

## Investment ideas. Stocks.

South Jersey Energy LLC (SJI US) is a moderate-sized energy and public utilities company operating in the United States. It mainly provides natural gas and associated services. Quoted equity prices dropped almost 20% over news about possible secondary offering. In our view, the adverse effect of this has already been considered in current price.

Company	SOUTH JERSEY
Ticker	SJI US
Sector	Energy&Utilities
Capitalization, \$ million	2,297
EV, \$ million	5,779
Dividend yield	5.2%
Entry level, \$	22.42
Current price, \$	22.82
Result	1.8%

Source: Bloomberg

## Key investment attractiveness factors.

- 1) **Information about secondary offering of SJI equity.** South Jersey announced 16 March its secondary offering plans for up to \$225 million. This will allow it to raise around \$300 million. The company's stock declined about 20% on 17 March trading day after the announcement. Investors unloaded their stock over negative expectations regarding dilution of their interest shares. The funds raised are going to be applied in repayment of debts and support of the company's operating activities. More detailed information will be available in May after SJI holds its Investor's Day.
- 2) **Speculative buy with an eye to quick rebound.** We see this deal as a purely speculative investment. Its intent is that the main negative effect from secondary offering news is already considered in current share price (after the drop). We therefore won't rule out possibility SJI share prices may recover quickly with positive or neutral market situation remaining.

However, we are not going to keep this stock in our portfolio for a long time because, fundamentally, SJI's situation in the long run leaves much to be desired. On the other hand, the company pays fairly good dividends (about 5.2% yield in USD).

**Key risks.** First, the company has a considerable debt burden: net debt to EBITDA ratio is about 7.0x. Second, SJI has been demonstrating negative free cash flow over the last several years. Third, the stock does not offer a significant discount with reference to multipliers, even after the recent price drop.

<b>Financial highlights, \$ million</b>	<b>2019</b>	<b>2020</b>	<b>2021P*</b>	<b>Change, %</b>
Revenue	1,629	1,541	1,511	-2%
Gross profit	597	682	705	3%
EBITDA	355	454	499	10%
Net profit	101	161	178	11%
EPS	1.09	1.66	1.69	2%
<i>Gross margin</i>	<i>37%</i>	<i>44%</i>	<i>47%</i>	<i>2%</i>
<i>EBITDA margin</i>	<i>22%</i>	<i>29%</i>	<i>33%</i>	<i>4%</i>
<i>Net margin</i>	<i>6%</i>	<i>10%</i>	<i>12%</i>	<i>1%</i>
<b>Debt burden, \$ million</b>	<b>2019</b>	<b>2020</b>	<b>2021P*</b>	<b>Change, %</b>
Gross debt	3,388	3,517	3,518	0%
Cash	7	34	34	0%
Net debt	3,382	3,483	3,484	0%
Net debt/EBITDA	9.5	7.7	7.0	-9%
<b>Benchmarking against similar companies, 2021P*</b>	<b>Country</b>	<b>P/S</b>	<b>EV/EBITDA</b>	<b>P/E</b>
ATMOS ENERGY	USA	3.8	11.9	18.3
NISOURCE	USA	1.8	10.7	17.3
UGI	Israel	1.2	8.8	14.2
NATL FUEL GAS	USA	2.2	7.3	12.9
ONE GAS	USA	2.4	11.2	19.3
SOUTHWEST GAS	USA	1.1	8.7	15.9
SPIRE	USA	2.0	12.2	17.6
NORTHWEST NATURAL	USA	1.9	10.7	20.7
<b>Weighted average</b>		<b>2.1</b>	<b>10.2</b>	<b>17.0</b>
<b>SOUTH JERSEY</b>	<b>USA</b>	<b>1.5</b>	<b>11.6</b>	<b>12.9</b>
<i>Discount/(premium)</i>		<i>36%</i>	<i>-12%</i>	<i>32%</i>

\*P – Projection

Source: Bloomberg

## **Global Markets Research Department**

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Moscow Partners  
123056 Moscow  
23 Maly Tishinsky lane, building 1  
Tel.: +7 495 787-52-56  
Fax: +7 495 787-52-57  
**[www.moscowpartners.com](http://www.moscowpartners.com)**

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