



## COMPANY UPDATE

### Water Utilities

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August 2, 2010

#### Key Metrics

WTR - NYSE (as of 7/30/10)	\$19.49
Price Target	\$22.00
52-Week Range	\$20.08-\$15.39
Shares Outstanding (mm)	136.8
Market Cap. (\$mm)	\$2,669.3
3-Mo. Average Daily Volume	914,005
Institutional Ownership	47.7%
Debt/Total Capital (3/10)	54.7%
ROE (3/10)	9.6%
Book Value/Share (3/10)	\$8.45
Price/Book Value	2.1x
Dividend Yield	3.2%
LTM EBITDA Margin	52.7%

#### EPS FY 12/31

	2009A	Prior 2010E	Curr. 2010E	Prior 2011E	Curr. 2011E
1Q	\$0.14	--	\$0.16A	--	--
2Q	\$0.19	--	\$0.21E	--	--
3Q	\$0.25	--	\$0.26E	--	--
4Q	\$0.20	--	\$0.23E	--	--
Year	\$0.77	--	\$0.86E	--	\$0.91E
P/E	25.3x		22.7x		21.4x

#### Revenue (\$mm)

	2009A	Prior 2010E	Curr. 2010E	Prior 2011E	Curr. 2011E
1Q	\$154.5	--	\$160.5A	--	--
2Q	\$167.3	--	\$177.4E	--	--
3Q	\$180.8	--	\$194.4E	--	--
4Q	\$167.9	--	\$183.9E	--	--
Year	\$670.5	--	\$716.2E	--	\$730.0E

**Company Description:** Aqua America is a water and wastewater utility holding company with operating subsidiaries serving approximately three million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Indiana, Florida, Virginia, Maine, Missouri, South Carolina, and Georgia. The company's history spans over 100 years.

## Aqua America Inc.

WTR -- NYSE -- Buy-2

### Q2 Earnings Preview

#### Investment Highlights

- WTR reports Q2 EPS this Wednesday with a conference call scheduled for 11:00 am ET. We forecast Q2'10 EPS of \$0.21, in line with the consensus. The company does not issue guidance.
- We anticipate a strong quarter given favorable weather conditions in the northeast. Not only does the company face easier comparisons given record setting precipitation last year in the northeast, but conditions have been at the other side of the spectrum – a significant reduction in the amount of rainfall, number of days, days in a row, weekend precipitation, and much hotter temperatures which all positively impact sales.
- We would be buyers ahead of Wednesday's call as positive weather related results could manifest as a near-term catalyst. Moreover, we also note that although we're just a month in, thus far Q3 is shaping up to drive favorable results as well.
- We derive our \$22 target price by applying a multiple of 24x our FY'11 EPS estimate, which is at the low end of multiples at which the company typically trades.

**Note Important Disclosures on Pages 4 and 5.**  
**Note Analyst Certification on Page 4.**

**CONSIDERATIONS AND RISKS**

- Water companies are subject to seasonal fluctuations, drought, and heavy rainfall. Demand varies with rainfall and temperature changes, and infrastructure replacements could become burdensome.
- Compliance with an increasingly stringent EPA will likely become an even greater cost going forward. Each state regulatory body deals with cost recoveries somewhat differently, affecting the timing of revenues and costs. Rate increases are not retroactive.
- The company's growth strategy via acquisitions could potentially be dilutive or have other adverse effects on normal business operations.

*Additional information is available upon request.*

**Aqua America, Inc.**

<b>Income Statements (000's)</b>	<b>FY'07</b>	<b>FY'08</b>	<b>Q1'09</b>	<b>Q2'09</b>	<b>Q3'09</b>	<b>Q4'09</b>	<b>FY'09</b>	<b>Q1'10A</b>	<b>Q2'10E</b>	<b>Q3'10E</b>	<b>Q4'10E</b>	<b>FY'10E</b>	<b>FY'11E</b>
Operating revenues	\$602,499	\$626,972	\$154,487	\$167,333	\$180,826	\$167,893	\$670,539	\$160,517	\$177,385	\$194,401	\$183,904	\$716,206	\$729,990
Costs and expenses:													
Operation and maintenance	253,092	262,122	66,989	68,549	68,488	66,034	270,060	67,601	70,954	75,816	75,400	289,772	281,656
Depreciation	83,178	88,785	26,387	24,972	25,436	26,206	103,001	26,200	26,200	26,500	27,000	105,900	112,000
Amortization	4,833	5,515	2,755	3,064	3,029	3,090	11,938	3,172	3,100	3,100	3,100	12,472	12,300
Taxes other than income taxes	45,380	44,749	11,590	11,884	12,418	12,189	48,081	12,860	11,530	12,442	11,034	47,866	47,973
Operating income	216,016	225,801	46,766	58,864	71,455	60,374	237,459	50,684	65,601	76,543	67,369	260,197	276,060
Other expense (income):													
Interest expense (net)	66,921	68,572	16,628	16,809	17,256	17,914	68,607	18,430	18,430	18,430	18,430	73,720	69,200
Allow. for funds used dur. const.	(2,953)	(3,674)	(625)	(568)	(747)	(931)	(2,871)	(1,541)	(900)	(700)	(1,100)	(4,241)	(3,600)
Gain on sale of water system													
Gain on sale of other assets	(3,494)	(1,599)	(133)	(80)	(162)	(97)	(472)	(1,929)	(600)	(200)	(300)	(3,029)	(1,200)
Income before income taxes	155,542	162,502	30,896	42,703	55,108	43,488	172,195	35,724	48,671	59,013	50,339	193,747	211,660
Provision for income taxes	60,528	64,584	12,525	16,850	21,638	16,829	67,842	14,213	19,225	23,605	19,380	76,424	83,752
Net income	95,014	97,918	18,371	25,853	33,470	26,659	104,353	21,511	29,446	35,408	30,958	117,323	127,909
Dividends on preferred stock													
Net income available to common stk.	\$95,014	\$97,918	\$18,371	\$25,853	\$33,470	\$26,659	\$104,353	\$21,511	\$29,446	\$35,408	\$30,958	\$117,323	\$127,909
Net income	95,014	97,918	18,371	25,853	33,470	26,659	104,353	21,511	29,446	35,408	30,958	117,323	127,909
Other comp. income (loss), net of tax:													
Unreal. hold. gain (loss) on certain inv.	1,121	195	37	232	(142)	162	289	902					
Minimum pension liability adjustment													
Unrealized gains on securities													
Reclass. adj. for gains reported	(1,315)	(209)		5			5	(1,330)					
Comprehensive income	\$94,820	\$97,904	\$18,408	\$26,090	\$33,328	\$26,821	\$104,647	\$21,083	\$29,446	\$35,408	\$30,958	\$117,323	\$127,909
EPS (FD)	\$0.71	0.73	\$0.14	\$0.19	\$0.25	\$0.20	\$0.77	\$0.16	\$0.21	\$0.26	\$0.23	\$0.86	\$0.91
Diluted average shares outstanding	133,602	134,705	135,876	135,939	136,260	136,510	136,129	136,800	137,000	137,200	137,400	136,689	140,581
Cash div. per share of com. stk.	\$0.480	\$0.510	\$0.135	\$0.135	\$0.135	\$0.145	\$0.550	\$0.145	\$0.145	\$0.145	\$0.152	\$0.587	\$0.587
<b>Rate of Change Analysis:</b>													
Revenues	12.9%	4.1%	10.9%	11.0%	2.1%	5.0%	6.9%	3.9%	6.0%	7.5%	9.5%	6.8%	1.9%
Operating income	5.1%	4.5%	16.3%	10.8%	-4.2%	4.3%	5.2%	8.4%	11.4%	7.1%	11.6%	9.6%	6.1%
EPS	1.4%	2.8%	27.3%	11.8%	-3.8%	5.3%	5.5%	14.3%	13.1%	3.2%	12.7%	11.5%	6.0%
EBITDA	8.4%	5.3%	20.7%	16.2%	0.7%	7.7%	10.1%	5.5%	9.2%	6.2%	8.7%	7.4%	5.8%
<b>Margin Analysis:</b>													
O&M	42.0%	41.8%	43.4%	41.0%	37.9%	39.3%	40.3%	42.1%	40.0%	39.0%	41.0%	40.5%	38.6%
D&A	14.6%	15.0%	18.9%	16.8%	15.7%	17.4%	17.1%	18.3%	16.5%	15.2%	16.4%	16.5%	17.0%
Taxes other than inc. taxes	7.5%	7.1%	7.5%	7.1%	6.9%	7.3%	7.2%	8.0%	6.5%	6.4%	6.0%	6.7%	6.6%
Operating income	35.9%	36.0%	30.3%	35.2%	39.5%	36.0%	35.4%	31.6%	37.0%	39.4%	36.6%	36.3%	37.8%
Net income	15.7%	15.6%	11.9%	15.6%	18.4%	16.0%	15.6%	13.1%	16.6%	18.2%	16.8%	16.4%	17.5%
Tax rate	38.9%	39.7%	40.5%	39.5%	39.3%	38.7%	39.4%	39.8%	39.5%	40.0%	38.5%	39.4%	39.6%

Source: Company reports and Hilliard Lyons estimates

**Analyst Certification**

I, James O. Lykins, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

**Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

**Investment Ratings**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

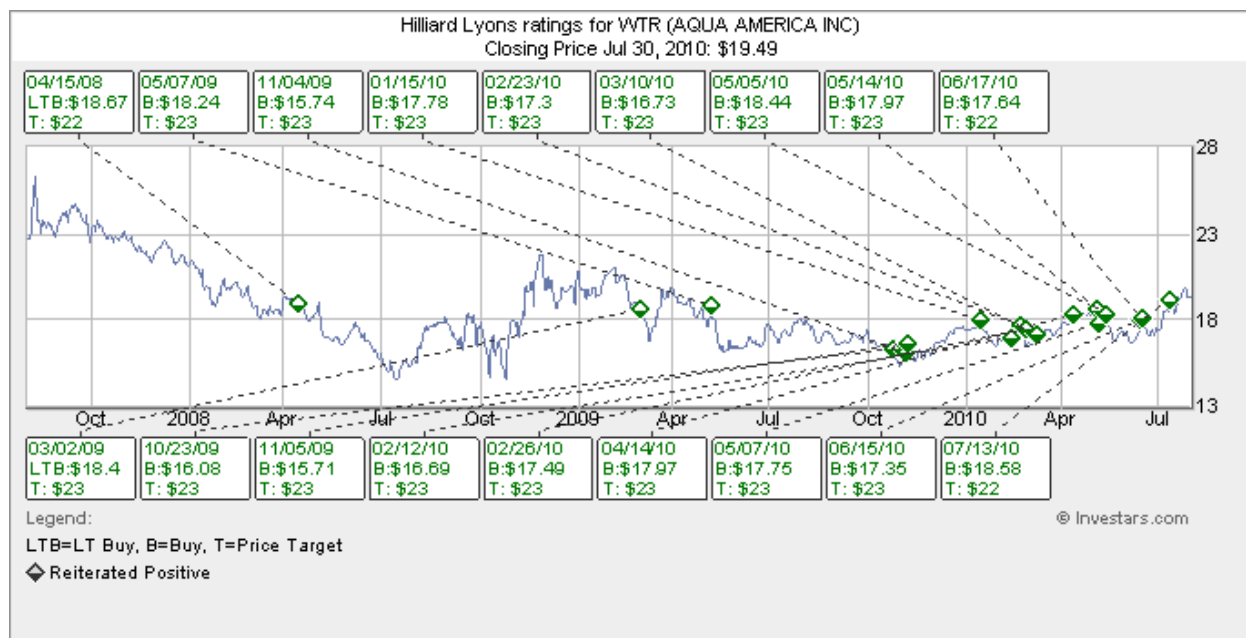
**Suitability Ratings**

**1** - A large cap, core holding with a solid history

**2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

**3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

**4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
<b>Buy</b>	50	29%	2%	98%
<b>Long-term Buy</b>	37	21%	0%	100%
<b>Neutral</b>	82	47%	6%	94%
<b>Underperform</b>	4	2%	0%	100%
<b>Not Rated</b>	1	1%	0%	100%

*As of 9 July 2010*

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**Other Disclosures**

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