the next five years. Liquidity totaled $669.3 million at year-end 2012, split between $64.2 million of cash and $605.1 million of revolver availability.

Atmos Energy 6.75% bonds due 2028 are quoted in the 190 basis points over Treasuries range versus better rated A-peer Piedmont Natural gas 7.95% bonds due 2029, quoted in the 220 basis points above Treasuries range. As such, we favor Piedmont Natural Gas 2029 bonds' risk-adjusted 30-basis-point pickup.

Unregulated Operations Provide Lift to Atmos Energy's 3Q Results 09 Aug 2012

Atmos Energy ATO reported third-quarter earnings per share of $0.34 compared with a loss of $0.01 in the year-ago quarter. Management maintained its full-year EPS guidance of $2.30-$2.40 and five-year 6%-8% growth forecast. We are reaffirming our $35 fair value estimate and our 2012 EPS estimate.

Nonregulated gross profit grew 75%, as the company booked $18.2 million from a profitable trading strategy implemented earlier this year. The company opportunistically took advantage of falling gas prices, storing cheap gas and rolling forward the positions into the current quarter. Investors shouldn't expect additional asset optimization performance, as management noted that little benefit remains for the remainder of the year from the strategy.

At its regulated operations, the company continues to benefit from constructive regulatory environments and timely rate increases. In the current quarter, the company added $14 million in incremental margin and $48 million in margin during the last nine months from rate increases. The company is effectively protected from weather impacts, as weather adjustment mechanisms provide for reimbursements from lower consumption during warm weather periods. These adjustments provided $50 million in rate relief to date for Atmos.

Finally, the company announced the sale its Georgia assets for $141 million to Liberty Energy, a subsidiary of Algonquin Power & Utilities. Management indicated growth opportunities were relatively constrained because of competitive operations in Georgia. Management also completed the sale of its Missouri, Illinois, and Iowa distribution assets Aug. 1, with proceeds to be used to pay down outstanding commercial paper. We would be surprised to see management sell additional assets, as remaining assets are in constructive regulatory jurisdictions with strong growth opportunities.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Total Revenue	**4,969**	**4,790**	**4,348**	***3,846***	***3,897***
Cost of Goods Sold	3,622	3,425	3,020	*2,501*	*2,487*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,345***	***1,410***
Selling, General & Administrative Expenses	494	468	449	*464*	*478*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	183	191	179	*153*	*180*
Restructuring & Other Charges (Gains)	—	—	—	*-10*	—
Depreciation Expense (if reported separately)	217	217	227	*246*	*249*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	5	—	30	—	—
Total Expenses	**4,522**	**4,300**	**3,906**	***3,355***	***3,394***
Operating Income (EBIT)	**447**	**489**	**442**	***491***	***503***
Interest Expense	153	154	151	*150*	*165*
Interest & Other Income (Expense)	-3	0	21	*3*	*15*
Pre-Tax Income	**291**	**335**	**313**	***343***	***353***
Income Tax Expense (Benefit)	100	129	114	*125*	*129*
Income After Taxes	**191**	**206**	**199**	***218***	***224***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
Net Income (Loss)	**191**	**206**	**208**	***218***	***224***
Net Income (Loss) Excluding Charges	191	206	199	*212*	*224*
Diluted Shares Outstanding (Mil)	92	92	91	*91*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.41*	*2.45*
Diluted EPS Excluding Charges	2.08	2.22	2.28	*2.34*	*2.45*
Dividends Per Common Share	1.32	1.34	1.36	*1.39*	*1.42*
EBITDA	**670**	**707**	**706**	***737***	***752***
EBITDA without restructuring	**670**	**707**	**706**	***727***	***752***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

				Forecast	
Assets	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Excess Cash & Investments	—	—	—	*226*	*45*
Operating Cash & Equivalents	111	132	131	*115*	*117*
Accounts Receivable	233	273	273	*253*	*235*
Inventory	353	319	290	*206*	*204*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,116***	***917***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,489*	*6,009*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,426*	*8,195*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,936*	*-2,186*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	—	—	—	—	—
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Liabilities					
Accounts Payable	207	266	291	*219*	*204*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***886***	***872***
Long-Term Debt	2,169	1,810	2,206	*2,400*	*2,500*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,400***	***2,500***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,336***	***5,527***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,751*	*1,786*
Retained Earnings (Deficit)	405	487	570	*663*	*757*
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	*-20*	*-20*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,394***	***2,523***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Difference, from analyst adjustments and restatements	—	—	—	—	—

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Long Term Debt Issuance and (Retirement)	40	0	82	*194*	*100*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***176***	***5***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*28*	—
Net Change in Cash	**64**	**21**	**-1**	***210***	***-180***
Change in Cash on Balance Sheet	64	21	-1	*210*	*-180*
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | BBB+

Business Risk	Cash Flow Cushion™	Solvency Score	Distance To Default	Economic Moat™	Industry Group	Sector
Good	Very Poor	Good	Good	Narrow	Utilities - Regulated	Utilities

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	204 USD	52.6	53.8	54.0	26.6	29.8	30.1	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
Average		52.6	53.8	54.0	26.6	29.8	30.1	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
Atmos Energy Corp ATO US	**199** USD	**30.5**	**35.0**	**36.2**	**16.2**	**18.9**	**19.3**	**10.2**	**12.8**	**12.9**	**4.6**	**5.5**	**5.8**	**-0.9**	**-3.1**	**-4.8**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	3,164 USD	182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
Average		182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
Atmos Energy Corp ATO US	**2,415** USD	**107.1**	**112.8**	**111.0**	**51.7**	**53.0**	**52.6**	**4.7**	**4.8**	**4.6**	**3.4**	**3.7**	**3.7**	**3.2**	**3.2**	**3.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
AGL Resources, Inc. GAS USA	4,532 USD	6.79	5.77	5.12	-33.93	-34.79	-35.05	6.35	6.01	5.82	1.17	0.63	1.30	68.5	58.7	57.5
Average		6.8	5.8	5.1	-33.9	-34.8	-35.1	6.4	6.0	5.8	1.2	0.6	1.3	68.5	58.7	57.5
Atmos Energy Corp ATO US	**3,109** USD	**1.45**	**3.77**	**1.77**	**-25.19**	**-26.04**	**-28.85**	**6.43**	**6.43**	**6.39**	**-0.44**	**-1.32**	**-2.02**	**59.7**	**57.8**	**57.9**

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings

Competitive Analysis

Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Cash-Flow Forecasts

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Scenario Analysis

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

Quantitative Checks

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Rating Committee

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Atmos Fiscal Year Earnings on Track and 2013 EPS Guidance in Line

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The primary analyst covering this company does not own its stock.

Research as of 08 Nov 2012
Estimates as of 17 Jul 2012
Pricing data through 08 Nov 2012
Rating updated as of 08 Nov 2012

Currency amounts expressed with '$' are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 08 Nov 2012

Atmos Energy ATO reported fiscal 2012 GAAP EPS of $2.37 compared with $2.27 in the year-ago quarter. Management initiated fiscal year 2013 of $2.40-$2.50 per share from ongoing operations, which will exclude unrealized margins and the planned sale of its Georgia assets. Management affirmed its previous 6%-8% annual earnings growth target. We are reaffirming our $35 fair value estimate and our 2013 $2.45 EPS estimate. The company plans to pay a $1.40 per share dividend in 2013, an increase of $0.02 per share.

Atmos continued to benefit from constructive regulatory environments and timely rate increases throughout 2012. At the company's natural gas distribution unit, full-year gross margin was $1.02 billion, up slightly from 2011. Atmos benefited from $17.7 million in incremental margin from rate adjustments. Distribution throughput declined 8% from warmer weather, but the company is effectively 94% protected from weather impacts as adjustment mechanisms provide for reimbursements from lower consumption during warmer months. Regulated transmission and storage gross profit increased 12.7% to $247 million in the current fiscal quarter. The company benefited from rate design changes at its Texas Pipeline and Gas Reliability Infrastructure Program filings in Texas.

At the company's nonregulated unit, gross profit declined 15% for the fiscal year to $55.1 million. Warmer weather translated into lower volumes and a $15 million drop in gross margin. This was offset from the effects of a favorable trading strategy implemented earlier in the year, which opportunistically took advantage of falling prices, storing cheap gas and rolling forward the positions.

On a consolidated basis, operation and maintenance expense edged up 2.4%, primarily from higher legal expenses and higher compensation costs. Capital

Vital Statistics

Market Cap (USD Mil)	3,109
52-Week High (USD)	37.33
52-Week Low (USD)	30.39
52-Week Total Return %	1.3
YTD Total Return %	6.5
Last Fiscal Year End	30 Sep 2011
5-Yr Forward Revenue CAGR %	8.8
5-Yr Forward EPS CAGR %	8.5
Price/Fair Value	0.99

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	13.2	14.2	*14.7*	*14.1*
EV/EBITDA	6.8	7.4	*7.6*	*7.3*
EV/EBIT	9.8	11.0	*11.4*	*10.9*
Free Cash Flow Yield %	7.0	-1.4	*-3.8*	*-6.0*
Dividend Yield %	4.7	4.2	*4.1*	*4.2*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	4,790	4,348	*3,846*	*3,897*
Revenue YoY %	-3.6	-9.2	*-11.5*	*1.3*
EBIT	489	472	*481*	*503*
EBIT YoY %	8.1	-3.5	*1.9*	*4.5*
Net Income, Adjusted	206	199	*212*	*224*
Net Income YoY %	7.8	-3.4	*6.5*	*5.9*
Diluted EPS	2.22	2.28	*2.34*	*2.45*
Diluted EPS YoY %	6.9	-1.5	*6.6*	*4.9*
Free Cash Flow	184	-40	*-119*	*-185*
Free Cash Flow YoY %	-55.1	-121.8	*196.9*	*55.3*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note: Our forecast could differ with as reported and consensus figures due to unique modeling conventions.

Profile

Atmos Energy is one of the largest natural gas-only distributor in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

investments of $733 million led to a 6% increase in depreciation expense. In 2013, management expects capital expenditures in a range of $770 million-$790 million. For the year, income taxes declined $8.6 million to $98.2 million, partially reflecting a tax benefit from the sale of its Missouri, Illinois, and Iowa assets.

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Sep 2009	Sep 2010	Sep 2011	Forecast Sep 2012	Forecast Sep 2013	5-Year Proj. CAGR
Revenue	-15.6	-31.2	-3.6	-9.2	-11.5	1.3	—
EBIT	3.3	5.8	8.1	-3.5	7.9	4.5	9.0
EBITDA	3.9	6.6	5.4	-0.1	3.1	3.4	7.7
Net Income	3.3	5.9	7.8	-3.4	6.5	5.9	9.2
Diluted EPS	3.1	4.0	6.9	-1.5	6.6	4.9	8.5
Earnings Before Interest, after Tax	4.2	15.3	13.1	-13.1	-17.2	6.7	1.8
Free Cash Flow to the Firm	-183.1	814.7	-47.2	-111.9	-443.0	-191.6	-202.1

Profitability	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Operating Margin %	10.1	9.1	10.2	10.9	12.5	12.9	11.8
EBITDA Margin %	14.8	13.5	14.8	16.2	18.9	19.3	17.5
Net Margin %	4.2	3.8	4.3	4.6	5.5	5.8	5.2
Free Cash Flow to the Firm margin %	4.5	9.2	5.1	-0.7	2.6	-2.3	-0.7
ROIC with Goodwill %	8.9	9.1	9.7	7.8	6.0	6.0	5.8
ROIC w/out Goodwill %	10.1	10.5	11.2	8.8	6.7	6.7	6.4
Return on Assets, pretax %	6.9	7.0	7.5	6.3	6.5	6.4	6.8
Return on Equity %	9.2	9.0	9.5	9.0	9.4	9.1	9.7

Leverage	3-Year Hist. Avg	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013	5-Year Proj. Avg
Debt/Capital	0.51	0.51	0.51	0.52	0.53	0.53	0.54
Total Debt/EBITDA	3.34	3.35	3.25	3.42	3.71	3.72	3.75
EBITDA/Interest Expense	4.55	4.38	4.57	4.68	4.84	4.57	4.43

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.01	1.05	—	—
Price/Earnings	13.2	14.2	14.7	14.1
EV/EBITDA	6.8	7.4	7.6	7.3
EV/EBIT	9.8	11.0	11.4	10.9
Free Cash Flow Yield %	7.0	-1.4	-3.8	-6.0
Dividend Yield %	4.7	4.2	4.1	4.2

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.0
Weighted Average Cost of Capital %	7.7
Long-Run Tax Rate %	36.5
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	24.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-145	-2.6	-1.59
Present Value Stage II	5,702	102.6	62.77
Present Value of the Perpetuity	—	—	—
Total Firm Value	**5,557**	**100.0**	—
Cash and Equivalents	131	—	1.45
Debt	2,700	—	-26.59
Net balance sheet impact	-2,284	—	-25.14
Other Adjustments	-271	—	-2.98
Equity Value	**3,003**	—	**34.59**
Projected Diluted Shares	91		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

CASE NO. 2013-00148
ATTACHMENT 1
TO OAG DR NO. 1-183

MORNINGSTAR®

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

				Forecast	
	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Total Revenue	**4,969**	**4,790**	**4,348**	***3,846***	***3,897***
Cost of Goods Sold	3,622	3,425	3,020	*2,501*	*2,487*
Gross Profit	**1,347**	**1,365**	**1,327**	***1,345***	***1,410***
Selling, General & Administrative Expenses	494	468	449	*464*	*478*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	183	191	179	*153*	*180*
Restructuring & Other Charges (Gains)	—	—	—	*-10*	—
Depreciation Expense (if reported separately)	217	217	227	*246*	*249*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	5	—	30	—	—
Total Expenses	**4,522**	**4,300**	**3,906**	***3,355***	***3,394***
Operating Income (EBIT)	**447**	**489**	**442**	***491***	***503***
Interest Expense	153	154	151	*150*	*165*
Interest & Other Income (Expense)	-3	0	21	*3*	*15*
Pre-Tax Income	**291**	**335**	**313**	***343***	***353***
Income Tax Expense (Benefit)	100	129	114	*125*	*129*
Income After Taxes	**191**	**206**	**199**	***218***	***224***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	9	—	—
Net Income (Loss)	**191**	**206**	**208**	***218***	***224***
Net Income (Loss) Excluding Charges	191	206	199	*212*	*224*
Diluted Shares Outstanding (Mil)	92	92	91	*91*	*91*
Diluted EPS Including Charges	2.08	2.23	2.29	*2.41*	*2.45*
Diluted EPS Excluding Charges	2.08	2.22	2.28	*2.34*	*2.45*
Dividends Per Common Share	1.32	1.34	1.36	*1.39*	*1.42*
EBITDA	**670**	**707**	**706**	***737***	***752***
EBITDA without restructuring	**670**	**707**	**706**	***727***	***752***

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

				Forecast	
Assets	Sep 2009	Sep 2010	Sep 2011	*Sep 2012*	*Sep 2013*
Excess Cash & Investments	—	—	—	*226*	*45*
Operating Cash & Equivalents	111	132	131	*115*	*117*
Accounts Receivable	233	273	273	*253*	*235*
Inventory	353	319	290	*206*	*204*
Other Short Term Operating Assets	132	151	316	*316*	*316*
Total Current Assets	**829**	**875**	**1,011**	***1,116***	***917***
Property Plant & Equipment, Net	4,439	4,793	5,148	*5,489*	*6,009*
Property Plant & Equipment, Gross	6,087	6,542	6,817	*7,426*	*8,195*
(Accumulated Depreciation)	-1,648	-1,749	-1,669	*-1,936*	*-2,186*
Goodwill, Net	740	740	740	*740*	*740*
Other Intangibles	—	—	—	—	—
Other Long-Term Operating Assets	251	251	313	*313*	*313*
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	85	105	71	*71*	*71*
Total Assets	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Liabilities					
Accounts Payable	207	266	291	*219*	*204*
Short-Term Debt	73	486	209	*300*	*300*
Other Current Liabilities	457	414	368	*368*	*368*
Total Current Liabilities	**737**	**1,166**	**868**	***886***	***872***
Long-Term Debt	2,169	1,810	2,206	*2,400*	*2,500*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**2,169**	**1,810**	**2,206**	***2,400***	***2,500***
Long-Term Operating Liabilities	119	49	22	*22*	*22*
Deferred Tax Liabilities	571	829	960	*1,056*	*1,162*
Long-Term Non-Operating Liabilities	571	731	971	*971*	*971*
Total Liabilities	**4,167**	**4,585**	**5,027**	***5,336***	***5,527***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	0	0	0	*0*	*0*
Additional Paid in Capital	1,791	1,714	1,733	*1,751*	*1,786*
Retained Earnings (Deficit)	405	487	570	*663*	*757*
(Treasury Stock)	—	—	—	—	—
Other Equity	-20	-23	-48	*-20*	*-20*
Total Shareholders' Equity	**2,177**	**2,178**	**2,255**	***2,394***	***2,523***
Total Liabilities + Shareholders' Equity	**6,344**	**6,764**	**7,283**	***7,729***	***8,050***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Atmos Energy Corp ATO (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.48 USD	35.00 USD	28.00 USD	43.75 USD	Low	Narrow	Stable	NA	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Sep 2009	Sep 2010	Sep 2011	*Forecast* *Sep 2012*	*Sep 2013*
Net Income from Continuing Operations	191	206	208	*218*	*224*
Depreciation Expense	217	217	233	*246*	*249*
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	5	—	30	—	—
Other Non-Cash Adjustments to Operating Income	—	—	—	*-10*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	153	220	137	*96*	*106*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	245	-40	0	*20*	*18*
(Increase) Decrease in Inventory	194	54	28	*84*	*1*
(Increase) Decrease in Prepayments, other Current Assets	12	-4	-92	—	—
Increase (Decrease) in Accounts Payable	-182	58	24	*-73*	*-14*
Increase (Decrease) in Other Current Liabilities	84	15	14	—	—
Cash from Operations	**919**	**726**	**583**	***582***	***584***
(Capital Expenditures)	-509	-543	-623	*-702*	*-769*
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	-8	0	-4	*124*	—
Other Investing Cash Flows (Outlays)	—	—	—	—	—
Cash from Investing	**-517**	**-543**	**-627**	***-578***	***-769***
Common Stock (Purchase) or Sale	28	-93	2	*18*	*35*
Common Stock (Dividends)	-121	-124	-124	*-126*	*-130*
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-284	54	83	*91*	—
Long Term Debt Issuance and (Retirement)	40	0	82	*194*	*100*
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	*0*	*0*
Cash From Financing	**-338**	**-163**	**44**	***176***	***5***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	*28*	—
Net Change in Cash	**64**	**21**	**-1**	***210***	***-180***
Change in Cash on Balance Sheet	64	21	-1	*210*	*-180*
Difference, from analyst adjustments and restatements	—	—	—	—	—

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Atmos Energy

Rate Activity to Aid F'13

12-month rating	**Neutral** *Unchanged*
12m price target	**US$35.00** *Unchanged*
Price	**US$34.70**

RIC: ATO.N BBG: ATO US

9 November 2012

■ Below Expectations

ATO reported F4Q EPS of $0.05, below the consensus estimate of $0.08 and our estimate of $0.13. EPS in F4Q'11 were -$0.06. F'12 EPS amounted to $2.26, also below the $2.30 consensus estimate and our $2.33 estimate. F'11 EPS were $2.15. Key drivers in the Natural Gas Distribution segment were a $17.7MM net increase in rates, while the Regulated Transmission & Storage segment benefitted from a $28MM increase in gross profit primarily from rate design changes and increases from recent GRIP filings.

■ Rate Activity

Recent rate activity includes: $7.5 MM (10.1% ROE) granted in Tennessee in early November; $6.6MM ("Black Box settlement") in West Texas in October; $2.4MM (10.5% ROE) in Kentucky also in October. On May 31, ATO appealed a Mid-Tex Cities filing to the Railroad Commission, requesting an update increase in annual operating income of $46.5MM. On appeal, ATO is requesting an 11.1% ROE and an 8.85% ROR on 48% debt/52% equity capital structure. The Railroad Commission has 185 days to rule.

■ F'13 Guidance Issued/ Estimates Maintained

ATO issued F13 guidance of $2.40-$2.50, including $0.10-$0.12 per share from Georgia (Georgia asset sale assumed to close in late F13). Guidance includes net income from Natural Gas Distribution of $143-$148MM ($138MM in F12), Regulated Transmission & Storage, $68-$71MM ($61MM in F12); Non-Regulated, $9-$11MM ($13MM in F12) We are maintaining our est at $2.42 in F13 ($2.46 cons) and $2.52 in F14 ($2.61 cons).

■ Valuation: Maintaining Neutral Rating, Target Price

We are maintaining our Neutral rating and our SOP/DCF-derived, 12-month $35 target price.

Highlights (US$m)	09/10	09/11	09/12E	09/13E	09/14E
Revenues	4,797.14	4,351.51	3,652.69	4,071.87	4,149.92
EBIT (UBS)	496.89	467.60	451.09	501.96	525.09
Net Income (UBS)	209.55	195.33	205.23	221.78	232.59
EPS (UBS, US$)	2.27	2.15	2.26	2.42	2.52
Net DPS (UBS, US$)	1.34	1.36	1.38	1.42	1.48
Profitability & Valuation	**5-yr hist av.**	**09/11**	**09/12E**	**09/13E**	**09/14E**
EBIT margin %	8.6	10.7	12.3	12.3	12.7
ROIC (EBIT) %	10.3	10.5	9.6	10.0	9.9
EV/EBITDA (core) x	7.4	7.4	7.8	7.2	7.0
PE (UBS) x	14.1	15.0	15.3	14.3	13.7
Net dividend yield %	4.6	4.2	4.0	4.1	4.3

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$34.70 on 09 Nov 2012 12:11 EST

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Trading data

52-wk range	US$36.94-30.60
Market cap.	US$3.13bn
Shares o/s	90.2m (COM)
Free float	98%
Avg. daily volume ('000)	114
Avg. daily value (m)	US$4.1

Balance sheet data 09/12E

Shareholders' equity	US$2.36bn
P/BV (UBS)	1.3x
Net Cash (debt)	(US$2.46bn)

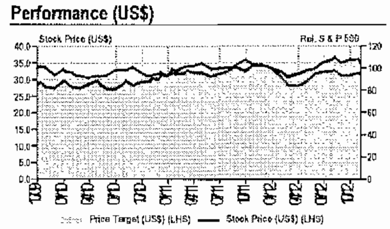
Forecast returns

Forecast price appreciation	+0.9%
Forecast dividend yield	4.0%
Forecast stock return	+4.9%
Market return assumption	5.3%
Forecast excess return	-0.4%

EPS (UBS, US$)

	09/12E			09/11
	From	To	Cons.	Actual
Q1	0.61	0.61	0.61	0.82
Q2E	1.28	1.28	1.28	1.35
Q3E	0.32	0.32	0.31	0.05
Q4E	0.13	0.05	0.08	(0.06)
09/12E	2.33	2.26	2.30	
09/13E	2.42	2.42	2.46	

Performance (US$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2.

■ Atmos Energy

Atmos Energy Corporation, headquartered in Dallas, Texas, primarily provides regulated natural gas distribution and transmission and storage services to approximately 3.2 million residential, commercial, public authority, and industrial customers in 12 states primarily in the South. Non-regulated operations include Marketing & Trading and Pipeline & Storage businesses. Atmos completed its acquisition of TXU Gas in 2004 to become one of the largest pureplay gas distribution companies in the country; Atmos also operates one of the largest intrastate pipelines in Texas.

■ Statement of Risk

Risks to our estimates and price target include mild weather, rising interest rates, unfavorable regulatory decisions, increasing reliance on the Marketing & Trading segment's earnings, increased commodity costs, declines in pipeline throughput volumes related to reduced Barnett Shale drilling activity, and dilutive equity offerings or acquisitions.

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UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	50%	31%
Neutral	Hold/Neutral	41%	31%
Sell	Sell	9%	20%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2012.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Equity Price Targets have an investment horizon of 12 months.

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UBS Securities LLC: Ronald J. Barone.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Atmos Energy[4, 5, 6, 16, 18]	ATO.N	Neutral	N/A	US$34.48	08 Nov 2012

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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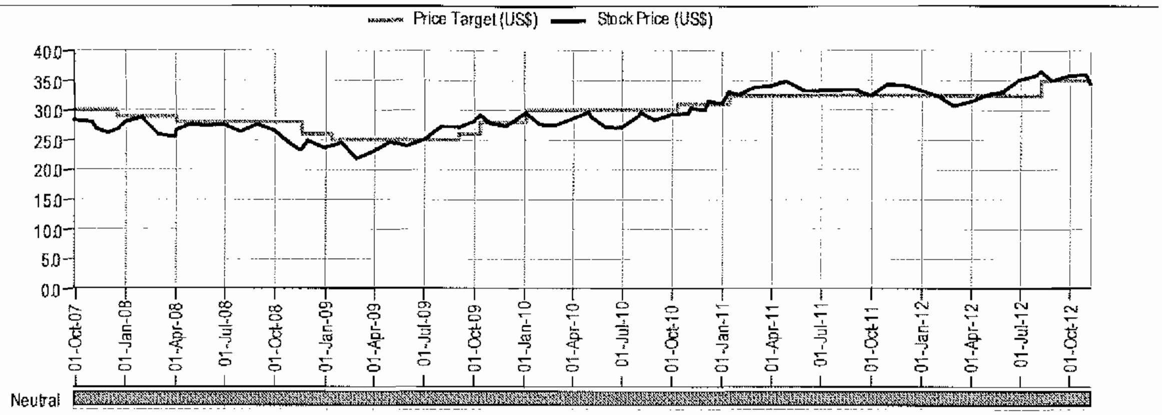
Atmos Energy (US$)



Source: UBS; as of 08 Nov 2012

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Atmos Energy

12-month rating	**Neutral**
	Unchanged
12m price target	**US$32.50**
	Unchanged
Price	**US$31.54**

RIC: ATO.N BBG: ATO US

15 February 2012

Getting Off to a Slow Start

■ **1Q '12 Comes in Below Expectations**

ATO reported FY '12 1Q EPS of $0.61, down 17% from $0.81 in the comparable year-earlier period and below the consensus est of $0.89. Gas distribution net income from cont. ops was $47.9 MM, down 12% QoQ as the positive impact of rate increases was more than offset by a weather normalization adj in the Mid-Tex Division. Reg. trans and storage net was $13.4 MM, up 33% QoQ primarily due to rate design changes at Atmos Pipeline. Non-regulated net was a loss of $8.5 MM, vs profit of $6.3 MM in 1Q FY'11, due to reduced asset optimization margins.

■ **Pursuing Rate Relief; Increasing Capex**

On January 31, 2012, ATO filed a request for a $46.0 MM rate hike in its Mid-Tex Division Settled Cities. The filing seeks an ROE of 10.9% (overall return of 8.74%) on a capital structure of 49% debt and 51% equity. Also in January, ATO filed for rate increases of $6.1 MM in KS and $4.3 MM in MS. Capital expenditures in FY '12 were raised to $680-4700 MM, vs $627 MM in FY"11. Rate base is forecasted to grow at 6% to 6.5% over the next few years.

■ **ATO Maintains Guidance**

ATO is maintaining FY '12 guidance in the $2.30-2.40 range. Net income from regulated operations is projected to amount to $190-197 MM, while net income from non-regulated operations is estimated at $20-23MM. We are lowering our FY2012-2013 EPS estimates to $2.27 and $2.36, from $2.48 and $2.57, respectively.

■ **Valuation: Maintaining Rating and Target Price**

We maintain our Neutral rating and our blended SOP/DCF target price of $32.50.

Highlights (US$m)	09/10	09/11	09/12E	09/13E	09/14E
Revenues	4,797.14	4,351.51	4,024.78	4,102.68	4,223.54
EBIT (UBS)	496.89	467.60	488.50	504.64	507.20
Net Income (UBS)	209.55	195.33	205.48	214.61	216.12
EPS (UBS, US$)	2.27	2.15	2.27	2.36	2.36
Net DPS (UBS, US$)	1.34	1.36	1.38	1.42	1.48

Profitability & Valuation	5-yr hist av.	09/11	09/12E	09/13E	09/14E
EBIT margin %	8.6	10.7	12.1	12.3	12.0
ROIC (EBIT) %	10.3	10.5	10.5	10.4	10.0
EV/EBITDA (core) x	7.4	7.4	7.1	6.9	6.8
PE (UBS) x	14.1	15.0	13.9	13.4	13.4
Net dividend yield %	4.6	4.2	4.4	4.5	4.7

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$31.54 on 14 Feb 2012 19:39 EST

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Trading data

52-wk range	US$35.40-28.87
Market cap.	US$2.84bn
Shares o/s	90.2m (COM)
Free float	98%
Avg. daily volume ('000)	214
Avg. daily value (m)	US$7.0

Balance sheet data 09/12E

Shareholders' equity	US$2.36bn
P/BV (UBS)	1.2x
Net Cash (debt)	(US$2.38bn)

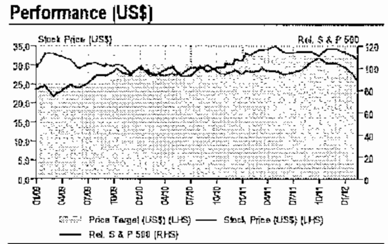
Forecast returns

Forecast price appreciation	+3.0%
Forecast dividend yield	4.4%
Forecast stock return	+7.4%
Market return assumption	5.3%
Forecast excess return	+2.1%

EPS (UBS, US$)

	09/12E			09/11
	From	To	Cons.	Actual
Q1	0.79	0.61	0.61	0.82
Q2E	1.35	1.45	1.44	1.35
Q3E	0.19	0.16	0.13	0.05
Q4E	0.14	0.05	0.06	(0.06)
09/12E	2.48	2.27	2.35	
09/13E	2.57	2.36	2.52	

Performance (US$)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 3.

Table 1: 1Q12 Results Summary

Operating Results	Actual F1Q12A	UBS Estimates F1Q12E		Year-over-Year F1Q11A	
Natural Gas Distribution	$291.1	$300.8	-3%	$299.8	-3%
Regulated Transmission & Storage	$56.8	$53.9	5%	$49.0	16%
Nonregulated	($6.3)	$25.0	-125%	$24.7	-125%
Gross Margin (Consolidated)	$341.2	$379.7	-10%	$373.1	-9%
O&M Expenses	($116.1)	($119.5)	-3%	($116.6)	0%
Depreciation & Amortization Expenses	($59.2)	($57.2)	4%	($56.2)	5%
EBITDA	**$180.1**	**$214.3**	**-16%**	**$215.0**	**-16%**
Interest Expense	($35.4)	($38.5)	-8%	($38.9)	-9%
Net Income (Loss)	**$52.5**	**$73.6**	**-29%**	**$73.7**	**-29%**
Average # of Shares Outstanding	90.5	90.8	0%	90.4	0%
Net Income (Loss)	**$0.58**	**$0.81**	**-28%**	**$0.82**	**-29%**

Source: Company Reports and UBS Estimates

■ Atmos Energy

Atmos Energy Corporation, headquartered in Dallas, Texas, primarily provides regulated natural gas distribution and transmission and storage services to approximately 3.2 million residential, commercial, public authority, and industrial customers in 12 states primarily in the South. Non-regulated operations include Marketing & Trading and Pipeline & Storage businesses. Atmos completed its acquisition of TXU Gas in 2004 to become one of the largest pureplay gas distribution companies in the country; Atmos also operates one of the largest intrastate pipelines in Texas.

■ Statement of Risk

Risks to our estimates and price target include mild weather, rising interest rates, unfavorable regulatory decisions, increasing reliance on the Marketing & Trading segment's earnings, increased commodity costs, declines in pipeline throughput volumes related to reduced Barnett Shale drilling activity, and dilutive equity offerings or acquisitions.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	57%	36%
Neutral	Hold/Neutral	37%	35%
Sell	Sell	7%	17%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	12%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2011.

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UBS Securities LLC: Ronald J. Barone.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Atmos Energy[2, 3, 4, 5, 6, 16, 18]	ATO.N	Neutral	N/A	US$31.54	14 Feb 2012

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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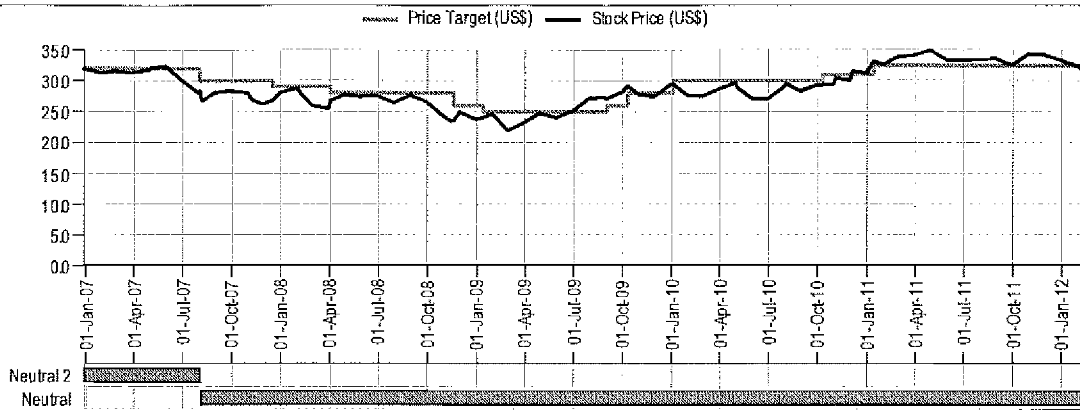
Atmos Energy (US$)



Source: UBS; as of 14 Feb 2012

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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Atmos Energy

12-month rating	**Neutral** *Unchanged*
12m price target	**US$32.50** *Unchanged*
Price	**US$32.74**

RIC: ATO.N BBG: ATO US

3 May 2012

Guidance Maintained; A Shift in Strategy

■ A Tough Quarter

ATO reported $1.28 F2Q '12 earnings per share, a decline of 5% from F2Q '11. Gas distribution gross profit was $380.8MM, vs $379.0MM in F2Q '11, reg. trans & storage was $58.0, up 6%, non-reg. ops incurred a loss of $4.2MM, vs $20.1MM gross profit. To injected 8.9 Bcf into storage to capture incremental physical to forward spread values and purchased flowing gas. Losses were realized on the settlement of financial hedges; a substantial portion of the incr margin will be realized in F3-4Qs

■ Guidance Reaffirmed

As this incremental margin will be recovered in the last half of F '11, management reiterated its earnings guidance of $2.30-$2.40 per share. Adjusted net income by sector is as follows: gas distribution, $134-$138MM, reg trans & storage, $59-$62MM; nonreg. $17-20MM. We are lowering our FY2012-13 EPS est. to $2.23/$2.33 from $2.27/$2.36, respectively.

■ A Change in Strategy

Management indicated it was departing from its growth acquisition strategy and embarking on an infrastructure investment/accelerated rate base growth strategy. Infrastructure spending over the next 5 years is est. to go at a 27% CAGR and range between $3,689B-$3,767B. This would trigger rate base growth of 8-81/2%. We applaud this change in strategy.

■ Valuation: Neutral Rating, $32.50 Price Target

We are maintaining our Neutral rating and our blended SOP/DCF-derived $32.50 price target. At its current price of $32.54, ATO yields ~4.2%.

Highlights (US$m)	09/10	09/11	09/12E	09/13E	09/14E
Revenues	4,797.14	4,351.51	3,911.06	3,626.76	3,691.14
EBIT (UBS)	496.89	467.60	467.68	488.79	496.21
Net Income (UBS)	209.55	195.33	201.49	211.75	214.24
EPS (UBS, US$)	2.27	2.15	2.23	2.33	2.35
Net DPS (UBS, US$)	1.34	1.36	1.38	1.42	1.48

Profitability & Valuation	5-yr hist av.	09/11	09/12E	09/13E	09/14E
EBIT margin %	8.6	10.7	12.0	13.5	13.4
ROIC (EBIT) %	10.3	10.5	10.1	10.0	9.7
EV/EBITDA (core) x	7.4	7.4	7.4	7.2	7.0
PE (UBS) x	14.1	15.0	14.7	14.0	14.0
Net dividend yield %	4.6	4.2	4.2	4.3	4.5

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$32.74 on 03 May 2012 16:13 EDT

Ronald J. Barone
Analyst
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Trading data	
52-wk range	US$35.40-28.87
Market cap.	US$2.95bn
Shares o/s	90.2m (COM)
Free float	98%
Avg. daily volume ('000)	146
Avg. daily value (m)	US$4.6

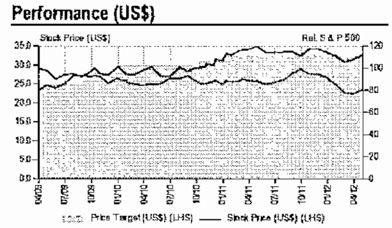
Balance sheet data 09/12E	
Shareholders' equity	US$2.36bn
P/BV (UBS)	1.3x
Net Cash (debt)	(US$2.39bn)

Forecast returns	
Forecast price appreciation	-0.7%
Forecast dividend yield	4.3%
Forecast stock return	+3.6%
Market return assumption	5.3%
Forecast excess return	-1.7%

EPS (UBS, US$)

	09/12E			09/11
	From	To	Cons.	Actual
Q1	0.61	0.61	0.61	0.82
Q2E	1.45	1.28	1.28	1.35
Q3E	0.16	0.22	0.15	0.05
Q4E	0.05	0.12	0.10	(0.06)
09/12E	2.27	2.23	2.33	
09/13E	2.36	2.33	2.49	

Performance (US$)



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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Atmos Energy[2, 3, 4, 5, 6, 16, 18]	ATO.N	Neutral	N/A	US$32.54	02 May 2012

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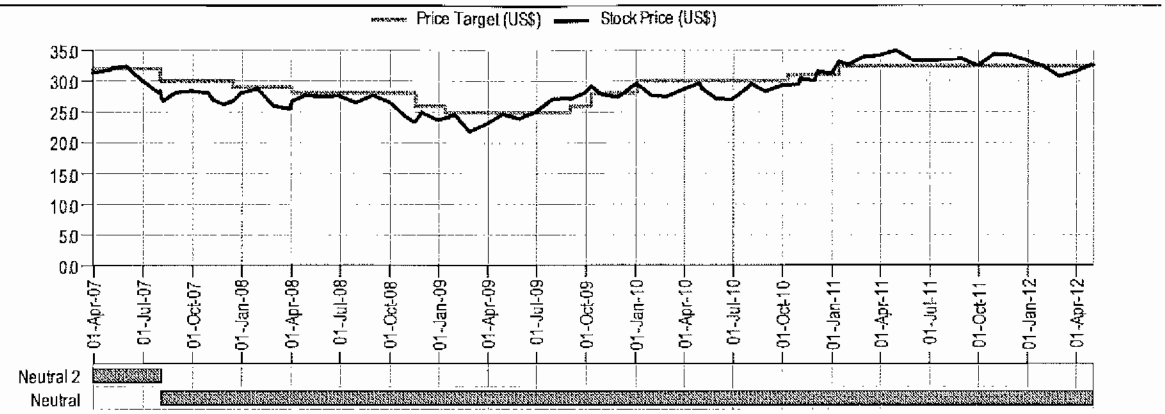
Atmos Energy (US$)



Source: UBS; as of 02 May 2012

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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Atmos Energy

12-month rating	Neutral *Unchanged*
12m price target	US$35.00 *Prior: US$32.50*
Price	US$36.39

RIC: ATO.N BBG: ATO US

9 August 2012

Strong Quarter: Improving Fundamentals

■ A Big Beat

Atmos Energy (ATO) reported EPS of $0.31 in 3Q F'12, well-above the UBS estimate of $0.22 and the consensus estimate of $0.16. ATO reported $0.05 in the comparable year-earlier quarter. All segments recorded improved results. Major contributing factors were general rate increases, GRIP-related rate increases and an increase in asset optimization margins due to a trading strategy executed earlier this year. An additional $22MM of economic value from this trading strategy remained at June 30.

■ Progressing on All Fronts

ATO is selling non-core gas distribution properties (Missouri, Illinois, Iowa, Georgia). The Distribution Segment is also seeking general rate relief and increases for infrastructure-related investments ($70 MM was pending at June 30 and a Mississippi case is expected to be filed shortly). Capex are estimated at $497 MM in F'13, up 27%. Rate base is expected to grow from $4B at the beginning of F'12 to $5.8-$6.0B at the end of F'16, 27% compound annual growth rate. Assuming adequate and timely rate increases, this rate base growth could result in EPS growth of ~7%.

■ Guidance Maintained/ Estimates Raised

ATO maintained F'12 guidance at $2.30-$2.40, which consists of Distribution of $1.49-$1.54, Pipeline & Storage, $0.67-$0.72; and Non-Regulated $0.15-$0.17. We are raising our estimates for FY '12/'13/'14 to $2.33/$2.42/$2.52.

■ Valuation: Maintaining Neutral Rating, Raising Target Price

We are maintaining our Neutral rating but raising our DCF-derived target price to $35, from $32.50.

Highlights (US$m)	09/10	09/11	09/12E	09/13E	09/14E
Revenues	4,797.14	4,351.51	6,110.08	6,646.40	5,566.93
EBIT (UBS)	496.89	467.60	476.74	508.46	523.74
Net Income (UBS)	209.55	195.33	211.67	220.69	231.36
EPS (UBS, US$)	2.27	2.15	2.33	2.42	2.52
Net DPS (UBS, US$)	1.34	1.36	1.38	1.42	1.48

Profitability & Valuation	5-yr hist av.	09/11	09/12E	09/13E	09/14E
EBIT margin %	8.6	10.7	7.8	7.7	9.4
ROIC (EBIT) %	10.3	10.5	10.0	10.1	10.0
EV/EBITDA (core) x	7.4	7.4	7.8	7.4	7.2
PE (UBS) x	14.1	15.0	15.6	15.1	14.4
Net dividend yield %	4.6	4.2	3.8	3.9	4.1

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.
Valuations: based on an average share price that year, (E): based on a share price of US$36.39 on 08 Aug 2012 19:38 EDT

Ronald J. Barone
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Trading data

52-wk range	US$36.91-29.97
Market cap.	US$3.28bn
Shares o/s	90.2m (COM)
Free float	98%
Avg. daily volume ('000)	179
Avg. daily value (m)	US$6.3

Balance sheet data 09/12E

Shareholders' equity	US$2.37bn
P/BV (UBS)	1.4x
Net Cash (debt)	(US$2.58bn)

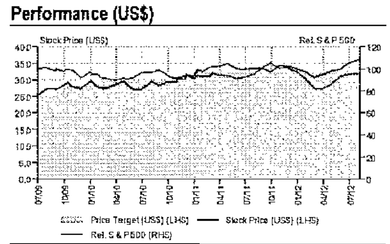
Forecast returns

Forecast price appreciation	-3.8%
Forecast dividend yield	3.8%
Forecast stock return	0.0%
Market return assumption	5.3%
Forecast excess return	-5.3%

EPS (UBS, US$)

	09/12E			09/11
	From	To	Cons.	Actual
Q1	0.61	0.61	0.61	0.82
Q2E	1.28	1.28	1.28	1.35
Q3E	0.22	0.32	0.31	0.05
Q4E	0.12	0.13	0.14	(0.06)
09/12E	2.23	2.33	2.27	
09/13E	2.33	2.42	2.46	

Performance (US$)



Source: UBS

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■ Atmos Energy

Atmos Energy Corporation, headquartered in Dallas, Texas, primarily provides regulated natural gas distribution and transmission and storage services to approximately 3.2 million residential, commercial, public authority, and industrial customers in 12 states primarily in the South. Non-regulated operations include Marketing & Trading and Pipeline & Storage businesses. Atmos completed its acquisition of TXU Gas in 2004 to become one of the largest pureplay gas distribution companies in the country; Atmos also operates one of the largest intrastate pipelines in Texas.

■ Statement of Risk

Risks to our estimates and price target include mild weather, rising interest rates, unfavorable regulatory decisions, increasing reliance on the Marketing & Trading segment's earnings, increased commodity costs, declines in pipeline throughput volumes related to reduced Barnett Shale drilling activity, and dilutive equity offerings or acquisitions.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	55%	33%
Neutral	Hold/Neutral	37%	31%
Sell	Sell	8%	16%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2012.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
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Equity Price Targets have an investment horizon of 12 months.

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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Atmos Energy[4, 6, 16, 18]	ATO.N	Neutral	N/A	US$36.39	08 Aug 2012

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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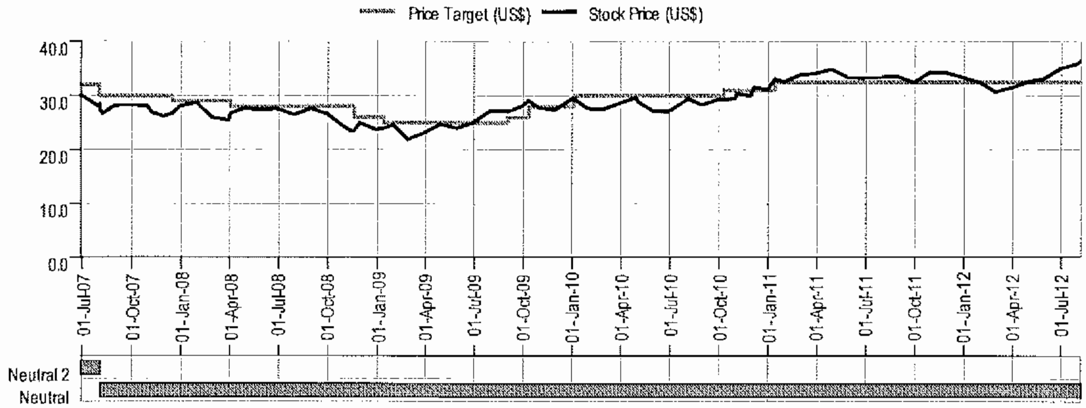
Atmos Energy (US$)



Source: UBS; as of 08 Aug 2012

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