

American States Water (AWR)

\$76.59 (As of 02/28/20)

Price Target (6-12 Months): **\$81.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/07/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: A

Summary

American States Water's fourth-quarter 2019 earnings beat the Zacks Consensus Estimate, while revenues missed the same. The company's electricity and water utility customer base is expanding steadily. It makes systematic investments to strengthen aging infrastructure and pays out regular dividends. The company possesses some of the strongest credit ratings in the water utility space. The company's subsidiary, American States Utility Services, has long-term contracts with 11 military bases. It has been consistently paying out dividends to shareholders since 1931. However, shares of the company have underperformed the industry in the past 12 months. American States Water's dependence on California for generating a significant chunk of earnings is a significant drawback. Also, It operates in a highly-regulated environment.

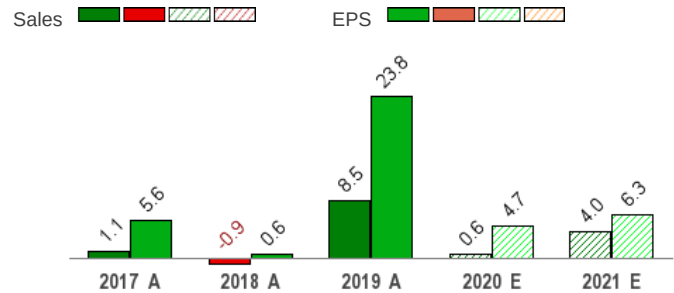
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$96.00 - \$67.52
20 Day Average Volume (sh)	221,045
Market Cap	\$2.8 B
YTD Price Change	-11.6%
Beta	-0.13
Dividend / Div Yld	\$1.22 / 1.6%
Industry	Utility - Water Supply
Zacks Industry Rank	Top 13% (32 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.8%
Last Sales Surprise	-3.4%
EPS F1 Est- 4 week change	3.2%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	36.0
P/E F1	34.4
PEG F1	4.3
P/S TTM	6.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	111 E	124 E	142 E	118 E	496 E
2020	106 E	119 E	136 E	116 E	477 E
2019	102 A	125 A	135 A	113 A	474 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.45 E	\$0.73 E	\$0.76 E	\$0.42 E	\$2.37 E
2020	\$0.40 E	\$0.67 E	\$0.73 E	\$0.43 E	\$2.23 E
2019	\$0.35 A	\$0.64 A	\$0.69 A	\$0.45 A	\$2.13 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/28/2020. The reports text is as of 03/02/2020.

Overview

American States Water Company along with its subsidiaries provides fresh water, wastewater services and electricity to its customers in the United States.

The company principally works through its two major subsidiaries — **Golden State Water Company** ("GSWC") and **American States Utility Services** ("ASUS").

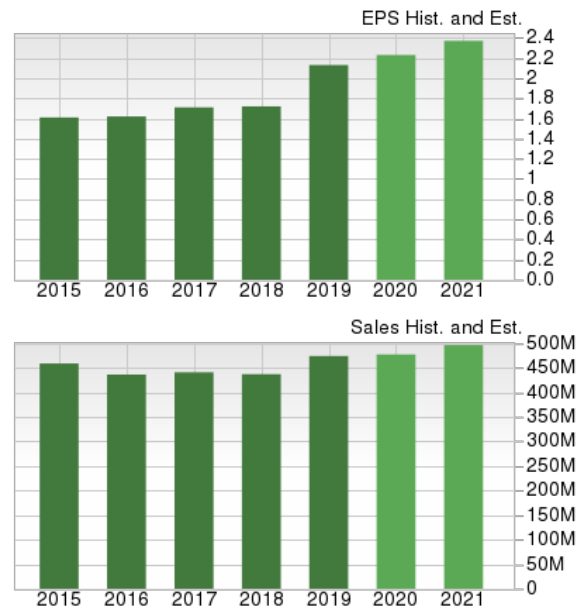
American States Water Company and its subsidiaries had a total of 841 employees as of Dec 31, 2019. The company was founded in 1929.

As of Dec 31 2019, GSWC owns 2,791 miles of pipeline, together with services, meters and fire hydrants, and approximately 450 parcels of land, generally less than one acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including four surface water treatment plants.

Its rate-regulated subsidiary, GSWC, is a public utility engaged primarily in the purchase, production, distribution and sale of water in California, distribution of electricity in several San Bernardino County mountain communities in California. It also serves customer connections through its Bear Valley Electric Service ("BVES") division. It served 260,708 water customers and 24,420 electric customers at Dec 31, 2019, compared with 259,919 water customers and 24,353 electric customers at Dec 31, 2018.

The contracted services subsidiary, American States Utility Services, Inc., provides operations, maintenance and construction management services for water and wastewater systems located in military bases throughout the country.

American States Water has three reportable segments — **Water**, **Electric** and **Contracted Services**. These segments contributed 67.5%, 8.3% and 24.2% to total revenues in 2019, respectively.



Reasons To Buy:

- ▲ American States Water has a sturdy utility customer base and most importantly, it is increasing its electricity and water utility customer base at a slow but steady pace. At Dec 31, 2019, GSWC was serving total 285,128 customers, up 0.3% from 2018.

On May 30, 2019, the California Public Utilities Commission ("CPUC") issued a final decision on GSWC's water general rate case which are retroactive from Jan 1, 2019. In August, the company received a final decision on electric general rate case, issued by CPUC for \$2.3 million electric gross margin increase. The electric rates will be effective during the 2018-2022 time frame. Moreover, GSWC filed an application with CPUC for the development of a turn-key solar project, whose estimated cost is \$14.3 million.

New rates will help the company to recover the amount invested to upgrade and improve its infrastructure and continue its infrastructure upgrade initiatives. GSWC invested \$136 million in company-funded capital projects during 2019 and expects to invest \$120-\$135 million in 2020.

- ▲ A major portion of American States Water Company's total revenues comes from its Water segment and it is quite essential for a water service provider to have ample water right. As of Dec 31, 2019, the company had adjudicated groundwater rights and surface water rights of 72,399 and 11,335 acre feet per year, respectively.

American States Water Company's subsidiary, American States Utility Services (ASUS), has long-term contracts with 11 military bases. During 2019, ASUS awarded \$23 million in new construction projects to be completed through 2020. The company continues to benefit from increase in management fees and construction activity at several other bases.

American States Utility Services is well-equipped and experienced to win fresh awards from the military establishments. Long-term defense contracts actually provide stability to earnings and offer ample visibility into the financial performance of the utilities. Courtesy of these contracts, ASUS is expected to contribute 46-50 cents per share to earnings in 2020.

- ▲ American States Water Company has been a steady dividend payer. In fact, the company has paid dividends to shareholders every year since 1931 and has increased the same in each calendar year for the last 65 consecutive years. The consistent performance of the company helps it continue with its shareholder-friendly move.

Its objective is to increase the dividend rate by 7% compounded annual growth over the long term. In 2019, the board of directors approved a 10.9% increase in yearly dividend to \$1.22 per share. It declared first quarter 2020 dividend of 30.5 cents per share. The cash flow generation capability will enable the company to meet the commitments of a higher dividend.

- ▲ American States Water Company possesses some of the strongest credit ratings in the water utility space. In December 2019, Standard & Poor's Ratings Services (S&P) affirmed the A+ credit rating on both American States Water and Golden State Water. In May, Moody's Investors Service also affirmed its A2 rating with a positive outlook for GSWC.

The capital-intensive water utility companies need to approach the capital markets to fund their projects as cash flows at times are not sufficient to meet their ends. We believe the strong credit rating will help the company secure funds from the market on favorable conditions.

Expanding customer base, significant water rights in its service territories, regular dividend hikes, and strong credit rating will act as tailwinds for the company.

Reasons To Sell:

- ▼ Shares of American States Water have rallied 9.1% compared with the industry's rise of 20% in the past 12 months. American States Water's focus still remains on a single state – California, particularly Southern California. Consequently, the financial performance of the company to a large extent is dependent on the political, water supply, labor, utility cost and regulatory risks as well as economic conditions, natural disasters and other risks affecting the state.

The aging water infrastructure in some areas of California is a concern for the company. American States Water has already experienced leaks and mechanical problems in some portions of its old water systems. Hence, unplanned outages of the system and pump maintenance expenses could increase unexpectedly, and impact profitability of the company.

- ▼ American States Water Company operates in a highly regulated environment and any changes in existing laws and conditions could have an adverse impact on the business of the company. The company might be subject to penalty and fines, if it fails to comply with new regulations within the stipulated time.
 - ▼ The water service providers, despite adopting safety measures, always run the risk of groundwater contamination in their service territories. American States Water Company might have to incur additional costs to address the potential contamination issue in the future. Sometimes the company might not be able to recover the cost from third parties due to the inability to identify the potentially responsible parties or their lack of financial resources. The occurrence of such events, which cannot be absolutely ruled out, increases the operating costs of the company.
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Depending on a single state for the majority of its earnings, alteration in regulations, aging water infrastructure and risk of contamination of groundwater could adversely impact operations.

Last Earnings Report

American States Water's Earnings Beat Estimates in Q4

American States Water generated fourth-quarter 2019 operating earnings of 45 cents per share, which beat the Zacks Consensus Estimate of 41 cents by 9.8%. Further, the bottom line rallied 21.6% from 37 cents in the year-ago quarter.

In 2019, earnings came in at \$2.24 per share compared with \$1.72 in 2018.

Total Revenues

Operating revenues amounted to \$113 million, which missed the Zacks Consensus Estimate of \$117 million by 3.4%. However, the top line inched up 1.8% from \$111 million in the prior-year quarter. Total revenues increased primarily on the back of higher revenues in the Water and Electric segments.

In 2019, the company delivered revenues of \$473.9 million compared with \$436.8 million in 2018.

Operational Update

In the quarter under review, American States Water's total operating expenses were \$88.3 million, up 0.01% year over year.

Interest expenses were \$5.7 million, up 3.5% year over year. Also, interest income was \$0.6 million, down from \$1.7 million in the prior-year quarter.

Segment Details

Earnings in the **Water** segment were 28 cents, up from 17 cents in the prior-year quarter.

Earnings in the **Electric** segment amounted to 5 cents, up from 3 cents in the year-ago quarter.

Earnings in the **Contracted Services** segment were 12 cents, which declined 33.3% from the year-ago quarter's tally.

Financial Update

As of Dec 31, 2019, American States Water's cash and cash equivalents were \$1.3 million compared with \$7.1 million as of Dec 31, 2018.

As of Dec 31, 2019, the company's long-term debts were \$280.9 million compared with \$281 million as of Dec 31, 2018.

Quarter Ending **12/2019**

Report Date	Feb 24, 2020
Sales Surprise	-3.43%
EPS Surprise	9.76%
Quarterly EPS	0.45
Annual EPS (TTM)	2.13

Valuation

American States Water shares are down 17.8% in the last six months period, and up 9.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 2.6% and 1.9% in the last six months period, respectively. Over the past year, the Zacks sub-industry is up 20% and sector is down 6.2%, respectively.

The S&P 500 index is up 3.1% in the last six months period and 7.3% in the past year.

The stock is currently trading at 33.99X of forward 12 months earnings, which compares to 17.75X for the Zacks sub-industry, 12.89X for the Zacks sector and 16.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.9X and as low as 21.88X, with a 5-year median of 28.53X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our 81 price target reflects 36X of forward 12 months earnings.

The table below shows summary valuation data for AWR

Valuation Multiples - AWR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	33.99	17.75	12.89	16.89
	5-Year High	44.9	25.84	15.36	19.34
	5-Year Low	21.88	16.38	12.58	15.18
	5-Year Median	28.53	18.89	13.8	17.44
P/S F12M	Current	5.88	8.11	2.74	3.12
	5-Year High	7.39	9.14	3.31	3.43
	5-Year Low	2.76	2.86	1.76	2.54
	5-Year Median	4	3.47	2.01	3.01
P/B TTM	Current	4.69	3.66	3.83	4.28
	5-Year High	5.99	4.25	4.35	4.9
	5-Year Low	2.77	1.87	2.02	2.85
	5-Year Median	3.61	3.01	2.59	3.62

As of 02/28/2020

Industry Analysis Zacks Industry Rank: Top 13% (32 out of 254)



Top Peers

AquaVenture Holdings Ltd. (WAAS)	Outperform
American Water Works Company, Inc. (AWK)	Neutral
Consolidated Water Co. Ltd. (CWCO)	Neutral
California Water Service Group (CWT)	Neutral
Global Water Resources, Inc. (GWRS)	Neutral
Middlesex Water Company (MSEX)	Neutral
SJW Group (SJW)	Neutral
The York Water Company (YORW)	Neutral

Industry Comparison Industry: Utility - Water Supply				Industry Peers		
	AWR Neutral	X Industry	S&P 500	CWT Neutral	SJW Neutral	WAAS Outperform
VGM Score	D	-	-	C	D	F
Market Cap	2.82 B	1.39 B	21.48 B	2.31 B	1.74 B	864.28 M
# of Analysts	1	1.5	13	3	1	3
Dividend Yield	1.59%	1.82%	2.07%	1.77%	2.09%	0.00%
Value Score	D	-	-	D	C	F
Cash/Price	0.00	0.07	0.04	0.02	0.21	0.13
EV/EBITDA	22.64	19.16	12.57	16.06	14.05	37.72
PEG Ratio	4.29	4.29	1.84	NA	6.59	NA
Price/Book (P/B)	4.69	2.26	2.88	2.96	1.94	2.12
Price/Cash Flow (P/CF)	24.64	16.64	11.58	15.16	15.17	48.94
P/E (F1)	34.35	29.80	16.87	30.81	26.37	NA
Price/Sales (P/S)	5.96	5.96	2.34	3.23	4.14	4.48
Earnings Yield	2.91%	3.25%	5.91%	3.25%	3.79%	-2.00%
Debt/Equity	0.82	0.77	0.70	1.01	0.57	0.79
Cash Flow (\$/share)	3.11	1.94	6.94	3.16	4.03	0.55
Growth Score	D	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	4.32%	6.67%	10.85%	5.40%	1.15%	NA
Proj. EPS Growth (F1/F0)	4.69%	9.09%	6.79%	18.83%	30.34%	15.71%
Curr. Cash Flow Growth	9.54%	7.47%	5.92%	-0.04%	13.41%	208.18%
Hist. Cash Flow Growth (3-5 yrs)	0.17%	7.01%	8.38%	7.01%	13.36%	18.24%
Current Ratio	1.06	1.01	1.23	0.51	3.52	4.09
Debt/Capital	45.03%	43.60%	42.53%	50.22%	36.31%	44.24%
Net Margin	17.80%	18.03%	11.57%	8.83%	5.57%	-10.28%
Return on Equity	13.48%	8.63%	16.80%	8.49%	5.07%	-5.64%
Sales/Assets	0.30	0.21	0.54	0.24	0.21	0.26
Proj. Sales Growth (F1/F0)	0.66%	3.87%	4.07%	3.19%	27.15%	4.54%
Momentum Score	A	-	-	A	A	F
Daily Price Chg	-6.59%	-3.40%	-1.44%	-3.93%	-4.94%	0.19%
1 Week Price Chg	-3.93%	-0.17%	-0.94%	-4.00%	-2.46%	0.11%
4 Week Price Chg	-15.58%	-9.77%	-10.98%	-11.00%	-17.71%	0.15%
12 Week Price Chg	-11.12%	-4.85%	-7.84%	-7.86%	-14.24%	24.38%
52 Week Price Chg	7.68%	20.68%	1.20%	-7.80%	0.02%	22.24%
20 Day Average Volume	221,045	79,613	2,169,477	235,059	82,344	243,640
(F1) EPS Est 1 week change	3.24%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	3.24%	0.00%	-0.09%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	3.24%	0.00%	-0.24%	1.82%	0.00%	2.42%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.72%	0.00%	0.00%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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