

American States Water (AWR)

\$75.74 (As of 05/08/20)

Price Target (6-12 Months): **\$87.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 03/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

In the first quarter, American States Water's earnings missed the Zacks Consensus Estimate while revenues beat the same. Shares of the company have outperformed the industry in the past 12 months. It has a sturdy utility customer base and is increasing at a slow but steady pace. 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. Its subsidiary, ASUS, has long-term contracts with 11 military bases. It has been consistently paying out dividends to shareholders since 1931. However, American States Water's dependence on California for generating a significant chunk of earnings is a significant drawback. Also, the company operates in a highly-regulated environment.

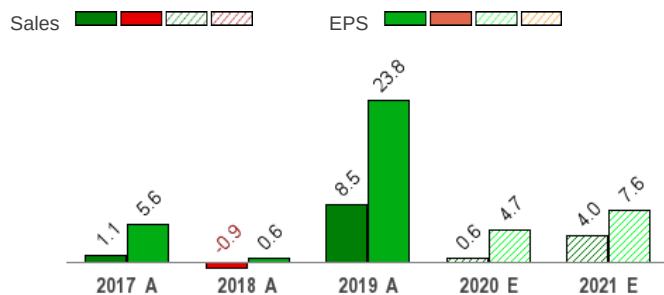
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$96.64 - \$65.11
20 Day Average Volume (sh)	255,917
Market Cap	\$2.8 B
YTD Price Change	-12.6%
Beta	-0.08
Dividend / Div Yld	\$1.22 / 1.6%
Industry	Utility - Water Supply
Zacks Industry Rank	Top 7% (18 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.0%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	35.1
P/E F1	34.0
PEG F1	4.3
P/S TTM	5.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	111 E	124 E	142 E	118 E	496 E
2020	109 A	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	\$0.46 E	\$2.40 E
2020	\$0.38 A	\$0.67 E	\$0.73 E	\$0.45 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 05/08/2020. The reports text is as of 05/11/2020.

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").

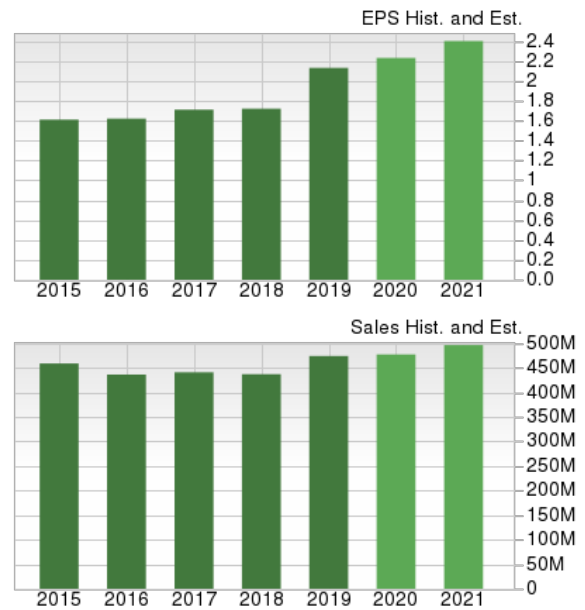
American States Water Company and its subsidiaries had a total of 841 employees as of Dec 31, 2019. The company was founded in 1929.

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:

- ▲ Shares of American States Water have returned 3.9% against the industry's decline of 2.6% in the past 12 months. The company 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.

The California Public Utilities Commission ("CPUC") approved GSWC's water general rate case, effective from Jan 1. The hike is expected to generate an additional \$10.4 million in gross margin for 2020 compared with gross margin of 2019. CPUC's final decision on the general rate case issued in May 2019, also allows an additional increase of nearly \$11.4 million in 2021.

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 \$23.2 million in company-funded capital projects during the first quarter of 2020 and expects to invest \$115-\$130 million in 2020 unless the company needs to revise the expenditures due to outbreak of COVID-19.

- ▲ 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.

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 second 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's long term debt-to-capital is 44.87% better compared with the Utilities sector 46.88%. Its times interest earned ratio has improved on a sequential basis. It came in at 5.6 at end of first quarter 2020, up from 5.4 at the end of fourth quarter of 2019. The strong ratio indicates that the company will be able to meet debt obligations in the near future without any difficulties. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the outbreak of COVID-19, this improving ratio is reassuring for investors.

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 to secure funds from the market at favorable rates.

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

Risks

- 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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Last Earnings Report

American States Water Misses Q1 Earnings Estimates

American States Water generated first-quarter 2020 operating earnings of 38 cents per share, which missed the Zacks Consensus Estimate of 40 cents by 5%. However, the bottom line increased 8.5% from 35 cents in the year-ago quarter.

Total Revenues

Operating revenues amounted to \$109 million, which beat the Zacks Consensus Estimate of \$106 million by 3%. Moreover, the top line moved up 7.2% from \$102 million in the prior-year quarter. Total revenues increased primarily on the back of higher revenues in all the segments.

Operational Update

In the quarter under review, American States Water's total operating expenses were \$83.4 million, up 2.2% year over year.

Interest expenses were \$6 million, down 4.2% year over year. Also, interest income was \$0.5 million, down from \$0.9 million in the prior-year quarter.

Segment Details

Earnings in the Water segment were 24 cents, up from 21 cents in the prior-year quarter.

Earnings in the Electric segment amounted to 6 cents, up from 3 cents in the year-ago quarter.

Earnings in the Contracted Services segment were 8 cents, down 27.3% from the year-ago quarter's tally.

Financial Update

As of Mar 31, 2019, American States Water's cash and cash equivalents were \$0.4 million compared with \$1.3 million as of Dec 31, 2019.

As of Mar 31, 2019, the company's long-term debts were \$280.9 million, flat with the figure as of Dec 31, 2019.

Quarter Ending 03/2020

Report Date	May 04, 2020
Sales Surprise	2.90%
EPS Surprise	-5.00%
Quarterly EPS	0.38
Annual EPS (TTM)	2.16

Valuation

American States Water shares are down 12.5% in the year to date period, and up 3.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 16.7% and 16.6% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 2.6% and sector is down 20.4%, respectively.

The S&P 500 index is down 12.5% in the year to date period and up 4% in the past year.

The stock is currently trading at 33.06X of forward 12 months earnings, which compares to 16.36X for the Zacks sub-industry, 11.9X for the Zacks sector and 21.15X 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 29.34X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$87 price target reflects 37.99X 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	33.06	16.36	11.9	21.15
	5-Year High	44.9	25.47	15.32	21.15
	5-Year Low	21.88	16.36	11.38	15.19
	5-Year Median	29.34	19.05	13.78	17.45
P/S F12M	Current	5.77	6.71	2.54	3.3
	5-Year High	7.39	7.61	3.29	3.44
	5-Year Low	2.76	2.55	1.75	2.54
	5-Year Median	4.18	3.42	2.04	3.02
P/B TTM	Current	4.62	3.63	3.14	3.85
	5-Year High	5.99	4.06	4.05	4.55
	5-Year Low	2.77	1.97	2.01	2.84
	5-Year Median	3.67	2.95	2.6	3.64

As of 05/08/2020

Industry Analysis Zacks Industry Rank: Top 7% (18 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Middlesex Water Company (MSEX)	Outperform	1
Artesian Resources Corporation (ARTNA)	Neutral	2
American Water Works Company Inc (AWK)	Neutral	2
Consolidated Water Co Ltd (CWCO)	Neutral	3
California Water Service Group (CWT)	Neutral	3
Global Water Resources Inc (GWRS)	Neutral	3
SJW Group (SJW)	Neutral	3
The York Water Company (YORW)	Neutral	2

Industry Comparison Industry: Utility - Water Supply				Industry Peers		
	AWR	X Industry	S&P 500	ARTNA	CWT	SJW
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	2	3	3
VGM Score	D	-	-	C	F	D
Market Cap	2.79 B	1.74 B	20.19 B	331.37 M	2.21 B	1.67 B
# of Analysts	1	2	14	1	3	2
Dividend Yield	1.61%	2.15%	2.12%	2.80%	1.87%	2.18%
Value Score	D	-	-	C	D	D
Cash/Price	0.00	0.05	0.06	0.00	0.06	0.01
EV/EBITDA	19.40	15.60	11.95	14.51	14.18	22.21
PEG Ratio	4.25	4.38	2.60	NA	NA	NA
Price/Book (P/B)	4.62	2.01	2.75	2.07	2.93	1.88
Price/Cash Flow (P/CF)	24.37	14.06	10.78	12.88	14.08	14.04
P/E (F1)	33.96	30.99	19.85	21.22	31.14	27.39
Price/Sales (P/S)	5.81	5.81	2.03	3.94	3.09	3.65
Earnings Yield	2.94%	3.23%	4.83%	4.71%	3.22%	3.64%
Debt/Equity	0.81	0.96	0.75	0.90	1.04	1.44
Cash Flow (\$/share)	3.11	1.90	7.01	2.77	3.22	4.19
Growth Score	D	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	4.97%	6.36%	10.87%	7.48%	6.36%	-0.17%
Proj. EPS Growth (F1/F0)	4.69%	5.24%	-9.87%	5.00%	11.20%	20.51%
Curr. Cash Flow Growth	9.54%	7.09%	5.88%	4.73%	1.81%	7.88%
Hist. Cash Flow Growth (3-5 yrs)	2.18%	5.42%	8.55%	7.20%	5.56%	5.46%
Current Ratio	0.96	0.71	1.24	0.55	0.53	0.52
Debt/Capital	44.87%	49.03%	44.23%	47.43%	51.02%	59.05%
Net Margin	17.78%	17.78%	10.68%	17.85%	7.07%	4.35%
Return on Equity	13.44%	7.89%	16.36%	9.53%	6.69%	4.65%
Sales/Assets	0.30	0.19	0.55	0.15	0.23	0.19
Proj. Sales Growth (F1/F0)	0.66%	2.62%	-2.26%	2.63%	5.10%	25.75%
Momentum Score	C	-	-	D	B	D
Daily Price Chg	2.30%	1.26%	2.40%	3.00%	0.53%	0.81%
1 Week Price Chg	-5.38%	0.47%	0.53%	0.65%	-5.55%	0.29%
4 Week Price Chg	-13.90%	-4.05%	2.68%	-4.68%	-16.08%	-5.21%
12 Week Price Chg	-18.15%	-19.37%	-19.20%	-5.36%	-18.87%	-19.87%
52 Week Price Chg	6.81%	-0.59%	-8.44%	-1.79%	-7.52%	-3.34%
20 Day Average Volume	255,917	130,102	2,398,409	25,610	302,872	149,094
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-2.67%	-6.94%
(F1) EPS Est 4 week change	0.00%	0.00%	-6.95%	0.00%	-2.67%	-7.74%
(F1) EPS Est 12 week change	3.24%	-7.54%	-15.68%	NA	-8.10%	-7.54%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-13.12%	NA	93.24%	-1.35%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
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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