

Aqua America Inc.(WTR)

\$46.05 (As of 01/06/20)

Price Target (6-12 Months): **\$49.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/08/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Aqua America is benefiting from strong return from organic assets, new water rates and contribution from strategic acquisitions. Aqua America continues to gain from the expanding customer base, which is boosting demand for its services. The company aims to invest more than \$1.4 billion in the 2019-2021 time frame for strengthening infrastructure. Notably, shares of Aqua America have outperformed its industry in the past six months. However, similar to other water utilities, the company gets affected by unfavorable weather conditions that reduce the demand for water and impact its performance. Contamination of water supplied might result in disruption of water services. In addition, the company may incur extra costs due to the same.

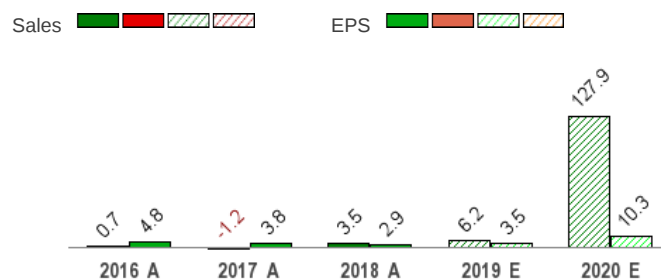
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.33 - \$33.11
20 Day Average Volume (sh)	1,020,734
Market Cap	\$9.9 B
YTD Price Change	-1.9%
Beta	0.32
Dividend / Div Yld	\$0.94 / 2.0%
Industry	Utility - Water Supply
Zacks Industry Rank	Top 27% (69 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.6%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/17/2020
Earnings ESP	0.0%
P/E TTM	32.0
P/E F1	28.6
PEG F1	4.8
P/S TTM	11.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	672 E	392 E	367 E	597 E	2,028 E
2019	201 A	219 A	244 A	226 E	890 E
2018	194 A	212 A	226 A	206 A	838 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.56 E	\$0.20 E	\$0.30 E	\$0.53 E	\$1.61 E
2019	\$0.28 A	\$0.37 A	\$0.48 A	\$0.34 E	\$1.46 E
2018	\$0.29 A	\$0.37 A	\$0.44 A	\$0.31 A	\$1.41 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 01/06/2020. The reports text is as of 01/07/2020.

Overview

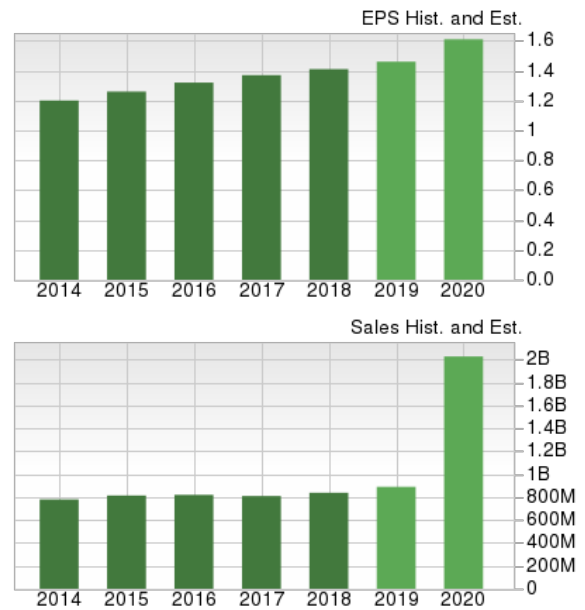
Aqua America Inc. is a water and wastewater service provider. The company prior to its name change in 2004 was known as Philadelphia Suburban Corporation and was formed in 1968. Aqua America through its regulated utilities provides water or wastewater services to nearly three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. 90% of the assets owned by the company are water assets and the rest 10% are wastewater assets.

The company has a well spread out water infrastructure to provide quality services to its expanding customer base. The company owns, operates and maintains more than 13,000 miles of transmission and distribution mains, 21 surface water treatment plants, many well treatment stations, 866 water storage tanks and 188 wastewater treatment plants. A small portion of company's properties are leased under long-term leases. The company earned nearly 58% of the total revenues in 2018 from residential customers. The company at present provides service to 1 million water and wastewater customers.

The company has two segments, **Regulated** and **Other**.

Its regulated segment includes revenue generated from water supplied to its residential, commercial, and industrial customers. The regulated segment also includes revenues from other water supplied, wastewater services and water supplied to other utilities. The regulated segment is the company's primary revenue contributor, generating 97.6%, 99.4% and 99.6% of the total revenues in 2016, 2017 and 2018, respectively.

Other includes corporate costs that were allocated to the Regulated segment and intersegment eliminations. This segment contributed 2.4%, 0.6% and 0.4% to total revenues in 2016, 2017 and 2018, respectively.



Reasons To Buy:

▲ Massive infrastructural investments are required to upgrade and maintain the water utilities, as old and soiled water pipelines are quickly nearing their effective service life. Per a report from Environmental Protection Agency, the cost of restoring and replacing aging water and wastewater pipelines in the United States will be at least \$744 billion over the long term. It is clear that water utilities have immense opportunity to expand their regulated operations. In the past six months, shares of Aqua America have gained 10.9% compared with its industry's 7.1% rally.

Steady capital investment, strategic acquisitions, customer additions and organic growth drove the performance of the company.

The company is investing regularly to strengthen its existing operations. After investing \$495.8 million in 2018, Aqua America aims at making capital investment in excess of \$550 million in 2019, as part of ambitious investment target of more than \$1.4 billion in the 2019-2021 time period. Out of the planned capital expenditure, 49.3% will be directed toward its Mains & Services, and 36% will be utilized for Source Treatment and Facilities. The ongoing interest rate decline will help this capital-intensive company to source funds at a cheaper rate than before, as and when required to complete its projects.

Rate hikes from the commission help it to recoup expenditure. Rate cases completed in 2018 had increased Aqua America's top line by \$22.5 million on an annual basis and those completed in 2019 will increase annual revenues by \$59.8 million. The pending rates, on completion, are expected to increase its annual revenues by another \$63,000.

▲ Consolidation is the need of the hour in the fragmented U.S. water utility space. Consolidation will enable big utilities to make the necessary infrastructure overhauls that have become imperative for the industry at large. During the five-year period ended Dec 31, 2018, the company expanded its utility operations by completing 64 acquisitions or other growth ventures. The company aims at increasing the customer base by 2-3% annually.

The company has been expanding its customer base through acquisitions, partnerships and organic growth. In the past five years, the company has been able to increase its customer base by more than 1%. In 2018, the company expanded its customer base by 2.3%, and was successful in adding 22,741 new connections through organic growth and acquisitions. The eight pending acquisitions, on completion, will increase its customer base by 187,600 in 2019. During the third quarter, the company entered into a contract with Delaware County Regional Water Quality Control Authority to acquire the municipal authority's water assets for \$276.5 million, which is expected to add 165,000 retail customers to its existing customer base. Revenue growth over the past five years is primarily due to an increase in water and wastewater rates, coupled with customer growth.

▲ Aqua America continues to increase the value of its shareholders through annual increase in dividend. The company has been paying dividends for the past 74 years and increased dividend rates 29 times in the past 28 years. On Jul 25, 2019, Aqua America's board of directors declared a 7% increase in quarterly cash dividend. Consistent performance of the company allows it to continue with shareholder-friendly moves. Its current dividend yield is 2.07%, which is better than the Zacks S&P 500 composite's 1.8%.

Aqua America's decision to acquire Peoples Gas, a natural gas distribution utility, is expected to support continued long-term dividend growth. This acquisition is expected to be completed by late 2019 or early 2020, once all regulatory approvals are received. Peoples Gas, which serves nearly 740,000 gas utility customers in three states, will help Aqua America to broaden the revenue base.

▲ The company has an extensive network of water treatment, pumping and distribution facilities, and water supply sources, helping it to serve its customers efficiently during normal conditions. The company's water supplies are primarily self-supplied and processed at 21 surface water treatment plants located in four states, and numerous well stations located in all the states in which it operates.

The company's dependence on other water suppliers is limited to only 5.8% of the water used in its systems. Aqua America is also investing heavily in growth capital projects, which will improve its capability to serve its expanding customer base and lower dependence on other water suppliers.

Reasons To Sell:

- ▼ Water utilities always run the risk of contamination of water supplied to its customers, despite implementing the best safety measures. The contamination of water supplied could result in disruption of water services and lead to extra cost for water quality testing and monitoring, treatment of the contaminated source, or the purchase of alternative water supplies.
- ▼ Weather continues to play a significant role in determining the demand for water. Also, new water conservation methods used by customers have reduced the demand for water. If the weather is cooler in winter months and its service area receives more rainfall than normal, it will reduce the demand for water and will have an adverse impact on its performance.
- ▼ The water utility business is capital intensive and requires steady capital investments to maintain, upgrade and replace the old and soiled water pipelines. Though the rate cuts are favorable for overall development, any disruption in capital markets and any unfavorable occurrence therein might make it difficult for Aqua America to raise funds at a favorable rate. This can impact the company's business and financial conditions. If the company fails to obtain sufficient funds it might have to curtail essential capital expenditures or lower the dividend payment rate to conserve cash.
- ▼ The water utilities are subject to certain federal and state environmental laws and regulations. With environmental regulations getting stricter by the day, compliance could lead to significantly higher operating costs for the company. Aqua America is involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the company.

Risk of water contamination, compliance with stricter regulation, and fluctuating weather conditions impacting demand for water are headwinds for Aqua America.

Last Earnings Report

Aqua America's Q3 Earnings & Revenues Beat Estimates

Aqua America, Inc. reported third-quarter 2019 earnings per share of 48 cents, which surpassed the Zacks Consensus Estimate of 43 cents by 11.6%.

The bottom line improved 9.1% from the year-ago figure of 44 cents.

Total Revenues

Quarterly revenues amounted to \$243.6 million, which beat the Zacks Consensus Estimate of \$236 million by 3.2%. Moreover, the top line increased 7.7% year over year. The uptick can be attributed to rates, customer growth from acquisitions and organic growth.

Highlights of the Release

During the third quarter, operations and maintenance expenses increased nearly 19.5% year over year to \$82 million.

The company incurred interest expenses of \$32.6 million, up 28.3% from the prior-year level.

Year-to-date rate increase in 2019 will boost annual revenues of the company by \$59.8 million. The pending rate case, when approved, is expected to increase revenues by \$63,000.

Financial Highlights

Current assets were \$2,178.9 million as of Sep 30, 2019 compared with \$147.2 million on Dec 31, 2018.

Long-term debt was \$2,898.3 million as of Sep 30, 2019, higher than \$2,398.5 million on Dec 31, 2018.

During the first nine months of 2019, the company invested \$401.6 million to strengthen its infrastructure systems.

Guidance

Aqua America maintained its 2019 adjusted net earnings guidance in the range of \$1.45-\$1.50 per share.

It expects customer base to expand 2-3% in 2019. The company plans to invest \$550 million toward infrastructure development of service communities during the year. This is part of its investment plan of nearly \$1.4 billion through 2021.

Quarter Ending 09/2019

Report Date	Nov 04, 2019
Sales Surprise	3.19%
EPS Surprise	11.63%
Quarterly EPS	0.48
Annual EPS (TTM)	1.44

Recent News

Aqua America's Unit Buys Wastewater System for \$50.3M - Dec 19,2019

Aqua America Inc. announced that its subsidiary, Aqua Pennsylvania has completed the purchase of the Cheltenham Township wastewater system for \$50.25 million. This acquisition will add 10,200 customers to Aqua America's existing customer base.

The acquisition will ensure that the 90-year old sewer system of Cheltenham Township is provided with the much needed investments for its upgrade and maintenance. Without Aqua America's aid, it would have been difficult for the township to make these investments without assuming loans and significant tax increases.

Aqua America is following the acquisition route to expand operations. During the five-year period ended Dec 31, 2018, the company had expanded utility operations by completing 64 water and wastewater system acquisitions. It is going to invest nearly \$550 million in 2019 to strengthen its water and wastewater infrastructure. This will be part of Aqua America's investment target of more than \$1.4 billion in the 2019-2021 time period.

Valuation

Aqua America shares are up 10.9% in the last six months period, and up 37.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 7.1% and 2.6% in the last six months period, respectively. Over the past year, the Zacks sub-industry and the sector was up 34.1% and 1.9% respectively.

The S&P 500 index is up 9.3% in the last six months period and up 24.5% in the past year.

The stock is currently trading at 28.58X of forward 12 months earnings, which compares to 18.39X for the Zacks sub-industry, 13.44X for the Zacks sector and 18.79X for the S&P 500 index.

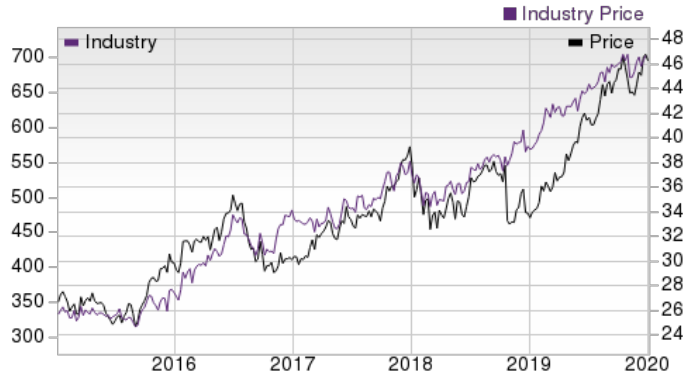
Over the past five years, the stock has traded as high as 29.97X and as low as 18.51X, with a 5-year median of 23.42X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$49 price target reflects 30.43X of forward 12 months earnings.

The table below shows summary valuation data for WTR

Valuation Multiples - WTR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	28.58	18.39	13.44	18.79
	5-Year High	32.15	25.84	15.33	19.34
	5-Year Low	18.51	16.38	12.61	15.17
	5-Year Median	23.46	18.77	13.68	17.44
P/S F12M	Current	4.9	5.04	2.88	3.47
	5-Year High	11.38	7.46	3.26	3.47
	5-Year Low	4.9	2.86	1.7	2.54
	5-Year Median	6.69	3.43	1.95	3
P/B TTM	Current	2.57	3.79	3.93	4.43
	5-Year High	4.54	3.94	3.96	4.45
	5-Year Low	2.3	1.87	2.01	2.85
	5-Year Median	3.05	2.99	2.55	3.6

As of 1/06/2020

Industry Analysis Zacks Industry Rank: Top 27% (69 out of 254)



Top Peers

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

Industry Comparison Industry: Utility - Water Supply				Industry Peers		
	WTR Neutral	X Industry	S&P 500	AWR Neutral	CWT Outperform	SJW Neutral
VGM Score	D	-	-	D	C	D
Market Cap	9.94 B	1.52 B	23.72 B	3.13 B	2.43 B	1.98 B
# of Analysts	2	2	13	1	2	2
Dividend Yield	2.04%	1.69%	1.79%	1.44%	1.57%	1.73%
Value Score	D	-	-	D	C	D
Cash/Price	0.20	0.05	0.04	0.00	0.02	0.21
EV/EBITDA	25.52	19.95	13.90	24.69	16.81	15.86
PEG Ratio	4.78	4.29	2.00	4.91	3.18	7.49
Price/Book (P/B)	2.57	2.39	3.34	5.25	3.21	2.20
Price/Cash Flow (P/CF)	20.61	18.19	13.67	29.84	15.92	17.23
P/E (F1)	28.67	30.82	18.72	39.31	31.85	29.94
Price/Sales (P/S)	11.43	6.14	2.66	6.63	3.45	5.02
Earnings Yield	3.50%	3.21%	5.31%	2.54%	3.15%	3.34%
Debt/Equity	0.75	0.77	0.72	0.82	1.07	0.57
Cash Flow (\$/share)	2.23	1.94	6.94	2.84	3.17	4.03
Growth Score	D	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	3.61%	6.60%	10.56%	4.32%	5.40%	1.15%
Proj. EPS Growth (F1/F0)	10.27%	10.27%	7.42%	3.35%	13.21%	66.91%
Curr. Cash Flow Growth	4.73%	5.97%	14.83%	2.05%	3.88%	13.41%
Hist. Cash Flow Growth (3-5 yrs)	3.86%	7.01%	9.00%	0.17%	7.01%	13.36%
Current Ratio	6.19	1.04	1.23	1.11	0.63	3.52
Debt/Capital	42.97%	43.60%	42.92%	44.97%	51.59%	36.31%
Net Margin	18.02%	18.02%	11.08%	17.26%	9.52%	9.59%
Return on Equity	8.81%	9.00%	17.16%	13.23%	9.18%	5.27%
Sales/Assets	0.11	0.20	0.55	0.30	0.24	0.20
Proj. Sales Growth (F1/F0)	127.87%	4.38%	4.15%	0.63%	3.97%	27.06%
Momentum Score	B	-	-	B	D	C
Daily Price Chg	-0.35%	-0.25%	0.10%	-1.86%	-1.02%	-0.54%
1 Week Price Chg	-1.11%	-2.01%	-0.30%	-0.45%	-1.01%	-2.47%
4 Week Price Chg	1.50%	-1.24%	2.33%	-1.45%	-1.92%	-2.54%
12 Week Price Chg	1.72%	1.36%	7.02%	-8.15%	-7.39%	-2.65%
52 Week Price Chg	38.87%	29.37%	24.61%	34.02%	12.53%	22.94%
20 Day Average Volume	1,020,734	79,425	1,589,897	217,428	252,849	89,609
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.62%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	0.62%	0.32%	-0.56%	-0.46%	0.32%	4.98%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	B
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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