

**Pennsylvania-American Water Company's  
Utility Valuation Experts' (UVE) Valuation of  
Steelton Borough (Water) Authority  
Dauphin County, Pennsylvania**

**Appraisal Work Papers  
As of July 2018**

**Market Approach**

**AUS Consultants  
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**Pennsylvania-American Water Company  
Steelton Borough (Water) Authority  
Water System  
Investor-Owned Utility  
As of July 1, 2018**

**Market Approach Summary**

	Book Ratios	Purchase Price to Depreciated Original Cost (Book Value)	Indicated Market Value
Comparable Sales			
Depreciated Original Cost (AUS Consultants) OCLD	<b>14,433,434.76</b>	<b>1.5793</b>	<b>22,794,724</b>
Replacement Cost New less Depreciation RCNLD	<b>23,921,472.83</b>	<b>0.9556</b>	<b>22,859,359</b>
Average			<b>22,827,042</b>
Use (RCNLD)			<b>22,859,359</b>
	Market Value per Share to Book Value per Share		
Financial Markets			
Market to Book (equity)	<b>2.61</b>		
Market to Book (equity and debt)	<b>1.77</b>		
Use (equity and debt)	1.77		
	Investor Purchaser Owned Value to Depreciated Original Cost (Book Value)		
Market Conclusion			
	Steelton Borough (Water) Authority		
Steelton Borough (Water) Authority AUS Depreciated Original Cost	<b>14,433,435</b>	<b>1.77</b>	<b>25,547,180</b>
<b>Market Value</b>			Indicated Valus \$s
Minimum			<b>22,794,724</b>
Mean			<b>23,733,754</b>
Median			<b>22,859,359</b>
Maximum			<b>25,547,180</b>
Use (RCNLD)			<b>22,859,359</b>

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**Comparable Sales Approach**

**Market Sales Basis**

Description	New Garden Wastewater System	McKeesport Wastewater System	Limerick Wastewater System	East Braford Wastewater Collection System	Sadbury Wastewater Collection System	Simple Average / Standard Deviation	Remove Outliers Simple Average / Standard Deviation	Weighted Average	Remove Outliers Weighted Average / Standard Deviation	Use
System Description	Wastewater Collection & Treatment	Wastewater Collection & Treatment	Wastewater Collection & Treatment	Wastewater Collection Only	Wastewater Collection Only					
Purchase Price	29,500,000 11%	159,000,000 57%	75,100,000 27%	3,000,000 2%	9,250,000 3%			277,850,000	272,850,000	
Acquirer	Aqua-PA	PA-American	Aqua-PA	Aqua-PA						
Date										
Customers										
Original Cost										
Depreciated Original Cost (AUS Consultants) OCLD	18,567,728	101,915,080	46,153,867	5,383,391	6,128,876			178,149,142	172,765,551	
Purchase Price to OCLD	1.5888	1.5601	1.6272	0.9287	1.5092	1.4428	1.5713	1.5596	1.5793	1.5793
Variance to Simple Mean	0.146	0.1173	0.1844	-0.5141	0.0664	0.2599	0.043			
Variance to Wtd Mean	0.0292	0.0005	0.0676	-0.6309	-0.0504				0.0168	
Replacement Cost New less Depreciation RCNLD	30,615,410	160,301,491	86,086,756	9,236,581	8,517,587			294,757,825	285,521,244	
Purchase Price to RCNLD	0.9636	0.9919	0.8724	0.5413	1.086	0.891	0.9785	0.9426	0.9556	0.9556
Variance to Simple Mean	0.0726	0.1009	-0.0186	-0.3497	0.195	0.1877				
Variance to Wtd Mean	0.021	0.0493	-0.0702	-0.4013	0.1434				0.0263	
						0.2098	0.088			

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July 1, 2018**

**Comparable Sales Approach**

**Financial Basis<sup>1</sup>**

	Industry Averages	American & Aqua Averages	American States Water	American Water	Aqua America	California Water	Connecticut Water	Middlesex Water	SJW Corp	York
Price per Share			39.23	69.05	31.39	26.59	43.81	31.05	36.41	29.87
Book value per share			12.77	28.25	9.78	13.41	20.02	12.74	18.83	8.52
Market to Book Equity Ratio			3.07	2.44	3.21	1.98	2.19	2.44	1.93	3.51
Minimum	1.93	2.44								
Mean	2.60	2.825		2.44	3.21					
Standard Deviation	0.56	0.385								
Weighted Market to Debt Ratio	2.61		5,396.12	46,004.33	23,553.34	3,614.75	2,316.09	1,583.17	2,131.69	1,649.47
Median	2.44	2.825								
Maximum	3.51	3.21								86,248.96
Debt (Total) \$s millions			325.8	6,544.0	1,795.9	352.5	180.5	144.9	418.9	87.3
Outstanding Shares (millions)			36.50	178.28	176.54	47.88	20.02	16.23	18.83	12.81
Debt per share			8.93	36.71	10.17	11.54	9.02	8.93	22.25	6.81
Equity (Total) \$s millions			1,431.90	12,310.23	5,541.59	1,273.13	877.08	503.94	685.60	382.63
Total Capital (Debt + Equity)			1,757.70	18,854.23	7,337.49	1,825.63	1,057.58	648.84	1,104.50	469.93
			0.05	0.57	0.22	0.06	0.03	0.02	0.03	0.01
Market Value per Share (Equity+Debt)			48.16	105.76	41.56	38.13	52.83	39.98	58.66	36.68
Book Value per Share (Equity+Debt)			21.7	64.96	19.95	24.95	29.04	21.67	41.08	15.33
Market to Book (Total Capital) Ratio			2.22	1.63	2.08	1.53	1.82	1.84	1.43	2.39
Minimum	1.43	1.63								
Mean	1.87	1.855		1.63	2.08					
Standard Deviation	0.32	0.225								
Weighted Market to Book (Debt+Equity) Ratio	1.77		3,902.08	30,732.40	15,261.98	2,793.21	1,924.79	1,193.87	1,579.44	1,123.14
Variance to Wtd Mean	0.0817		0.45	(0.14)	0.31	(0.24)	0.05	0.07	(0.34)	0.62
Median	1.83	1.855								
Maximum	2.39	2.08								

1. Value Line Investment Survey July 13, 2018

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Sales Comparison Approach  
Acquisitions by:  
Aqua PA:  
New Garden Township Sewer Authority  
Limerick Wastewater System  
East Bradford Collection System  
PA American:  
McKeesport Wastewater System  
Sadsbury Collection System**

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Acquirer Date	Aqua-PA	PA-American	Aqua-PA	Aqua-PA						
Customers Original Cost										
Depreciated Original Cost (AUS Consultants) OCLD	18,567,728	101,915,080	46,153,867	5,383,591	6,128,876			178,149,142	172,765,551	
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The Water Utility Industry carries one of the lowest Timeliness ranks of any industry under review by *Value Line*.

Prospects for higher short-term interest rates seem likely as the Federal Reserve once again raised the Fed Funds rate and indicated that more hikes are on the way. With yields on Treasury notes maturing by 2021 carrying a higher yield than that of most water utilities stocks, investors could be tempted to switch into fixed-income securities.

In general, the Tax Cuts and Jobs Act will not have a major impact on water utilities' bottom lines. All of the savings will be passed through to customers.

The fundamentals of the industry remain unchanged. Following years of low capital investments, most water utilities are spending heavily to modernized existing pipelines and other facilities.

Regulators continue to play a constructive, non-adversarial role in working with the utilities to improve the nation's water systems.

### Short-Term Interest Rates Are Rising

The Federal Reserve increased the key federal funds rate by 25 basis points last month. Moreover, citing historically low unemployment, the Fed stated that it planned on increasing rates in a gradual manner through 2020. How does this impact water utilities? For starters, dividend paying stocks and fixed-income vehicles have always been in competition for income-oriented investors. Over the past decade, the extraordinary easy monetary policy (along with quantitative easing), had made dividend stocks much more appealing. This is no longer the case, however. The median yield on all dividend paying stocks in the *Value Line* universe is just about 2.0%. Individuals can now purchase an extremely secure three-month Treasury bill and get almost 2%, with as close to zero risk as possible. Moreover, should an investor be willing to extend slightly further out on the yield curve to one- or two-year Treasury notes, yields of 2.31% and 2.54% can be had. As the front end of the curve continues to rise over the next several years, utility stocks may continue to lose much of their former luster.

### The Tax Cuts And Jobs Act

For most U.S.-based companies, the recent TCJA provided a nice boost to the bottom line. Water utilities were not among them, however. Knowing that regulatory commissions would mandate that the tax savings be passed on to customers, water companies simply set up reserve accounts. The surplus funds generated by the tax cut will go straight towards reducing ratepayers bills. Still, we would suggest that the TCJA is not a neutral event. That's because state regulatory commissions are given a little more flexibility when it comes to the next time a water utility in their state seeks rate relief. For example, even if a utility has a very sound reason for higher rates, but water users are already paying high prices, politicians will get push back from their constituents (i.e. voters) to keep their bills down. So, with the consumer benefiting from the tax cut, regulators will have a little more breathing room the next time a petition for higher rates is filed.

## INDUSTRY TIMELINESS: 94 (of 97)

### Industry Fundamentals Remain Unchanged

Following a period in which both water utilities and regulators allowed the condition of the nation's water infrastructure to deteriorate significantly, utilities have been playing catchup over the past decade or so. Thousands of miles of aging pipelines, as well as waste-water projects, are being replaced or refurbished. As a result, capital expenditures are relatively large for most members of this group. This also means that many of the balance sheets are only average, as they have had to rely upon the issuance of new debt to fund their construction projects.

Another trend that continues, (particularly for two of the biggest publicly traded water utilities, *American Water Works* and *Aqua American*) is consolidation. Larger companies are acquiring smaller water districts as a means of expanding the customer base. This strategy has proven profitable to date and we expect it possibly to accelerate. Indeed, there are over 50,000 small, inefficient water districts that could be combined to extract huge cost savings.

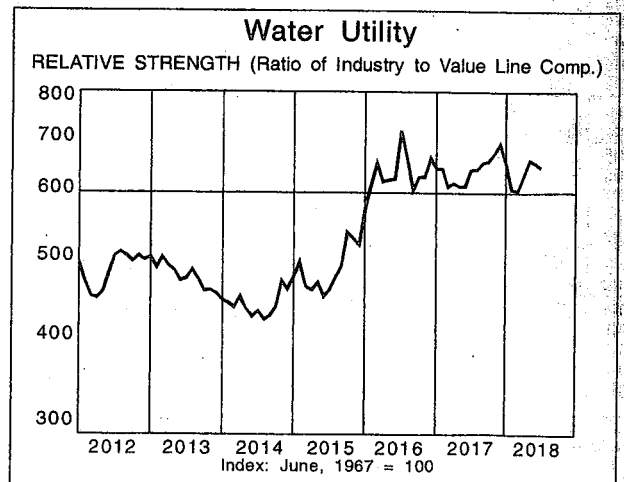
### Regulation

Perhaps the best thing that water utilities have going for them is constructive regulation, as authorities realize that the nation's water systems are in a terrible state and much has to be done to fix the problem. Relations between regulators and utilities can sometimes be hostile as was the case in the electric utility industry in the 1980's and 1990's. Accounts should always keep a close eye on any change in this relationship as state commissions determine the rate of return that a regulated company can earn.

### Conclusion

In general, water utility companies have done pretty well over the past few year. However, the premium that these stocks trade at is starting to seem expensive. While part of this will always be due to the scarcity value (there are only a handful of large-cap stocks in this group), the recent flattening of the front end of treasury yield curve could prove to provide investors with a better alternative.

James A. Flood



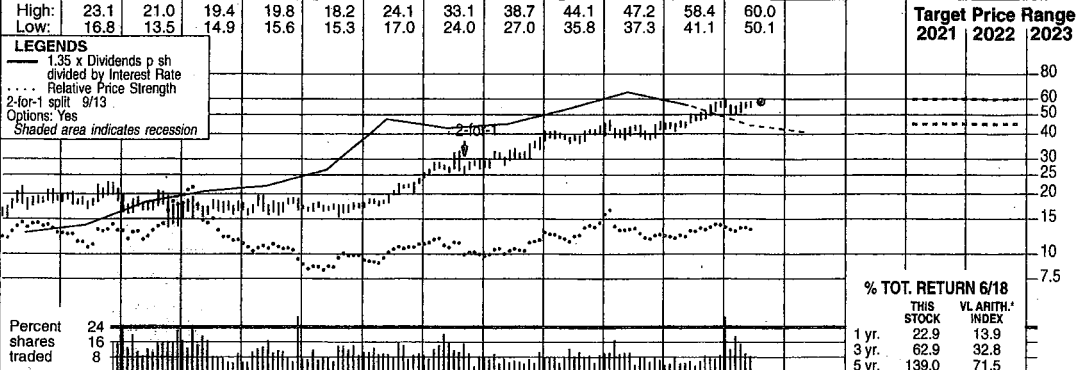
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# AMER. STATES WATER NYSE-AWR

RECENT PRICE **58.12** P/E RATIO **33.2** (Trailing: 31.8 Median: 20.0) RELATIVE P/E RATIO **1.80** DIV'D YLD **1.9%** VALUE LINE **1784**

**TIMELINESS** 4 Lowered 5/18/18  
**SAFETY** 2 Raised 7/20/12  
**TECHNICAL** 3 Lowered 7/6/18  
**BETA** .80 (1.00 = Market)  
**2021-23 PROJECTIONS**  
 Price Gain Ann'l Total  
 High 60 (+5%) 3%  
 Low 45 (-25%) -3%



**Insider Decisions**  
 S O N D J F M A M  
 to Buy 0 0 0 0 0 0 0 0 0  
 to Sell 4 0 2 1 1 1 1 1 1 8  
 Options 3 2 4 0 1 0 4 1 3

**Institutional Decisions**  
 3Q2017 4Q2017 1Q2018  
 to Buy 104 104 113  
 to Sell 77 77 105  
 Hld'g(%) 27850 24143 25895

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	© VALUE LINE PUB. LLC	21-23
6.89	6.99	6.81	7.03	7.88	8.75	9.21	9.74	10.71	11.12	12.12	12.19	12.17	12.56	11.92	12.01	12.65	12.45	Revenues per sh	15.35
1.27	1.04	1.11	1.32	1.45	1.65	1.69	1.70	2.11	2.13	2.48	2.65	2.67	2.81	2.70	2.96	3.05	3.25	"Cash Flow" per sh	4.00
.67	.39	.53	.66	.67	.81	.78	.81	1.11	1.12	1.41	1.61	1.57	1.60	1.62	1.88	1.75	1.90	Earnings per sh <sup>A</sup>	2.45
.44	.44	.44	.45	.46	.48	.50	.51	.52	.55	.64	.76	.83	.87	.91	.99	1.05	1.12	Div'd Decl'd per sh <sup>B</sup>	1.45
1.34	1.88	2.51	2.12	1.95	1.45	2.23	2.09	2.12	2.13	1.77	2.52	1.89	2.39	3.55	3.08	3.40	3.40	Cap'l Spending per sh	3.25
7.02	6.98	7.51	7.86	8.32	8.77	8.97	9.70	10.13	10.84	11.80	12.72	13.24	12.77	13.52	14.45	15.20	15.95	Book Value per sh <sup>D</sup>	17.35
30.36	30.42	33.50	33.60	34.10	34.46	34.60	37.06	37.26	37.70	38.53	38.72	38.29	36.50	36.57	36.68	36.80	37.00	Common Shs Outst'g <sup>C</sup>	37.50
18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.4	14.3	17.2	20.1	24.6	25.6	25.7	25.7	25.7	Avg Ann'l P/E Ratio	22.0
1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	.97	.91	.97	1.06	1.24	1.34	1.29	1.29	1.29	Relative P/E Ratio	1.20
3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%	3.1%	2.7%	2.6%	2.2%	2.2%	2.0%	2.0%	2.0%	Avg Ann'l Div'd Yield	2.8%

**CAPITAL STRUCTURE as of 3/31/18**  
 Total Debt \$390.4 mill. Due in 5 Yrs \$100.7 mill.  
 LT Debt \$281.1 mill. LT Interest \$19.6 mill. (35% of Cap'l)

**Leases, Uncapitalized:** Annual rentals \$2.3 mill.  
**Pension Assets-12/17** \$173.6 mill. Oblig. \$207.7 mill.

**Pfd Stock None**

**Common Stock** 36,733,416 shs. as of 5/1/18

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Revenues (\$mill)	575
318.7	361.0	398.9	419.3	466.9	472.1	465.8	458.6	436.1	440.6	440	450	450	450	450	450	450	450	Net Profit (\$mill)	92.0
26.8	29.5	41.4	42.0	54.1	62.7	61.1	60.5	59.7	69.4	68.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0	Income Tax Rate	23.0%
37.8%	38.9%	43.2%	41.7%	39.9%	36.3%	38.4%	38.4%	36.8%	36.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	AFUDC % to Net Profit	1.0%
6.9%	3.2%	5.8%	2.0%	2.5%	--	--	--	2.5%	--	--	--	--	--	2.5%	--	--	--	Long-Term Debt Ratio	46.0%
46.2%	45.9%	44.3%	45.4%	42.2%	39.8%	39.1%	41.1%	39.4%	38.0%	41.5%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	Net Profit Margin	58.5%
53.8%	54.1%	55.7%	54.6%	57.8%	60.2%	60.2%	60.9%	58.9%	60.6%	58.5%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	Capital Intensity	58.0%
577.0	665.0	677.4	749.1	787.0	818.4	832.6	791.5	815.3	854.9	1010	1125	1250	1310	1250	1310	1310	1310	Total Capital (\$mill)	1200
825.3	866.4	855.0	896.5	917.8	981.5	1003.5	1080.8	1150.9	1205.0	1250	1310	1310	1310	1310	1310	1310	1310	Net Plant (\$mill)	1495
6.4%	5.9%	7.6%	7.1%	8.3%	8.9%	8.6%	9.0%	8.6%	9.3%	8.5%	9.0%	8.6%	9.3%	8.5%	9.0%	8.5%	9.0%	Return on Total Cap'l	9.0%
8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	12.0%	13.0%	12.1%	13.0%	12.0%	12.0%	12.0%	13.0%	12.1%	13.1%	12.0%	12.5%	Return on Shr. Equity	14.0%
8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	12.0%	13.0%	12.1%	13.0%	12.0%	12.0%	12.0%	13.0%	12.1%	13.1%	12.0%	12.5%	Return on Com Equity	14.0%
3.1%	3.2%	5.8%	5.3%	6.6%	6.8%	5.7%	6.0%	5.3%	6.2%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	Retained to Com Eq	6.0%
64%	61%	47%	49%	45%	47%	47%	53%	54%	54%	58%	58%	58%	58%	58%	58%	58%	58%	All Div'ds to Net Prof	59%

**MARKET CAP: \$2.1 billion (Mid Cap)**

**CURRENT POSITION**

	2016	2017	3/31/18
Cash Assets	.4	.2	6.0
Accts. Receivable	20.0	26.1	19.2
Other	146.5	129.2	120.5
Current Assets	166.9	155.5	145.7
Accts Payable	43.7	51.0	38.8
Debt Due	90.3	59.3	109.3
Other	43.9	46.4	48.4
Current Liab.	177.9	156.7	196.5

**BUSINESS:** American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Co., it supplies water to 258,949 customers in 70 cities in 10 counties. Service areas include the metropolitan areas of Los Angeles and Orange Counties. The company also provides electricity to 24,274 customers in Big Bear Lake and San Bernardino Cnty. Provides water & wastewater services to U.S. military bases through its ASUS sub. Sold Chaparral City Wtr. of AZ. (6/11). Employs 758. BlackRock, Inc. owns 11.7% of out. shares; Vanguard, 9.5%; off. & dir. 1.5%. (4/18 Proxy). Chairman: Lloyd Ross. Pres. & CEO: Robert Sprowls. Inc. CA. Addr.: 630 East Foothill Blvd., San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

**ANNUAL RATES** Past 10 Yrs. Past 5 Yrs. Est'd '15-'17 to '21-'23

Revenues	4.5%	1.5%	4.0%
"Cash Flow"	6.5%	4.5%	6.0%
Earnings	9.0%	7.0%	6.0%
Dividends	7.0%	10.5%	8.0%
Book Value	5.0%	4.5%	4.0%

**A recent ruling is hurting American States Water's utility operations.** Earlier this year, California regulators made a decision on Golden States Water's petition for higher rates. Despite being granted a higher return on equity, the permitted return on rate base was lowered. This has had a more meaningful impact on the utility than was expected, and was the main reason for first-quarter results falling short of the consensus.

**We are lowering our near-term earnings estimates.** Management believes that the California authorities' decree will shave \$3.6 million off the top line and reduce share earnings \$0.07 this year. As a result, we have deducted \$0.10 a share from both our 2018 and 2019 earnings expectations.

**Nonregulated activities should do pretty well.** Through its ASUS subsidiary, American States provides water services to 11 U.S. Army bases. As more of these installations are privatized in the coming years, we think ASUS will win its fair share of competitive bids for these 50-year contracts. Responsible for 25% of first-quarter earnings, this percentage ought to

**QUARTERLY REVENUES (\$mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	100.9	114.6	133.0	110.1	458.6
2016	93.5	112.0	123.8	106.8	436.1
2017	98.8	113.2	124.4	104.2	440.6
2018	94.7	114.3	126	105	440
2019	97.0	118	128	107	450

rise in the future. This is good news because profitability in this segment isn't capped, as is the case in the utility sector. **The equity's dividend yield is unattractive relative to its peer group.** Investors purchase water utility stocks for the income they generate. At the recent quote, AWR is yielding less than the Value Line median. Often with issues that have strong dividend growth potential, holders are willing to accept a lower current yield. However, we are now expecting the dividend to be raised only 6% at the next board meeting (being held in early August). Also, since our last report in April, the value of AWR has increased about 10%. By comparison, the S&P 500 Index is up approximately 2%. Moreover, considering that the Federal Reserve is expected to continue raising short-term interest rates into next year, we believe, one- and two-year U.S. Treasury notes may well draw greater interest from those seeking safe income. Thus, some investors may want to take profits now, as AWR is also rated to underperform the market averages in the year ahead.

*James A. Flood* July 13, 2018

**EARNINGS PER SHARE<sup>A</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	.32	.41	.56	.31	1.60
2016	.28	.45	.59	.30	1.62
2017	.34	.62	.57	.35	1.88
2018	.20	.50	.60	.40	1.75
2019	.30	.55	.63	.42	1.90

**QUARTERLY DIVIDENDS PAID<sup>B</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2014	.2025	.2025	.213	.213	.83
2015	.213	.213	.224	.224	.87
2016	.224	.224	.224	.242	.91
2017	.242	.242	.255	.255	.99
2018	.255	.255			

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 7¢; '05, 13¢; '06, 3¢; '08, (14¢); '10, (23¢); '11, 10¢. Next earnings report due early August.

(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.

(C) In millions, adjusted for split.  
 (D) Includes intangibles. As of 12/31/17; \$7.9 million/\$0.22 a share.

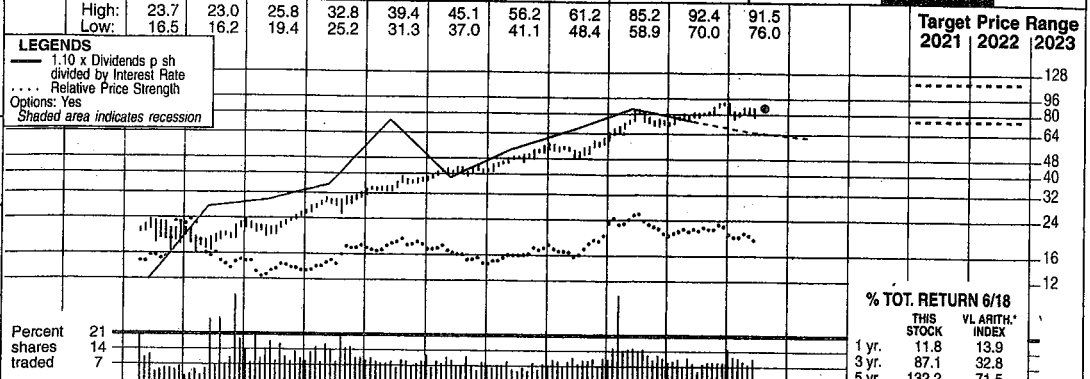
Company's Financial Strength	A
Stock's Price Stability	75
Price Growth Persistence	75
Earnings Predictability	95

**TIMELINESS** 3 Lowered 5/11/18  
**SAFETY** 3 New 7/23/08  
**TECHNICAL** 3 Lowered 7/6/18  
**BETA** .65 (1.00 = Market)

**2021-23 PROJECTIONS**  
 Price Ann'l Total  
 High 115 (+35%) Return  
 Low 75 (-15%) Nil

**Insider Decisions**  
 S O N D J F M A M  
 to Buy 0 0 0 0 0 0 0 0 0  
 Options 0 0 2 0 7 13 2 0 9  
 to Sell 0 0 0 0 0 0 0 0 2

**Institutional Decisions**  
 3Q2017 4Q2017 1Q2018  
 to Buy 262 265 282  
 to Sell 292 237 337  
 Hld's(000) 160782 153130 150336



2002	2003	2004	2005	2006	2007	2008 <sup>F</sup>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	© VALUE LINE PUB. LLC	21-23
--	--	--	--	13.08	13.84	14.61	13.98	15.49	15.18	16.25	16.28	16.78	17.72	18.54	18.81	19.20	20.00	Revenues per sh	22.95
--	--	--	--	.65	d.47	2.87	2.89	3.56	3.73	4.27	4.36	4.75	5.13	5.26	5.14	5.80	6.30	"Cash Flow" per sh	7.70
--	--	--	--	d.97	d2.14	1.10	1.25	1.53	1.72	2.11	2.06	2.39	2.64	2.62	2.38	3.30	3.50	Earnings per sh <sup>A</sup>	4.50
--	--	--	--	--	--	.40	.82	.86	.90	1.21	.84	1.21	1.33	1.47	1.62	1.78	1.95	Div'd Decl'd per sh <sup>B=M</sup>	2.60
--	--	--	--	4.31	4.74	6.31	4.50	4.38	5.27	5.25	5.50	5.33	6.51	7.36	8.04	9.60	9.55	Cap'l Spending per sh	9.20
--	--	--	--	23.86	28.39	25.64	22.91	23.59	24.11	25.11	26.52	27.39	28.25	29.24	30.13	31.75	33.90	Book Value per sh <sup>D</sup>	42.00
--	--	--	--	160.00	160.00	174.63	175.00	175.00	175.66	176.99	178.25	179.46	178.28	178.10	178.44	179.00	180.00	Common Shs Outst'g <sup>C</sup>	187.50
--	--	--	--	--	--	18.9	15.6	14.6	16.8	16.7	19.9	20.0	20.5	27.7	33.8	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	21.5
--	--	--	--	--	--	1.14	1.04	.93	1.05	1.06	1.12	1.05	1.03	1.45	1.70			Relative P/E Ratio	1.20
--	--	--	--	--	--	1.9%	4.2%	3.8%	3.1%	3.4%	2.0%	2.5%	2.5%	2.0%	2.0%			Avg Ann'l Div'd Yield	2.7%

**CAPITAL STRUCTURE as of 3/31/18**  
 Total Debt \$8007.0 mill. Due in 5 Yrs \$2192.0 mill.  
 LT Debt \$6403.0 mill. LT Interest \$320.0 mill.  
 (54% of Cap'l)

**Leases, Uncapitalized:** Annual rentals \$15.0 mill.  
**Pension Assets 12/16** \$1649.0 mill.  
 Oblig. \$2034.0 mill.  
**Pfd Stock** \$7.0 mill. Pfd Div'd \$ .4 mill.

**Common Stock** 178,047,882 shs.  
 as of 4/26/18

**MARKET CAP: \$15.4 billion (Large Cap)**

CURRENT POSITION	2016	2017	3/31/18
Cash Assets	75.0	82.0	81.0
Accts Receivable	269.0	272.0	273.0
Other	440.0	366.0	375.0
Current Assets	784.0	720.0	729.0
Accts Payable	154.0	195.0	133.0
Debt Due	1423.0	1227.0	1604.0
Other	815.0	903.0	802.0
Current Liab.	2392.0	2325.0	2539.0

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '15-'17
of change (per sh)			to '21-'23
Revenues	3.0%	3.5%	4.0%
"Cash Flow"	50.0%	6.0%	7.0%
Earnings	--	7.5%	10.0%
Dividends	--	8.5%	10.0%
Book Value	1.0%	4.0%	6.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2015	698.0	782.0	896.0	783.0	3159.0
2016	743.0	827.0	930.0	802.0	3302.0
2017	756.0	844.0	936.0	821.0	3357.0
2018	761.0	859	975	845	3440
2019	780	890	1050	880	3600

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2015	.44	.68	.96	.56	2.64
2016	.46	.77	.83	.57	2.62
2017	.52	.73	1.12	.01	2.38
2018	.59	.81	1.20	.70	3.30
2019	.60	.88	1.27	.75	3.50

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B=M</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2014	.28	.31	.31	.31	1.21
2015	.31	.34	.34	.34	1.33
2016	.34	.375	.375	.375	1.47
2017	.375	.415	.415	.415	1.62
2018	.415	.455			

**BUSINESS:** American Water Works Company, Inc. is the largest investor-owned water and wastewater utility in the U.S., providing services to over 15 million people in 46 states and Canada. (Regulated presence in 16 states.) Nonregulated business assists municipalities and military bases with the maintenance and upkeep as well. Regulated operations made up 88% of 2017 revenues.

**American Water Works has hiked the quarterly dividend by a generous amount.** Since our last report in April, the board raised the payout by \$0.04 a share to \$0.455 a share. This was at the higher end of the 7%-10% target range. The growth rate was also well above the industry average.

**The method of the company's success is not a mystery.** American Water has been following a simple formula for some time now. By continually purchasing smaller water districts, it can meaningfully reduce operating expenses due to economies of scale. Making this easier is the current state of the water sector in the U.S. Most districts are small and municipally run. Many local governments do not have the financial wherewithal to maintain and replace aging pipelines and waste facilities. In addition, because of the many redundancies in the water operations, American Water can really cut costs and raise operating margins.

**Bottom-line prospects are good for both this year and next.** The company's operating strategy (with a few exceptions) mostly resulting from unusual expenses),

New Jersey is its largest market accounting for 25% of regulated revenues. Has 6,900 employees. The Vanguard Grp, owns 10.4% of outstanding shares; BlackRock, Inc., 7.4%; officers & directors, less than 1.0%. (3/18 Proxy). President & CEO: Susan N. Story. Chair: George MacKenzie. Address: 1025 Laurel Oak Road, Voorhees, NJ 08043. Tel.: 856-346-8200. Internet: www.amwater.com.

has enabled the utility to be more profitable than the rest of the group. This year, we expect share net to recover to \$3.30 and rise another 6% in 2019, to \$3.50.

**The capital budget remains large.** The utility will most likely spend \$1.7 billion annually through early next decade on improving its water assets. External debt will likely aid in funding a decent portion of the expenditures. Still, the company's balance sheet should not deteriorate much. **Certain investors may find these shares of interest.** True, the equity is only expected to keep pace with the market in the year ahead. But, that's not too bad considering the Water Utility Industry ranks among the lowest of all the groups followed by Value Line. Also, investors often have to forfeit a substantial amount of current income when purchasing a stock with healthy dividend growth prospects. In this case, AWK's yield is close to the industry norm. And though total return potential out to 2021-2023 is subpar, that's the case for the entire group. Thus, AWK is a viable option for those investors who must have exposure to the water sector.

*James A. Flood*  
 July 13, 2018

(A) Diluted earnings. Excludes nonrecurr. losses: '08, \$4.62; '09, \$2.63; '11, \$0.07. Disc. oper.: '06, (\$0.04); '11, (\$0.03); '12, (\$0.10); '13, (\$0.01). GAAP used as of 2014, except for

(\$0.65) loss in '17 due to change in tax law. Next earnings report due mid-August. Quarterly earnings do not sum in '16 due to rounding. (B) Dividends paid in March, June, September,

and December. (C) Div. reinvestment available. (D) Includes intangibles. On 12/31/17: \$1.379 billion, \$7.72/share. (E) Pro forma numbers for '06 & '07.

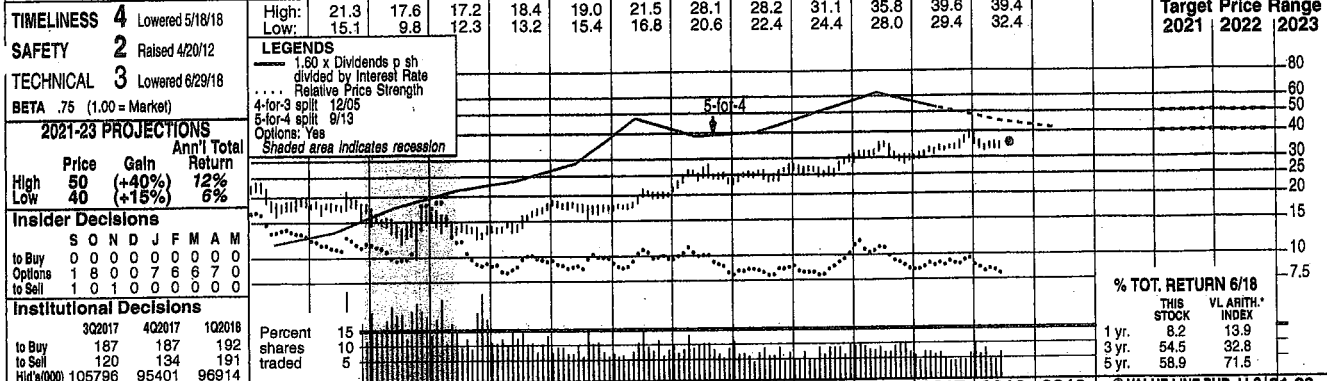
Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	85
Earnings Predictability	90

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# AQUA AMERICA NYSE-WTR

RECENT PRICE **35.44** P/E RATIO **25.3** (Trailing: 26.1; Median: 22.0) RELATIVE P/E RATIO **1.37** DIV'D YLD **2.5%** VALUE LINE **1786**



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2.28	2.38	2.78	3.08	3.23	3.61	3.71	3.93	4.21	4.10	4.32	4.32	4.37	4.61	4.62	4.56	4.75	5.00	5.00	5.00	5.00	5.00
.76	.77	.87	.97	1.01	1.10	1.14	1.29	1.42	1.45	1.51	1.82	1.89	1.87	2.07	2.12	2.20	2.40	2.40	2.40	2.40	2.40
.43	.46	.51	.57	.56	.57	.58	.82	.72	.83	.87	1.16	1.20	1.14	1.32	1.35	1.40	1.50	1.50	1.50	1.50	1.50
.26	.28	.29	.32	.35	.38	.41	.44	.47	.50	.54	.58	.63	.69	.74	.79	.85	.91	.91	.91	.91	.91
.96	1.06	1.23	1.47	1.64	1.43	1.58	1.66	1.89	1.90	1.98	1.73	1.84	2.07	2.16	2.69	2.65	2.65	2.65	2.65	2.65	2.65
3.49	4.27	4.71	5.04	5.57	5.85	6.26	6.50	6.81	7.21	7.90	8.63	9.27	9.78	10.43	11.02	11.00	12.00	12.00	12.00	12.00	12.00
141.49	154.31	158.97	161.21	165.41	166.75	169.21	170.61	172.46	173.60	175.43	177.93	178.59	176.54	177.39	177.71	178.25	178.75	178.75	178.75	178.75	178.75
23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.3	21.9	21.2	20.8	23.5	23.9	24.7	24.7	24.7	24.7	24.7	24.7	24.7
1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.34	1.34	1.39	1.19	1.09	1.18	1.25	1.24	1.24	1.24	1.24	1.24	1.24	1.24
2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	2.8%	2.8%	2.4%	2.5%	2.6%	2.3%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
627.0	670.5	726.1	712.0	757.8	768.6	779.9	814.2	819.9	809.5	850	890	890	890	890	890	890	890	890	890	890	890
97.9	104.4	124.0	144.8	153.1	205.0	213.9	201.8	234.2	239.7	250	270	270	270	270	270	270	270	270	270	270	270
39.7%	39.4%	39.2%	32.9%	39.0%	10.0%	10.5%	6.9%	8.2%	6.6%	9.0%	15.0%	6.5%	6.5%	6.3%	6.3%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
54.1%	55.6%	56.6%	52.7%	52.7%	48.9%	48.5%	50.3%	48.4%	50.6%	51.0%	53.5%	51.0%	50.6%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%
45.9%	44.4%	43.4%	47.3%	47.3%	51.1%	51.5%	49.7%	51.6%	49.4%	49.0%	46.5%	46.5%	46.5%	46.5%	46.5%	46.5%	46.5%	46.5%	46.5%	46.5%	46.5%
2306.6	2495.5	2706.2	2646.8	2929.7	3003.6	3216.0	3469.5	3587.7	3965.4	4250	4600	4600	4600	4600	4600	4600	4600	4600	4600	4600	4600
2997.4	3227.3	3469.3	3612.9	3936.2	4167.3	4402.0	4688.9	5001.6	5399.9	5775	6070	6070	6070	6070	6070	6070	6070	6070	6070	6070	6070
5.7%	5.6%	5.9%	6.9%	6.6%	8.0%	7.8%	6.9%	7.6%	7.1%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	12.9%	11.7%	12.7%	12.2%	12.5%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	12.9%	11.7%	12.7%	12.2%	12.5%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
2.8%	2.7%	3.7%	4.6%	4.3%	6.7%	6.1%	4.7%	5.6%	5.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
70%	72%	65%	60%	61%	50%	52%	60%	56%	59%	59%	61%	61%	61%	61%	61%	61%	61%	61%	61%	61%	61%

**CAPITAL STRUCTURE as of 3/31/18**  
 Total Debt \$2186.8 mill. Due In 5 Yrs \$368.4 mill.  
 LT Debt \$2063.1 mill. LT Interest \$83.0 mill.  
 (51% of Cap'l)

**Pension Assets-12/17 \$270.4 mill.**  
 Oblig. \$321.0 mill.

**Pfd Stock None**  
 Common Stock 177,897,654 shares as of 4/30/18

**MARKET CAP: \$6.3 billion (Large Cap)**

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '15-'17
of change (per sh)			
Revenues	3.5%	2.0%	5.5%
"Cash Flow"	7.0%	6.5%	6.0%
Earnings	8.5%	9.5%	7.5%
Dividends	7.5%	8.0%	9.0%
Book Value	6.5%	7.5%	5.5%

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2015	190.3 205.8 221.0 197.1	814.2
2016	192.6 203.9 226.6 196.8	819.9
2017	187.8 203.4 215.0 203.3	809.5
2018	194.3 215.7 225 215	850
2019	205 225 235 225	890

Cal-endar	EARNINGS PER SHARE A	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2015	.27 .32 .38 .17	1.14
2016	.29 .34 .41 .28	1.32
2017	.28 .34 .43 .30	1.35
2018	.29 .36 .44 .31	1.40
2019	.31 .38 .48 .33	1.50

Cal-endar	QUARTERLY DIVIDENDS PAID B	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2014	.152 .152 .165 .165	.63
2015	.165 .165 .178 .178	.69
2016	.178 .178 .1913 .1913	.74
2017	.1913 .1913 .2047 .2047	.79
2018	.2047 .2047	

**BUSINESS:** Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Has 1,530 employees. Acquired AquaSource, 7/13; North Maine Utilities, 7/15; and others. Water supply revenues '2017: residential, 60%; commercial, 16%; industrial, wastewater & other, 24%. Off. & dir. own less than 1% of the common stock; Vanguard Group, 10.0%; Blackrock, Inc, 8.8%; State Street Capital, 5.0% (3/18 Proxy). President & Chief Executive Officer: Christopher Franklin. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Tel.: 610-525-1400. Internet: www.aquaamerica.com.

**Aqua America is pretty busy on the regulatory front.** Due to its wide geographical base, the water utility is continually involved in rate cases with several state authorities. Indeed, so far in 2018, rate decisions have been made in seven states including Illinois, Indiana, Ohio, and Pennsylvania. Final decisions in four other states are pending, and are expected to be made before yearend.

**Meanwhile, the company is growing through acquisition.** Aqua America is following the same strategy as industry leader American Water Works. That is, the utility is taking advantage of the incredibly fragmented water business to purchase some of the over 50,000 water districts in the U.S. These local entities typically don't have the financial means to spend the funds required to maintain and refurbish their antiquated infrastructure. By absorbing these smaller water districts, Aqua is able to wring significant savings from these operations due to the amount of redundancies in this industry. Most acquisitions are relatively small, so the company has to continually buy a host of small water authorities. We think that Aqua will be able to increase its customer base by at least 3% annually using this strategy.

**Aqua has a large capital budget.** Due in part to all of the M&A activity, the utility will probably spend \$500 million this year on modernizing its water assets. The annual outlays should remain substantial through early next decade.

**The balance sheet remains solid.** Despite the large construction program, Aqua has managed to stay in sound financial strength. Of the nine companies we follow in the industry, it is one of only two that garner an 'A' Financial Strength rating.

**These shares are ranked to underperform the market averages in the year ahead.** Even with the company's improving fundamentals, the equity seems almost fully valued at this juncture. In addition, with the Federal Reserve announcing that it plans on raising short-term rates into 2020, yields on U.S. Treasury notes could be viewed as a more attractive option than utilities. Finally, like almost all members in this group, total return prospects out to 2021-2023 are subpar.

*James A. Flood*  
 July 13, 2018

(A) Diluted eggs. Excl. nonrec. gains: '02, 4¢; '03, 3¢; '12, 18¢. Excl. gain from disc. operations: '12, 7¢; '13, 9¢; '14, 11¢. May not sum due to rounding. Next earnings report due August 1st.  
 (B) Dividends historically paid in early March, June, Sept. & Dec. = Div'd. reinvestment plan available (5% discount).  
 (C) In millions, adjusted for stock splits.

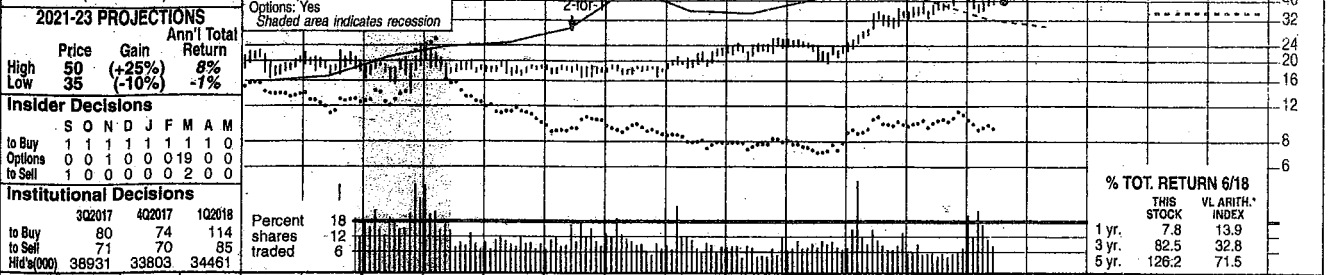
Company's Financial Strength **A**  
 Stock's Price Stability **95**  
 Price Growth Persistence **65**  
 Earnings Predictability **90**

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# CALIFORNIA WATER NYSE-CWT

RECENT PRICE **39.90** P/E RATIO **27.5** (Trailing: 30.0 Median: 20.0) RELATIVE P/E RATIO **1.49** DIV'D YLD **1.9%** VALUE LINE **1787**

TIMELINESS <b>4</b> Lowered 3/9/18	High: 22.7 23.3 24.1 19.8 19.4 19.3 23.4 26.4 26.0 36.8 46.2 45.8	Target Price Range 2021 2022 2023
SAFETY <b>3</b> Lowered 7/27/07	Low: 17.1 13.8 16.7 16.9 16.7 16.8 18.4 20.3 19.5 22.5 32.4 35.3	
TECHNICAL <b>3</b> Lowered 6/23/18	LEGENDS 1.33 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 6/11 Options: Yes Shaded area indicates recession	
BETA .80 (1.00 = Market)		



2021-23 PROJECTIONS		Ann'l Total	
High	Price	Gain	Return
50	35	+25%	8%
Low	35	-10%	-7%

Insider Decisions		Institutional Decisions	
to Buy	to Sell	to Buy	to Sell
1 1 1 1 1 1 1 0	0 0 0 0 0 0 0 0	302017 402017 102018	Percent shares traded
Options	0 1 0 0 0 19 0 0	80 74 114	18 12 14
	1 0 0 0 0 0 2 0 0	71 70 85	6
		Mid's(000)	38931 33803 34461

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	© VALUE LINE PUB. LLC	21-23
8.67	8.18	8.59	8.72	8.10	8.88	9.90	10.82	11.05	12.00	13.34	12.23	12.50	12.29	12.70	13.89	14.10	14.40	Revenues per sh	15.20
1.32	1.26	1.42	1.52	1.36	1.56	1.86	1.93	1.93	2.07	2.32	2.21	2.47	2.22	2.34	3.00	2.80	3.00	"Cash Flow" per sh	3.30
.63	.61	.73	.74	.67	.75	.95	.98	.91	.86	1.02	1.02	1.19	.94	1.01	1.40	1.45	1.65	Earnings per sh A	1.90
.56	.56	.57	.57	.58	.58	.59	.59	.60	.62	.63	.64	.65	.67	.69	.72	.75	.78	Div'd Decl'd per sh B	1.02
2.91	2.19	1.87	2.01	2.14	1.84	2.41	2.66	2.97	2.83	3.04	2.58	2.76	3.69	4.77	5.40	4.35	3.95	Cap'l Spending per sh	3.65
6.56	7.22	7.83	7.90	9.07	9.25	9.72	10.13	10.45	10.76	11.28	12.54	13.11	13.41	13.75	14.44	14.45	15.00	Book Value per sh C	16.70
30.36	33.86	36.73	36.78	41.31	41.33	41.45	41.53	41.67	41.82	41.98	47.74	47.81	47.88	47.97	48.01	48.50	49.00	Common Shs Outst'g D	50.00
19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.7	20.3	21.3	17.9	20.1	19.7	24.8	29.6	26.9	26.9	26.9	Avg Ann'l P/E Ratio	23.0
-1.08	1.26	1.06	1.33	1.58	1.39	1.19	1.31	1.29	1.34	1.14	1.13	1.04	1.25	1.55	1.34	1.34	1.34	Relative P/E Ratio	1.25
4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%	3.2%	3.4%	3.5%	3.1%	2.8%	2.9%	2.3%	1.9%	1.9%	1.9%	Avg Ann'l Div'd Yield	2.4%

**CAPITAL STRUCTURE as of 3/31/18**  
 Total Debt \$798.7 mill. Due in 5 Yrs \$291.0 mill.  
 LT Debt \$515.7 mill. LT Interest \$36.0 mill. (43% of Cap'l).  
 Pension Assets-12/17 \$460.9 mill. Oblig. \$671.3 mill.  
 Pfd Stock None  
 Common Stock 48,074,000 shs.

MARKET CAP: \$1.9 billion (Mid Cap)			
CURRENT POSITION (\$MILL.)			
Cash Assets	25.5	94.8	34.7
Other	116.6	133.1	131.1
Current Assets	142.1	227.9	165.8
Accts Payable	77.8	94.0	73.6
Debt Due	123.3	291.0	281.0
Other	49.1	106.0	109.7
Current Liab.	250.2	491.0	464.3

ANNUAL RATES Past		Past Est'd '15-'17	
of change (per sh)	10 Yrs.	5 Yrs.	'15-'17
Revenues	4.0%	1.5%	2.5%
"Cash Flow"	5.5%	3.5%	4.5%
Earnings	4.5%	4.0%	9.5%
Dividends	2.0%	2.5%	6.5%
Book Value	4.5%	5.0%	3.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.) <sup>E</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2015	122.0	144.4	183.5	138.5	588.4
2016	121.7	152.4	184.3	151.0	609.4
2017	122.1	171.1	211.7	162.0	666.9
2018	132.2	173	215	164.8	685
2019	135	180	220	170	705

Cal-endar	EARNINGS PER SHARE A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2015	.03	.21	.52	.18	.94
2016	d.02	.24	.48	.31	1.01
2017	.02	.39	.70	.29	1.40
2018	d.05	.42	.73	.35	1.45
2019	.11	.45	.74	.35	1.65

Cal-endar	QUARTERLY DIVIDENDS PAID B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2014	.1625	.1625	.1625	.1625	.65
2015	.1675	.1675	.1675	.1675	.67
2016	.1725	.1725	.1725	.1725	.69
2017	.18	.18	.18	.18	.72
2018	.1875	.1875			

**BUSINESS:** California Water Service Group provides regulated and nonregulated water service to 484,900 customers in 100 communities in the state of California. Accounts for over 94% of total customers. Also operates in Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Ac-

**California Water Service Group's profits should rebound in the second quarter.** The regulated and nonregulated water provider posted a net loss of \$0.05 in the March interim. Several factors, including higher wages and benefit costs, general operating expenses (water production), as well as an unforeseen water main break in the San Francisco area weighed on results. Nevertheless, we expect that earnings recovered nicely in the recently ended second quarter, to \$0.42 a share. That said, the miss has spurred us to shave a dime from our current-year bottom-line estimate, to \$1.45 a share.

**Revenues are still on track to rise.** Indeed, recent rate increases for customers and recoverable production costs played a role in the first quarter's 8% year-over-year advance. This was able to offset a \$1.2 million revenue reduction associated with cost of capital adjustment. On balance, our call for modest top-line improvement in this year and next remains unaltered.

**The company made an attempt to acquire SJW Group.** Subsequent to the merger announcement of SJW Group and

quired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '17: residential, 72%; business, 19%; industrial, 4%; public authorities, 4%; other 1%. Off. and dir. own 1% of common stock (4/18 proxy). Has 1,163 employees. Pres. and CEO: Martin A. Kropelnicki Inc.: DE. Addr.: 1720 North First St., San Jose, CA 95112-4598. Tel.: 408-367-8200. Internet: www.calwatergroup.com.

Connecticut Water, CWT stepped in with an unsolicited all-cash tender offer for the former, worth \$68.25 a share. However, the bid was immediately rejected, despite the lofty premium at the time of the proposal. Connecticut Water's go-shop period has come to an end, and both sides have reiterated their desires for a deal, thus shutting the door on California's efforts. Looking forward, we do not think there is any acquisition activity on the horizon.

**But abundant capital investments are likely on tap over the long haul.** California ought to stick to its plan to heavily invest in its aging infrastructure. Old water mains and pipes, as well as inefficient treatment plants, need to be brought up to speed. This should help reduce operating costs and prevent future uninsured losses from water main breaks.

**This equity lacks investment appeal at this juncture.** CWT shares are pegged to underperform the year-ahead broader market (Timeliness: 4). Moreover, total return potential over the three- to five-year stretch is nothing to write home about at the recent quotation.

Nicholas P. Patrikis July 13, 2018

(A) Basic EPS. Excl. nonrecurring gain (loss): '02, 4c; '11, 4c. Next earnings report due late August.  
 (B) Dividends historically paid in late Feb., May, Aug., and Nov. = Div'd reinvestment plan available.  
 (C) Incl. intangible assets. In '17: \$24.8 mill., \$0.52/sh.  
 (D) In millions, adjusted for splits.  
 (E) Excludes non-reg. rev.

Company's Financial Strength	B++
Stock's Price Stability	75
Price Growth Persistence	35
Earnings Predictability	65

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# CONNECTICUT WATER NDQ-CTWS

RECENT PRICE **66.20** P/E RATIO **35.8** (Trailing: 39.6 Median: 20.0) RELATIVE P/E RATIO **1.95** DIV'D YLD **1.9%** VALUE LINE **1788**

TIMELINESS — Suspended 3/23/18  
SAFETY **3** New 1/18/13  
TECHNICAL — Suspended 3/23/18  
BETA .65 (1.00 = Market)

2021-23 PROJECTIONS

High	Low	Price	Gain	Ann'l Total Return
65	45	(Nil)	2%	-6%

Insider Decisions

S	O	N	D	J	F	M	A	M
0	0	0	0	0	0	0	0	0

Institutional Decisions

3Q2017	4Q2017	1Q2018	Percent shares traded
54	53	59	12
45	33	58	8
6356	5642	6062	4

% TOT. RETURN 6/18

THIS STOCK	VS. S&P 500
1 yr. 20.1	13.9
3 yr. 105.0	32.8
5 yr. 159.0	71.5

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
5.77	5.91	6.04	5.81	5.68	7.05	7.24	6.93	7.65	7.93	9.47	8.29	8.45	8.58	8.77	8.87	9.45	9.95	10.45	10.95	11.45	11.95
1.78	1.89	1.91	1.62	1.52	1.90	1.95	1.93	2.04	2.11	2.64	2.63	2.97	3.18	3.31	3.39	3.85	4.35	4.85	5.35	5.85	6.35
1.12	1.15	1.16	.88	.81	1.05	1.11	1.19	1.13	1.13	1.53	1.66	1.92	2.04	2.08	2.13	1.85	2.40	2.90	3.40	3.90	4.40
.81	.83	.84	.85	.86	.87	.88	.90	.92	.94	.96	.98	1.01	1.05	1.12	1.18	1.24	1.30	1.36	1.42	1.48	1.54
1.98	1.49	1.58	1.96	1.96	2.24	2.44	3.28	3.06	2.61	2.79	3.02	4.11	4.29	5.93	4.39	4.45	4.00	3.35	2.70	2.05	1.40
10.06	10.46	10.94	11.52	11.60	11.95	12.23	12.67	13.05	13.50	20.95	17.92	18.83	20.01	20.98	24.34	24.70	25.70	26.70	27.70	28.70	29.70
7.94	7.97	8.04	8.17	8.27	8.38	8.46	8.57	8.68	8.76	8.85	11.04	11.12	11.19	11.25	12.07	12.15	12.25	12.35	12.45	12.55	12.65
24.3	23.5	22.9	28.6	29.0	23.0	22.2	18.4	20.7	23.0	19.4	18.4	17.5	17.6	23.3	26.5	29.7	32.9	36.1	39.3	42.5	45.7
1.33	1.34	1.21	1.52	1.57	1.22	1.34	1.23	1.32	1.44	1.23	1.03	.92	.89	1.22	1.33	1.44	1.55	1.66	1.77	1.88	1.99
3.0%	3.0%	3.1%	3.4%	3.6%	3.6%	3.6%	4.1%	3.9%	3.6%	3.2%	3.2%	3.0%	2.9%	2.3%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%

CAPITAL STRUCTURE as of 3/31/18

Total Debt \$258.4 mill.	Due in 5 Yrs \$6.2 mill.	LT Debt \$252.2 mill.	LT Interest \$9.0 mill.	(46% of Cap'l)
--------------------------	--------------------------	-----------------------	-------------------------	----------------

Leases, Uncapitalized: Annual rentals \$3 mill.  
Pension Assets-12/17 \$73.1 mill.  
Oblig. \$88.6 mill.

Pfd Stock \$0.8 mill. Pfd Divd NMF

Common Stock 12,089,125 shs.

MARKET CAP: \$800 million (Small Cap)

CURRENT POSITION (\$MILL.)

2016	2017	3/31/18
1.6	3.6	4.0
13.0	15.0	12.8
14.8	17.1	19.4
29.4	35.7	36.2
13.1	11.3	6.9
4.9	6.2	6.2
37.1	24.0	34.0
55.1	41.5	47.1

ANNUAL RATES of change (per sh)

Past 10 Yrs.	Past 5 Yrs.	Est'd '15-'17
3.5%	1.0%	6.5%
7.0%	8.0%	5.5%
8.5%	10.5%	5.5%
2.5%	3.5%	5.5%
6.5%	6.5%	3.5%

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	20.0	26.6	28.4	21.0	96.0
2016	21.6	26.1	29.5	21.5	98.7
2017	22.5	27.9	31.8	24.9	107.1
2018	24.9	30.0	33.5	26.6	115
2019	27.0	32.0	35.0	28.0	122

EARNINGS PER SHARE ^

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	.28	.77	.79	.20	2.04
2016	.28	.89	.84	.07	2.08
2017	.36	.73	.90	.14	2.13
2018	0.10	.77	.93	.25	1.85
2019	.38	.80	.95	.27	2.40

QUARTERLY DIVIDENDS PAID ^

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2014	.2475	.2475	.2575	.2575	1.01
2015	.2575	.2575	.2675	.2675	1.05
2016	.2675	.2825	.2825	.2825	1.12
2017	.2825	.2975	.2975	.2975	1.18
2018	.2975	.3125			

**Connecticut Water's all-stock merger with SJW Group, announced early this year, appears to be back on track.** There has been a bit of noise surrounding the transaction, specifically an amended 45-day go-shop provision in which Connecticut could have solicited offers from other parties. This period has since ended, and no proposals of interest have been officially received. However, prior to the above-mentioned go-shop process, news broke that California Water Service made a sizable cash offer for SJW Group (\$68.25 per share), which subsequently sent SJW stock markedly higher. On a similar note, Eversource Energy attempted to enter the race with a bid (which was promptly rejected) for Connecticut Water. To reiterate the deal points, CTWS shareholders would receive 1.1375 shares of SJW Group common stock (merger is currently valued at \$77.20) for each share of CTWS stock held. Overall, the board of directors from both entities are now fully behind the merger, and are presently moving forward to secure shareholder and regulatory approval. The transaction is expected to close by the end of 2018.

**The deal with SJW ought to create significant value on several fronts.** The combined company would be the third-largest investor-owned water utility in the U.S., spanning Connecticut, Texas, Maine, and California. Indeed, the total geographic customer base would expand noticeably, with operational efficiency and customer service likely to improve from scale. Moreover, capital investments are poised to continue over the long haul, as both companies already have strategic plans in motion to boost spending on water mains, treatment plants, and other aging infrastructure. Connecticut is on track to spend nearly \$70 million this year on upgrades. At the recent quotation, there is still some near-term upside to Connecticut Water's stock price. This issue is unranked for Timeliness due to the pending merger but, based on SJW's recent price, shares of CTWS are trading at roughly a 15% discount to the deal's valuation. We think it would be wise for investors, both short and long term, to hold on to their shares, for now.

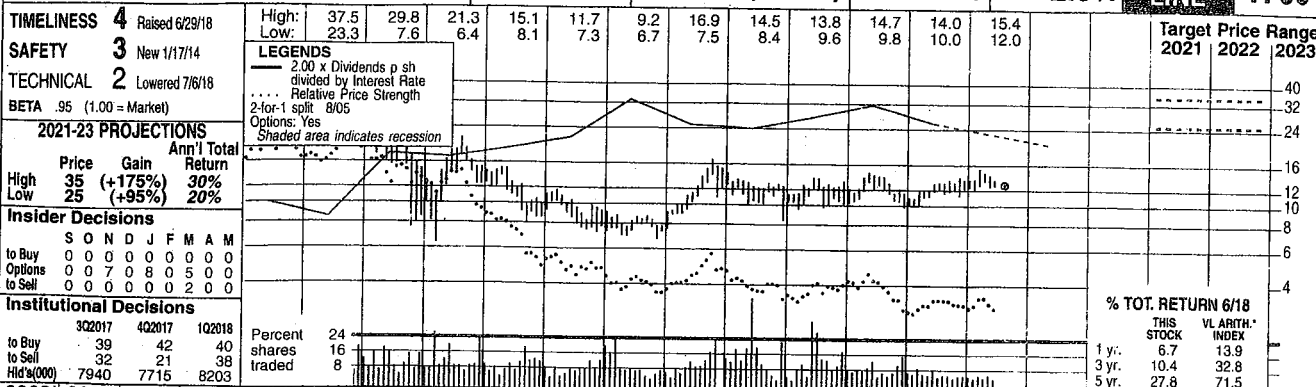
Nicholas P. Patrikis July 13, 2018

Company's Financial Strength B+  
Stock's Price Stability 85  
Price Growth Persistence 50  
Earnings Predictability 85

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# CONSOL. WATER CO. NDQ-CWCO

RECENT PRICE **12.75** P/E RATIO **21.3** (Trailing: 34.5) (Median: 25.5) RELATIVE P/E RATIO **1.16** DIV'D YLD **2.8%** VALUE LINE **1789**



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	20	21	22	23
1.52	1.68	2.02	1.12	2.71	3.41	4.52	3.99	3.49	3.79	4.49	4.35	4.46	3.86	3.89	4.18	4.05	4.20	Revenues per sh	10.00		
.50	.63	.77	.37	.87	1.20	.95	1.18	.86	.83	1.17	.96	.80	.89	.95	1.12	1.05	1.15	"Cash Flow" per sh	1.90		
.32	.42	.49	.23	.59	.79	.50	.74	.43	.42	.64	.58	.42	.51	.27	.41	.60	.70	Earnings per sh A	1.30		
.21	.21	.23	.12	.24	.20	.33	.28	.30	.30	.30	.30	.30	.30	.30	.31	.35	.40	Div'd Decl'd per sh B	.65		
.39	.19	.24	.77	1.83	.54	.46	.18	.09	.96	.31	.29	.32	.21	.23	.31	.20	.20	Cap'l Spending per sh	1.90		
2.64	3.89	4.20	2.54	7.49	8.21	8.36	8.53	8.69	8.83	9.20	9.44	9.58	9.81	9.79	9.91	10.45	11.15	Book Value per sh C	12.50		
7.99	11.37	11.51	23.46	14.13	14.40	14.53	14.54	14.55	14.57	14.59	14.69	14.72	14.78	14.87	14.92	15.00	15.25	Common Shs Quist'g C	16.00		
21.6	19.3	23.1	80.0	43.0	35.4	37.8	19.0	26.9	22.4	12.4	20.0	28.3	22.7	44.8	29.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	22.5		
1.18	1.10	1.22	4.26	2.32	1.88	2.27	1.27	1.71	1.41	.79	1.12	1.49	1.14	2.35	1.41			Relative P/E Ratio	1.25		
3.1%	2.6%	2.0%	.7%	.9%	1.7%	2.0%	2.0%	2.6%	3.2%	3.8%	2.6%	2.3%	2.5%	2.6%	2.6%			Avg Ann'l Div'd Yield	2.2%		
<b>CAPITAL STRUCTURE as of 3/31/18</b>				65.7	58.0	50.7	55.2	65.5	63.8	65.6	57.1	57.9	62.3	61.0	64.0	Revenues (\$mill)	160				
Total Debt \$3 mill. Due in 5 Yrs \$0.3 mill.				7.2	10.8	6.3	6.1	9.3	8.6	6.3	7.5	4.0	6.1	9.0	10.5	Net Profit (\$mill)	21.0				
LT Debt None				--	--	--	--	--	--	--	--	--	--	NMF	NMF	Income Tax Rate	NMF				
Leases, Uncapitalized: Annual rentals \$6 mill.				--	--	--	4.0%	--	--	--	--	--	--	NMF	NMF	AFUDC % to Net Profit	NMF				
<b>No Defined Benefit Pension Plan</b>				14.8%	13.8%	11.8%	5.1%	3.7%	--	--	--	3.7%	--	Nil	Nil	Long-Term Debt Ratio	Nil				
<b>Pfd Stock NMF (33,488 shares out.) Div'd NMF</b>				85.2%	86.2%	88.2%	94.9%	96.3%	99.8%	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%	Common Equity Ratio	100%				
<b>Common Stock 14,959,309 shs. as of 5/4/18</b>				142.7	143.9	143.3	135.6	139.4	138.9	141.2	145.0	145.6	147.9	157	170	Total Capital (\$mill)	200				
<b>MARKET CAP: \$200 million (Small Cap)</b>				65.1	61.2	56.2	64.3	61.6	58.6	56.4	53.7	51.0	55.0	55.0	60.0	Net Profit (\$mill)	125				
<b>CURRENT POSITION</b>				5.7%	8.1%	4.9%	5.0%	7.0%	6.2%	4.4%	5.2%	2.7%	4.2%	5.5%	6.0%	Return on Total Cap'l	10.5%				
<b>Cash Assets</b>				5.9%	8.7%	5.0%	4.7%	6.9%	6.2%	4.4%	5.2%	2.7%	4.2%	5.5%	6.0%	Return on Shr. Equity	10.5%				
<b>Accts Receivable</b>				5.9%	8.7%	5.0%	4.7%	6.9%	6.2%	4.4%	5.2%	2.7%	4.1%	5.5%	6.0%	Return on Com Equity	10.5%				
<b>Other</b>				2.8%	4.6%	1.5%	1.0%	3.6%	3.0%	1.2%	2.1%	NMF	1.1%	2.5%	2.5%	Retained to Cum Eq	5.0%				
<b>Current Assets</b>				52%	46%	69%	79%	48%	51%	73%	59%	112%	73%	58%	57%	All Div'ds to Net Prof	50%				
<b>Accts Payable</b>				<b>BUSINESS:</b> Consolidated Water Co. Ltd. develops and operates seawater desalination plants and water distribution systems in areas where naturally occurring supplies of potable water are scarce or nonexistent. Its desalination process involves reverse osmosis tech. It provides water in the Cayman Islands, Belize, the Bahamas, the British Virgin Islands, and Bali. At 12/31/17, it opera-																	
<b>Debt Due</b>				<b>Operations in the Caribbean remain the heart of the business.</b> Through subsidiaries, Consolidated uses desalination plants to provide water to several countries in this region. In the first quarter, the Cayman Islands represented 42% of the company's total revenues, and 51% of its operating profit. Relations with regulators here have not always been smooth. A new agency named "OfReg" was established two years ago, and it is yet to be seen if a long-term deal can be reached between the two parties. The company has a small, but pristine, balance sheet. At the end of the first quarter, all debt outstanding totaled only \$0.3 million. Moreover, the company had almost \$44 million in cash on hand, or close to \$3 a share. These shares offer the highest potential total returns in the group, but also the greatest downside. CWCO builds projects in which it is not guaranteed a return on the assets, as is the case with the other members in this industry. Therefore, this stock may carry too much uncertainty for a typical utility investor. James A. Flood July 13, 2018																	
<b>Other</b>				<b>Consolidated Water's Aerex subsidiary isn't doing well.</b> CWCO owns 51% of this business, which manufactures custom and speciality products, as well as provides designing and engineering services, for municipal systems. The fundamentals of this market are excellent as many water utilities, after deferring capital improvement for decades, are now spending heavily to upgrade and refurbish existing pipelines. Since becoming involved in Aerex, results have not matched expectations, however. Sales have been declining, forcing a recent writedown (noncash) in the value of the company. The news out of Mexico remains encouraging. Consolidated has been working for some time on planning a large desalination plant to provide water mostly to Tijuana. The city's population has been expanding, and there is a need for more potable water. In March, the company found two partners, including Suez International, a global leader in water treatment, to form a joint venture. Having such a credible associate has greatly reduced the risk related to the construction of the Rosarito plant.																	
<b>Current Liab.</b>				<b>Consolidated Water's Aerex subsidiary isn't doing well.</b> CWCO owns 51% of this business, which manufactures custom and speciality products, as well as provides designing and engineering services, for municipal systems. The fundamentals of this market are excellent as many water utilities, after deferring capital improvement for decades, are now spending heavily to upgrade and refurbish existing pipelines. Since becoming involved in Aerex, results have not matched expectations, however. Sales have been declining, forcing a recent writedown (noncash) in the value of the company. The news out of Mexico remains encouraging. Consolidated has been working for some time on planning a large desalination plant to provide water mostly to Tijuana. The city's population has been expanding, and there is a need for more potable water. In March, the company found two partners, including Suez International, a global leader in water treatment, to form a joint venture. Having such a credible associate has greatly reduced the risk related to the construction of the Rosarito plant.																	

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	14.7	14.4	14.6	13.4	57.1
2016	14.0	15.4	14.4	14.1	57.9
2017	15.6	15.3	16.6	14.8	62.3
2018	14.3	15.5	15.5	15.7	61.0
2019	16.0	16.0	16.0	16.0	64.0

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	.13	.15	.12	.11	.51
2016	.15	.15	d.13	.10	.27
2017	.18	.11	.08	.04	.41
2018	.14	.17	.16	.13	.60
2019	.19	.18	.17	.16	.70

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2014	.075	.075	.075	.075	.30
2015	.075	.075	.075	.075	.30
2016	.075	.075	.075	.075	.30
2017	.075	.075	.075	.075	.30
2018	.085	.085	.085	.085	.30

(A) Fully diluted earnings. Excludes losses from discontinued operations: '17, \$0.08 a share. Next earnings report due mid-August.  
 (B) Dividends historically paid in late January.  
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April, July, and October. ■ Dividend reinvestment plan available.  
 (C) In millions adjusted for stock split.  
 (D) Includes intangibles. As of 12/31/17, \$12.1

million/\$0.81 a share.

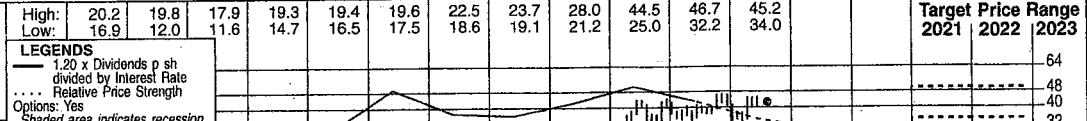
Company's Financial Strength	B+
Stock's Price Stability	30
Price Growth Persistence	20
Earnings Predictability	45

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# MIDDLESEX WATER NDO-MSEX

RECENT PRICE **42.37** P/E RATIO **28.2** (Trailing: 28.6 Median: 20.0) RELATIVE P/E RATIO **1.53** DIV'D YLD **2.1%** VALUE LINE **1790**

**TIMELINESS** 3 Raised 3/23/18  
**SAFETY** 2 New 10/21/11  
**TECHNICAL** 3 Lowered 6/29/18  
**BETA** .80 (1.00 = Market)



**2021-23 PROJECTIONS**

	Price	Gain	Ann'l Total Return
High	50	(+20%)	7%
Low	35	(-15%)	-2%

**Insider Decisions**

	S	O	N	D	J	F	M	A	M
To Buy	0	0	0	0	0	0	0	0	0
To Sell	1	1	1	1	0	0	0	0	1

**Institutional Decisions**

	3Q2017	4Q2017	1Q2018
To Buy	46	49	49
To Sell	41	36	57
Hrs(1000)	9500	8418	8601

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Price	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.80	6.50	6.98	7.19	7.26	7.77	8.16	8.00	8.20	8.50
Cash Flow	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.46	1.56	1.72	1.84	1.97	2.17	2.24	2.40	2.55
Earnings	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.90	1.03	1.13	1.22	1.38	1.38	1.50	1.65
Dividends	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	.76	.78	.81	.86	.91	.96
Capex	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.36	1.26	1.40	1.59	2.91	3.08	3.05	3.00
Book Value	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	12.24	12.74	13.40	14.02	14.85	15.15
Common Shs	10,336	10,48	11,36	11,58	13,17	13,25	13,40	13,52	15,57	15,70	15,82	15,96	16,12	16,23	16,30	16,35	16,50	16,75
P/E Ratio	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.7	20.8	19.7	18.5	19.1	25.6	28.4	25.0	25.0
Relative P/E	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.36	1.32	1.11	.97	.96	1.34	1.43	1.34	1.34
Yield	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%	3.7%	3.3%	2.3%	2.2%	2.3%	2.2%

**CAPITAL STRUCTURE as of 3/31/18**  
 Total Debt \$174.6 mill. Due in 5 Yrs \$34.9 mill.  
 LT Debt \$140.1 mill. LT Interest \$5.5 mill.  
 (Total interest coverage: 9.5x)  
 (38% of Cap'l)

**Pension Assets-12/17 \$69.2 mill.**  
 Oblig. \$88.0 mill.  
 Pfd Stock \$2.4 mill. Pfd Div'd: \$.1 mill.

**Common Stock 16,359,184 shs.**  
 as of 4/30/18

**MARKET CAP: \$700 million (Small Cap)**

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	91.0	91.2	102.7	102.1	110.4	114.8	117.1	126.0	132.9	130.8	135	142	160	160	160	160	160	160
Net Profit	12.2	10.0	14.3	13.4	14.4	16.6	18.4	20.0	22.7	22.8	25.0	27.5	35.5	35.5	35.5	35.5	35.5	35.5
Income Tax	33.2%	34.1%	32.1%	32.7%	33.9%	34.1%	35.0%	34.5%	34.0%	32.7%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
AFUDC %	6.8%	6.1%	3.4%	1.9%	1.7%	1.9%	2.7%	3.1%	2.5%	2.0%	2.0%	2.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Long-Term Debt Ratio	45.6%	46.6%	43.1%	42.3%	41.5%	40.4%	39.4%	37.9%	37.9%	37.5%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
Common Equity Ratio	51.0%	52.1%	55.8%	56.6%	57.4%	58.7%	58.8%	59.8%	61.5%	61.8%	62.5%	62.5%	62.5%	62.5%	62.5%	62.5%	62.5%	62.5%
Total Capital	259.4	267.9	310.5	312.5	316.5	321.4	335.8	345.4	355.4	370.7	390	410	460	460	460	460	460	460
Net Plant	366.3	376.5	405.9	422.2	435.2	446.5	461.9	481.9	517.8	557.2	565	575	600	600	600	600	600	600
Return on Total Cap'l	5.8%	5.0%	5.7%	5.2%	5.4%	5.9%	6.3%	6.6%	7.1%	6.9%	7.0%	7.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Return on Shr. Equity	6.6%	7.0%	8.1%	7.5%	7.8%	8.7%	9.2%	9.6%	10.3%	9.8%	10.0%	11.0%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Return on Com Equity	8.9%	7.0%	8.2%	7.5%	7.8%	8.7%	9.3%	9.6%	10.3%	9.9%	10.0%	11.0%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Retained to Com Eq	2.0%	.1%	2.1%	1.0%	1.4%	2.4%	3.1%	3.5%	4.3%	3.8%	4.0%	4.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
All Div'ds to Net Prof	78%	98%	75%	87%	83%	73%	67%	63%	58%	62%	61%	58%	53%	53%	53%	53%	53%	53%

**CURRENT POSITION (SMILL)**

	2016	2017	3/31/18
Cash Assets	3.9	4.9	2.0
Other	22.8	24.3	23.2
Current Assets	26.7	29.2	25.2
Accts Payable	12.3	13.9	11.0
Debt Due	18.2	34.9	34.5
Other	16.6	15.7	18.5
Current Liab.	47.1	64.5	64.0

**BUSINESS:** Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 61,000 retail customers, primarily in Middlesex County, New Jersey. In 2017, the Middlesex System accounted for 58% of operating revenues. At 12/31/17, the company had 315 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers & directors own 3.5% of the common stock; BlackRock Institutional Trust Co., 6.4% (4/18 proxy). Add: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

**Middlesex Water stock has regained some ground over the past three months.** Shares of the Northeast water provider struggled in the early part of this year, but have been performing better of late. Since our April review, they are up more than 15% in value, and are trading just several points shy of their recently etched all-time high price. At this time, it appears the market is pricing in a good amount of MSEX's anticipated top- and bottom-line growth, which includes a lower corporate tax bill, as well as recently approved water rate hikes. (The latter took effect April 1st, and ought to be evident in the second quarter).

**First-quarter financial results were mixed.** The company generated revenues of \$31.2 million, about 4% higher than the previous-year tally, due largely to a wider Delaware customer base and increased water usage from industrial and commercial customers in New Jersey. Meantime, earnings of \$0.27 a share came in flat, year over year, as an uptick in operation and maintenance expenses (increased production costs and unforeseen weather-related expenses) kept the lid on the bot-

**ANNUAL RATES of change (per sh)**

	Past 10 Yrs.	Past 5 Yrs.	Est'd '15-'17 to '21-'23
Revenues	2.5%	3.5%	3.0%
"Cash Flow"	4.5%	7.0%	7.0%
Earnings	5.0%	8.0%	8.0%
Dividends	2.0%	2.0%	5.5%
Book Value	3.5%	3.5%	4.0%

tom line. Consequently, we now look for revenues of \$135 million (down \$1 million from our prior call) and share net of \$1.50 (down \$0.05) this year.

**Investments in its aging infrastructure are under way.** Middlesex has kicked off its capital spending program, known as "Water For Tomorrow," with a \$52 million project along its New Jersey territory. The construction of the Western Transmission Main will supplement its existing main, which services 300,000 customers through Middlesex County. Over the next five years, the company has earmarked approximately \$300 million to the program in an effort to increase efficiency and ultimately lower costs across its water delivery systems.

**At the current valuation, this issue does not stand out.** The recent run-up in price has eroded most of the gains we envision over the pull to next decade. Too, MSEX stock is neutrally ranked for the year ahead, and the dividend yield is only average. All told, we continue to recommend investors exercise patience and wait for a better entry point.

*Nicholas P. Patrikis* July 13, 2018

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2015	28.8	31.7	34.7	30.8	126.0
2016	30.6	32.7	37.8	31.8	132.9
2017	30.1	33.0	36.2	31.5	130.8
2018	31.2	34.0	37.5	32.3	135
2019	33.0	36.0	39.0	34.0	142

Cal-endar	EARNINGS PER SHARE ^				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2015	.22	.31	.41	.28	1.22
2016	.29	.36	.54	.19	1.38
2017	.27	.33	.46	.32	1.38
2018	.27	.35	.55	.33	1.50
2019	.32	.39	.59	.35	1.65

Cal-endar	QUARTERLY DIVIDENDS PAID ^				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2014	.19	.19	.19	.1925	.76
2015	.1925	.1925	.1925	.19875	.78
2016	.19875	.19875	.19875	.21125	.81
2017	.21125	.21125	.21125	.22375	.86
2018	.22375	.22375			

**Company's Financial Strength** B++  
**Stock's Price Stability** 65  
**Price Growth Persistence** 40  
**Earnings Predictability** 80

(A) Diluted earnings. Next earnings report due early August.  
 (B) Dividends historically paid in mid-Feb., May, Aug., and November. Div'd reinvestment plan available.  
 (C) In millions.

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# YORK WATER NDQ-YORW

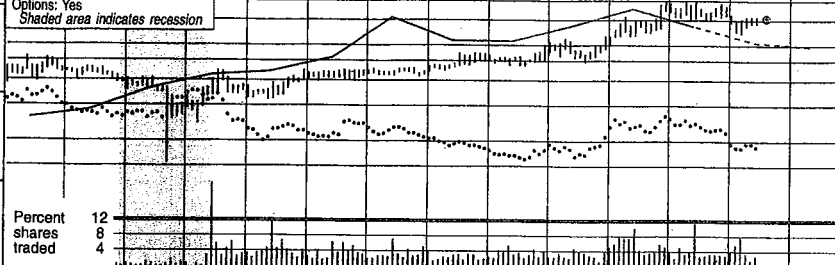
RECENT PRICE **32.75** P/E RATIO **31.2** (Trailing: 32.4 Median: 24.0) RELATIVE P/E RATIO **1.70** DIV'D YLD **2.0%** VALUE LINE **1792**

**TIMELINESS** 5 Lowered 6/8/18  
**SAFETY** 3 Lowered 7/17/15  
**TECHNICAL** 4 Lowered 6/29/18  
 BETA .80 (1.00 = Market)

High: 18.5 16.5 18.0 18.0 18.1 18.5 22.0 24.3 26.7 39.8 39.9 34.2  
 Low: 15.5 6.2 9.7 12.8 15.8 16.8 17.6 18.8 19.7 23.8 31.7 27.5

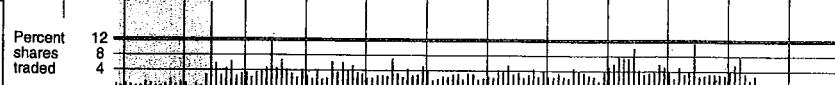
Target Price Range  
 2021 2022 2023  
 64  
 48  
 40  
 32  
 24  
 20  
 16  
 12  
 8  
 6

**2021-23 PROJECTIONS**  
 Price Gain Ann'l Total  
 High 45 (+35%) 10%  
 Low 30 (-10%) 1%



**Insider Decisions**  
 S O N D J F M A M  
 to Buy 2 13 2 2 15 2 2 14 2  
 Options 0 0 0 0 0 0 0 0 15  
 to Sell 0 0 0 0 0 0 0 0 0

**Institutional Decisions**  
 3Q2017 4Q2017 1Q2018  
 to Buy 40 29 38  
 to Sell 30 35 40  
 Hld's(000) 5125 4588 4449



% TOT. RETURN 6/18  
 THIS STOCK VL ARTH.  
 INDEX  
 1 yr. -6.9 13.9  
 3 yr. 62.2 32.8  
 5 yr. 87.6 71.5

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	© VALUE LINE PUB. LLC 21-23	
2.05	2.17	2.18	2.58	2.56	2.79	2.89	2.95	3.07	3.18	3.21	3.27	3.58	3.68	3.70	3.77	3.85	4.00	Revenues per sh	5.30
.57	.85	.65	.79	.77	.86	.88	.95	1.07	1.09	1.12	1.19	1.36	1.45	1.42	1.53	1.65	1.75	"Cash Flow" per sh	2.25
.40	.47	.49	.56	.58	.57	.57	.64	.71	.71	.72	.75	.89	.97	.92	1.01	1.05	1.15	Earnings per sh A	1.60
.35	.37	.39	.42	.45	.48	.49	.51	.52	.53	.54	.55	.57	.60	.63	.65	.70	.75	Div'd Decl'd per sh B	1.00
.66	1.07	2.50	1.69	1.85	1.69	2.17	1.18	.83	.74	.94	.76	1.10	1.11	1.03	1.95	1.50	1.25	Cap'l Spending per sh	7.25
3.90	4.06	4.65	4.85	5.84	5.97	6.14	6.92	7.19	7.45	7.73	7.98	8.15	8.51	8.88	9.28	9.35	10.55	Book Value per sh	11.75
9.55	9.63	10.33	10.40	11.20	11.27	11.37	12.56	12.69	12.79	12.92	12.98	12.83	12.81	12.85	12.87	12.80	12.75	Common Shs Outst'g C	12.75
26.9	24.5	25.7	26.3	31.2	30.3	24.6	21.9	20.7	23.9	24.4	26.3	23.1	23.5	32.8	34.6	34.6	34.6	Avg Ann'l P/E Ratio	22.5
1.47	1.40	1.36	1.40	1.68	1.61	1.48	1.46	1.32	1.50	1.55	1.48	1.22	1.18	1.72	1.72	1.72	1.72	Relative P/E Ratio	1.25
3.3%	3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	3.6%	3.5%	3.1%	3.1%	2.8%	2.8%	2.6%	2.1%	1.9%	1.9%	1.9%	Avg Ann'l Div'd Yield	2.7%

**CAPITAL STRUCTURE as of 3/31/18**  
 Total Debt \$90.0 mill. Due in 5 Yrs \$42.5 mill.  
 LT Debt \$78.0 mill. LT Interest \$5.3 mill.

32.8	37.0	39.0	40.6	41.4	42.4	45.9	47.1	47.6	48.6	49.5	51.0	Revenues (\$mill)	67.5
6.4	7.5	8.9	9.1	9.3	9.7	11.5	12.5	11.8	13.0	13.5	14.5	Net Profit (\$mill)	20.5
36.1%	37.9%	38.5%	35.3%	37.6%	37.6%	29.8%	27.5%	31.3%	25.9%	21.0%	21.0%	Income Tax Rate	21.0%
10.1%	--	1.2%	1.1%	1.1%	.8%	1.8%	1.6%	1.9%	6.7%	2.0%	1.5%	AFUDC % to Net Profit	1.5%
54.5%	45.7%	48.3%	47.1%	46.0%	45.1%	44.8%	44.4%	42.6%	43.0%	35.5%	35.0%	Long-Term Debt Ratio	34.0%
45.5%	54.3%	51.7%	52.9%	54.0%	54.9%	55.2%	55.6%	57.4%	57.0%	64.5%	65.0%	Common Equity Ratio	66.0%

**Pension Assets** 12/17 \$41.4 mill.  
 Obl'g. \$44.6 mill.  
 (39% of Cap'l)

153.4	160.1	176.4	180.2	184.8	188.4	189.4	196.3	198.7	209.5	210	220	Total Capital (\$mill)	235
211.4	222.0	228.4	233.0	240.3	244.2	253.2	261.4	270.9	288.8	295	300	Net Plant (\$mill)	320
5.7%	6.2%	6.5%	6.4%	6.4%	6.5%	7.4%	7.6%	7.2%	7.5%	7.5%	7.5%	Return on Total Cap'l	10.0%
9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	11.5%	10.4%	10.9%	10.0%	10.0%	Return on Shr. Equity	13.5%
9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	11.5%	10.4%	10.9%	10.0%	10.0%	Return on Com Equity	13.5%

**Pfd Stock** None  
**Common Stock** 12,892,798 shs.

9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	11.5%	10.4%	10.9%	10.0%	10.0%	Retained to Com Eq	5.0%
1.4%	1.9%	2.7%	2.5%	2.4%	2.4%	3.9%	4.4%	3.4%	4.0%	3.5%	3.5%	All Div'ds to Net Prof	63%
85%	78%	72%	73%	74%	74%	64%	62%	67%	63%	67%	65%		

**MARKET CAP:** \$425 million (Small Cap)

CURRENT POSITION (\$MILL.)	2016	2017	3/31/18
Cash Assets	4.2	--	--
Accounts Receivable	4.3	4.5	4.2
Inventory (Avg. Cost)	.7	.9	.9
Other	3.4	3.2	3.3
Current Assets	12.6	8.6	8.4
Accts Payable	3.7	3.1	3.2
Debt Due	--	--	12.0
Other	4.5	6.0	5.6
Current Liab.	8.2	9.1	20.8

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '15-'17 to 21-'23
Revenues	3.5%	3.5%	6.0%
"Cash Flow"	6.0%	6.0%	7.5%
Earnings	5.5%	6.5%	9.0%
Dividends	3.5%	3.5%	8.0%
Book Value	5.0%	3.5%	5.0%

**BUSINESS:** The York Water Company is the oldest investor-owned regulated water utility in the United States. It has operated continuously since 1816. As of December 31, 2017, the company's average daily availability was 35.4 million gallons and its service territory had an estimated population of 198,000. Has more than 69,000 customers. Residential customers accounted for 64% of 2017 revenues;

commercial and industrial (28%); other (8%). It also provides sewer billing services. Incorporated: PA. York had 102 full-time employees at 12/31/17. President/CEO: Jeffrey R. Hines. Officers/directors own 1.1% of the common stock (3/18 proxy). Address: 130 East Market Street, York, Pennsylvania 17401. Telephone: (717) 845-3601. Internet: www.yorkwater.com.

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2015	11.2	11.9	12.4	11.6	47.1
2016	11.3	11.8	12.6	11.9	47.6
2017	11.3	12.3	12.7	12.3	48.6
2018	11.6	12.5	12.9	12.5	49.5
2019	12.0	12.8	13.3	12.9	51.0

**York Water's first-quarter bottom line was unchanged compared to the previous-year figure.** The regulated utility posted earnings of \$0.20 a share for the March period, missing our mark by \$0.02. Nevertheless, we are retaining our current-year profit forecast of \$1.05 per share, as we think a lower effective tax rate, combined with higher asset improvement deductions, should help offset rising expenses in the back half of 2018. Meantime, first-quarter revenues of \$11.6 million were fractionally above our call, though the beat was not significant enough to spur an upward revision.

**Capital spending ought to continue through 2018 and beyond.** Year to date, York Water has invested only about \$3.0 million, specifically to complete a raw water pumping station and some modest infrastructure upgrades. An additional \$20 million is likely to be spent by year's end. Going forward, we expect further infrastructure upgrades and improvements to its waste water treatment plants. This spending is necessary not only as a response to its aging pipes and delivery methods, but also to handle its expanding customer base.

Cal-endar	EARNINGS PER SHARE A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2015	.20	.22	.28	.27	.97
2016	.19	.23	.27	.23	.92
2017	.20	.23	.31	.27	1.01
2018	.20	.25	.32	.28	1.05
2019	.24	.27	.33	.31	1.15

**As we expected, the company has inquired about a rate increase.** In May, York asked the Pennsylvania Public Utility Commission for more than \$6 million (annual revenues) in customer rate hikes to recover replacement costs associated with water pipeline improvements, other infrastructure upgrades, as well as personnel and operational cost increases. York hopes to recover expenses incurred since its last rate case filing in 2013, and help balance future capital investments. A time frame for the decision has not yet been es-

**This equity lacks investment appeal at this juncture.** Shares of York Water have been lowered two spots on our Timeliness ranking scale, to 5 (Lowest). Thus, short-term accounts should turn the page. Similarly, those with a buy-and-hold mantra should take a pass, as the shares offer limited price upside 3- to 5-years out. Lastly, as a stand-alone dividend play (2.0% current yield), we think investors can find more-attractive options elsewhere.

Cal-endar	QUARTERLY DIVIDENDS PAID B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2014	.1431	.1431	.1431	.1431	.572
2015	.1495	.1495	.1495	.1555	.604
2016	.1555	.1555	.1555	.1602	.627
2017	.1602	.1602	.1602	.1666	.647
2018	.1666	.1666			

Nicholas P. Patrikis July 13, 2018

(A) Diluted earnings. Next earnings report due late August.  
 (B) Dividends historically paid in late February, June, September, and December.

(C) In millions, adjusted for split.

Company's Financial Strength	B+
Stock's Price Stability	60
Price Growth Persistence	55
Earnings Predictability	90

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