

American States Water (AWR)

\$89.58 (As of 01/27/20)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/07/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

Shares of American States Water have outperformed the industry in the past six months. The company's electricity and water utility customer base is expanding steadily. It makes systematic investments to strengthen aging infrastructure and payout 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 after it received another long-term service contract from Fort Riley, Kansas in September. The company 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.

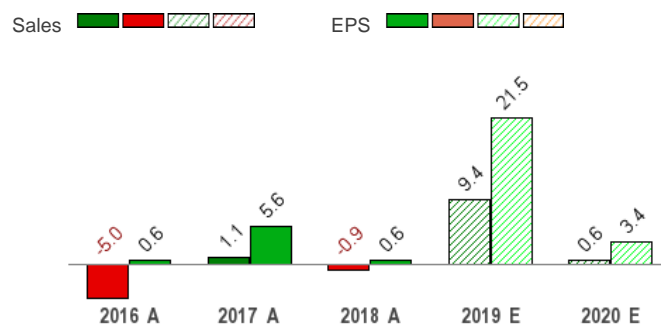
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$96.00 - \$64.97
20 Day Average Volume (sh)	237,219
Market Cap	\$3.3 B
YTD Price Change	3.4%
Beta	-0.15
Dividend / Div Yld	\$1.22 / 1.4%
Industry	Utility - Water Supply
Zacks Industry Rank	Top 36% (93 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.2%
Last Sales Surprise	2.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/24/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	106 E	119 E	136 E	120 E	481 E
2019	102 A	125 A	135 A	117 E	478 E
2018	95 A	107 A	124 A	111 A	437 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.40 E	\$0.67 E	\$0.73 E	\$0.36 E	\$2.16 E
2019	\$0.35 A	\$0.64 A	\$0.69 A	\$0.41 E	\$2.09 E
2018	\$0.29 A	\$0.44 A	\$0.62 A	\$0.37 A	\$1.72 A

*Quarterly figures may not add up to annual.

P/E TTM	43.7
P/E F1	41.5
PEG F1	5.2
P/S TTM	7.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/27/2020. The reports text is as of 01/28/2020.

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”)**.

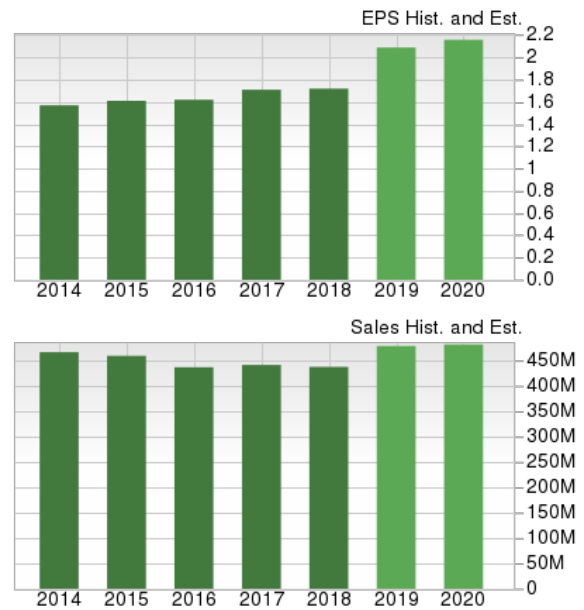
American States Water Company and its subsidiaries had a total of 817 employees as of Jan 31, 2019. The company was founded in 1929.

Golden State Water Company owns 2,783 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 to approximately 260,000 customer connections. GSWC also distributes electricity in several San Bernardino County mountain communities in California and serves approximately 24,000 customer connections through its Bear Valley Electric Service (“BVES”) division.

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 67.6%, 7.9% and 24.5% to total revenues in 2018, respectively.



Reasons To Buy:

- ▲ Shares of American States Water have rallied 16.6% outperforming the industry's rise of 15.8% in the last six 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.

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. Going forward, the new rates will have a positive impact on the company's earnings. In August, the company received a final decision on electric general rate case, issued by CPUC for \$2.3 million revenue increase. The electric rates were applicable with a retroactive effect.

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 \$100.3 million in company-funded capital projects during the first nine months of 2019 and expects to invest \$115-\$125 million in 2019.

- ▲ 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, 2018, the company had adjudicated groundwater rights and surface water rights of 73,431 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 after it received another long-term service contract from Fort Riley, Kansas in September. 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 43-47 cents per share to earnings in 2019. It expects to contribute 46-50 cents per share to 2020 earnings.

- ▲ 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 July 2019, the board of directors approved a 10.9% increase in quarterly dividend to 30.5 cents per share for the fourth quarter. 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 April, 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:

- ▼ 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.

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 Q3 Earnings Miss, Revenues Beat

American States Water Company reported third-quarter 2019 operating earnings of 69 cents per share, which missed the Zacks Consensus Estimate of 72 cents by 4.2%. The bottom line surged 11.3% from 62 cents registered in the year-ago quarter. Earnings during the quarter benefited from new rates introduced in the service territories of Golden State Water Company.

Total Revenues

Operating revenues amounted to \$134.5 million, which outpaced the Zacks Consensus Estimate of \$131 million by 2.7%. The top line also increased 8.3% from \$124.2 million in the prior-year quarter. The upside can be primarily attributed to higher revenues in the Water and Electric segments.

Operational Update

In the quarter under review, American States Water's total operating expenses were \$91.8 million, up 1.7% year over year.

Operating income totaled \$42.7 million, up 25.8% on a year-over-year basis.

Interest expenses were \$6.3 million, up 5.6% year over year. Also, interest income totaled \$0.8 million, up 29% year on year.

Segment Details

Earnings in the **Water** segment amounted to 53 cents, up from 47 cents in the prior-year quarter.

Earnings in the **Electric** segment came in at 3 cents, up from 2 cents in the year-ago quarter.

Earnings in the **Contracted Services** segment totaled 12 cents, down from 13 cents in the year-ago quarter.

Earnings in the **AWR (parent)** segment came in at 1 cent.

Financial Update

As of Sep 30, 2019, American States Water's cash and cash equivalents were \$10.4 million compared with \$7.1 million as of Dec 31, 2018.

As of Sep 30, the company's long-term debts were \$281 million, down from \$281.1 million debt as of Dec 31, 2018.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	2.67%
EPS Surprise	-4.17%
Quarterly EPS	0.69
Annual EPS (TTM)	2.05

Valuation

American States Water shares are up 16.6% in the last six months period, and up 39.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 15.8% and 10.6% in the last six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 42.3% and 8.7%, respectively.

The S&P 500 index is up 10.6% in the last six months period and 26.8% in the past year.

The stock is currently trading at 41.27X of forward 12 months earnings, which compares to 19.92X for the Zacks sub-industry, 14.08X for the Zacks sector and 18.62X 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 28.01X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our 95 price target reflects 43.77X 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	41.27	19.92	14.08	18.62
	5-Year High	44.9	25.84	15.33	19.34
	5-Year Low	21.88	16.38	12.61	15.18
	5-Year Median	28.01	18.86	13.7	17.45
P/S F12M	Current	6.84	9.17	2.96	3.46
	5-Year High	7.39	9.17	3.26	3.46
	5-Year Low	2.76	2.86	1.7	2.54
	5-Year Median	3.91	3.43	1.95	3
P/B TTM	Current	5.54	4.11	4.2	4.43
	5-Year High	5.99	4.15	4.23	4.55
	5-Year Low	2.77	1.87	2.01	2.85
	5-Year Median	3.55	3	2.56	3.62

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Top 36% (93 out of 255)



Top Peers

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

Industry Comparison Industry: Utility - Water Supply				Industry Peers		
	AWR Neutral	X Industry	S&P 500	CWT Outperform	SJW Neutral	WAAS Outperform
VGM Score	D	-	-	B	D	D
Market Cap	3.30 B	1.64 B	23.86 B	2.54 B	2.12 B	856.34 M
# of Analysts	1	2	13	2	2	3
Dividend Yield	1.36%	1.58%	1.81%	1.49%	1.61%	0.00%
Value Score	D	-	-	C	D	F
Cash/Price	0.00	0.07	0.04	0.02	0.20	0.13
EV/EBITDA	25.87	20.46	13.94	17.41	16.97	37.44
PEG Ratio	5.18	4.75	2.00	3.33	8.03	NA
Price/Book (P/B)	5.54	2.63	3.25	3.36	2.37	2.12
Price/Cash Flow (P/CF)	31.49	19.97	13.46	16.67	18.49	48.84
P/E (F1)	41.42	33.09	18.67	33.35	32.13	NA
Price/Sales (P/S)	6.99	6.87	2.62	3.61	5.39	4.44
Earnings Yield	2.41%	3.01%	5.35%	3.01%	3.11%	-2.00%
Debt/Equity	0.82	0.77	0.72	1.07	0.57	0.79
Cash Flow (\$/share)	2.84	1.94	6.92	3.17	4.03	0.55
Growth Score	D	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	4.32%	6.60%	10.68%	5.40%	1.15%	NA
Proj. EPS Growth (F1/F0)	3.35%	9.09%	7.51%	13.21%	66.91%	15.71%
Curr. Cash Flow Growth	2.05%	5.97%	13.40%	3.88%	13.41%	208.18%
Hist. Cash Flow Growth (3-5 yrs)	0.17%	7.01%	8.78%	7.01%	13.36%	18.24%
Current Ratio	1.11	1.04	1.22	0.63	3.52	4.09
Debt/Capital	44.97%	43.60%	42.92%	51.59%	36.31%	44.24%
Net Margin	17.26%	18.02%	11.39%	9.52%	9.59%	-10.28%
Return on Equity	13.23%	9.00%	17.19%	9.18%	5.27%	-5.64%
Sales/Assets	0.30	0.20	0.54	0.24	0.20	0.26
Proj. Sales Growth (F1/F0)	0.63%	4.23%	4.09%	3.97%	27.06%	4.54%
Momentum Score	C	-	-	B	B	C
Daily Price Chg	-0.57%	-0.28%	-1.40%	-1.29%	-0.27%	0.33%
1 Week Price Chg	3.30%	2.56%	-1.09%	3.54%	2.57%	0.07%
4 Week Price Chg	2.58%	3.80%	-0.25%	2.60%	3.82%	-0.55%
12 Week Price Chg	-1.51%	6.43%	3.64%	-3.12%	4.87%	34.76%
52 Week Price Chg	37.44%	28.36%	18.08%	13.87%	27.55%	27.99%
20 Day Average Volume	237,219	98,056	1,615,215	241,438	86,966	408,386
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	2.42%
(F1) EPS Est 12 week change	-0.46%	-0.31%	-0.17%	0.32%	4.98%	6.94%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	5.56%

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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