



DSR STOCK CARD

11/25/2019

AQUA AMERICA (WTR)

Business Model

Aqua America Inc. is the holding company for regulated utilities providing water or wastewater services to over 3 million clients in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Its aggressive growth-through-acquisition strategy has resulted in nearly 200 acquisitions and growth ventures in the last ten years. The company is divided into two segments: Water (distribution, treatment, storage) and Waste Water (treatment, collection, storm water management).

The Company in a Nutshell

- This utility uses an aggressive growth by acquisition strategy.
- WTR shows a stronger profitability than most of its peers and a stronger dividend growth policy.
- This utility is well positioned to grow in the upcoming years.

Investment Thesis

A very interesting point when you invest in utilities is the fact that people always need those services, regardless of what is happening in the economy. While portions of the population may manage to consume less energy, it is very difficult with water. We appreciate WTR's growth by acquisition strategy. Management has developed quite an expertise with their 200 acquisitions. WTR now enjoys economy of scale and is well positioned to capture any growth vectors coming their way. While WTR's yield isn't impressive, its growth rate makes us forget about the 2% yield. Don't mind the recent EPS drop, adjusted earnings were in line with previous results and expectations. The dividend is safe and the payout ration is stable.

VALUATION

Dividend Growth Rate Years 1-10: 7%

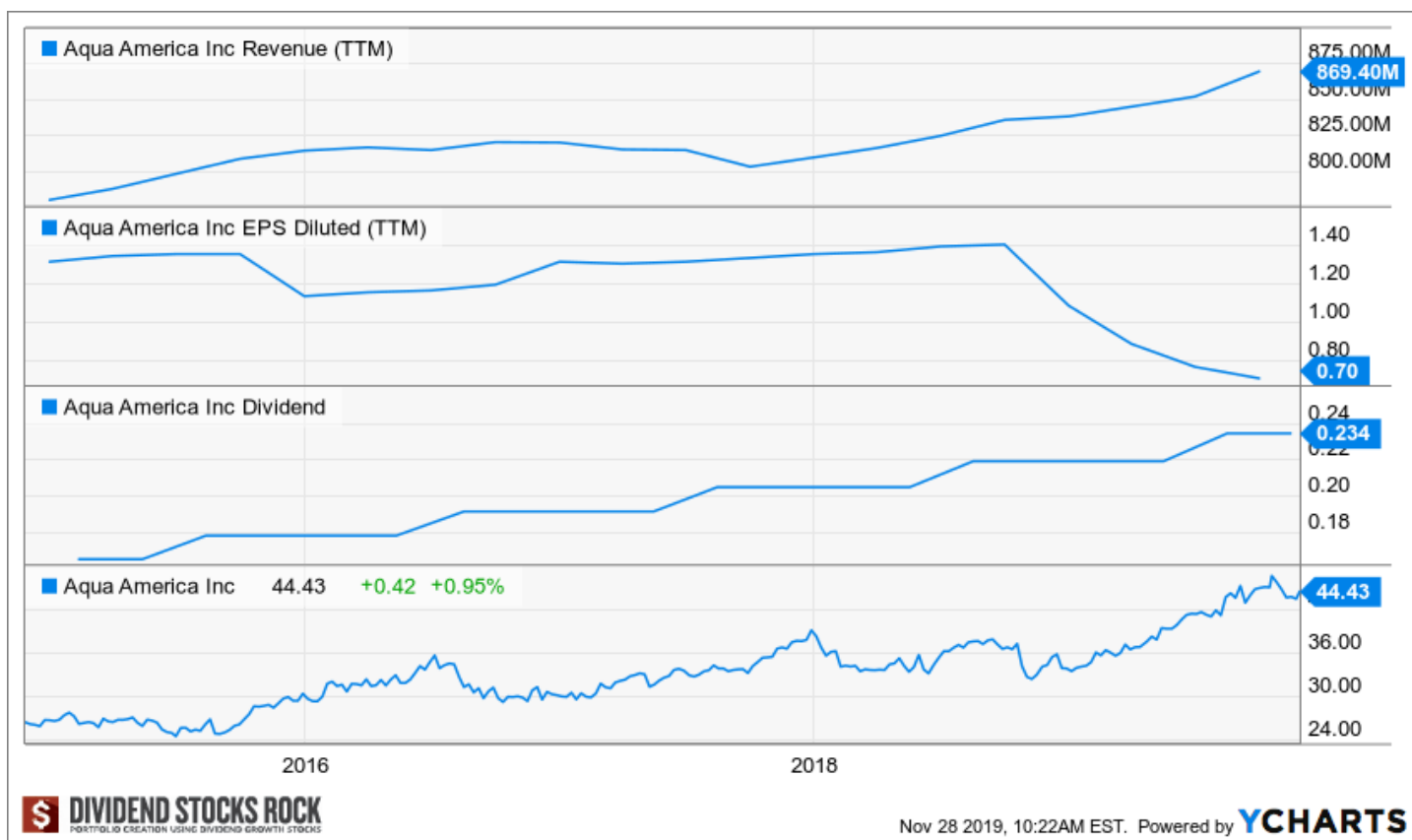
Terminal Dividend Growth Rate: 6%

	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$64.92	\$43.14	\$32.25
10% Premium	\$59.51	\$39.54	\$29.56
Intrinsic Value	\$54.10	\$35.95	\$26.88
10% Discount	\$48.69	\$32.35	\$24.19
20% Discount	\$43.28	\$28.76	\$21.50



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Potential Risks

As is the case with all other utilities, WTR must constantly invest in its infrastructure. Water distribution and treatment quality is critical, and maintenance cannot be overlooked. As interest rates rise, this will put additional pressure on margins (while WTR will be able to increase clients' bills). However, further acquisitions might not be as profitable as they were before. WTR's long-term debt has increased by 70% between 2008 and 2018.

Dividend Growth Perspective

Aqua America shows a very strong dividend growth history with consecutive increases since 2008. While WTR yield is low, its growth rate is impressive. Between 2008 and 2018, the distribution has doubled. Since management is very cautious with the use of its cash flow, WTR shows stable payout ratios (using adjusted numbers, of course!). You can expect additional raises in the upcoming year. Shareholders should see a high-single digit dividend growth.