

	Value	Blend	Growth
Large			
Mid			
Small			

Aqua America Inc.

(WTR - NYSE)

Company Snapshot

Recent Price	\$16.08	Fiscal Year (Dec.)	2008	2009	2010
12-Month Price Target	\$23	Q1	\$0.11	\$0.14	
52-Week Range	\$14-22	Q2	\$0.17	\$0.19	
Shares Outstanding (M-Q2'09)	135.9	Q3	\$0.26	\$0.25	E
Market Cap. (M)	\$2,186	Q4	\$0.19	\$0.24	E
L-T Debt / Total Cap. (Q2'09)	53.3%	Diluted Earnings Per Share	\$0.73	\$0.82	E \$0.97 E
Est. 3-Year EPS Growth	10.0%	P/E Multiple	22.0x	19.6x	16.6x
Dividend / Annl. Yield	\$0.58 3.6%	ROE	9.6%	10.4%	12.4%
Avg. Daily Volume ('000)	811	EBITDA Margin	51.1%	52.3%	53.6%

Company Description: Aqua America is the second largest publicly traded water utility in the United States. It provides water and wastewater services to approximately 3 million residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, and South Carolina. The company's history spans over 100 years.

- Regulated utility operations are reasonably predictable in an overall constructive regulatory environment, but can be erratic given weather conditions. Management believes O&M improvement for 2009 could be as much as 150 basis points, which could easily be supported by revenue growth generated from rate case awards.
- Recent rate awards include \$27.2 million in addition to \$9.2 million in pending cases and about \$50 million in anticipated filings (importantly, this includes New Jersey and Pennsylvania) by year-end. We also note that in July the Pennsylvania PUC increased the company's surcharge or DSIC (Distribution System Improvement Charge) from 5.0% to 7.5% (lacking an appeal). This is meaningful as it allows certain infrastructure improvements to be immediately included in rates, prior to settlement of a full blown rate case.
- Acquisitions: As a result, we expect continued privatization and acquisition activity from publicly traded water utilities to ramp up with better opportunities increasingly becoming available. We believe one of the prime beneficiaries will be WTR, which typically makes about 25-30 acquisitions per year. With the company making ~200 acquisitions over the past 14 years, this has long been part of a successful growth strategy. The year-to-date total is now up to 11 although the customer count has only increased by about 4,200. At least one more possibility is in the works, a ~2,500 customer system in New Jersey which could be announced in Q4'09.
- Dividend increase: On August 4, 2009 WTR raised its quarterly dividend payment by 7.4% or \$0.01 per share to \$0.145 per share. This marks the company's 19th dividend increase in 18 years.
- Management does not provide guidance. The stock is trading at 19.6x and 16.6x our FY'09 and FY'10 EPS estimates of \$0.82 and \$0.97, respectively. We derive our \$23 price target by applying a multiple of 24x to our 2009 earnings estimate, which is at the low end of the typical trading range.

Note Important Disclosures on Pages 3 and 4.
Note Analyst Certification on Page 3.

Aqua America, Inc.

Income Statements (000's)	FY'06	FY'07	Q1'08	Q2'08	Q3'08	Q4'08	FY'08	Q1'09A	Q2'09A	Q3'09E	Q4'09E	FY'09E	FY'10E
Operating revenues	\$533,491	\$602,499	\$139,283	\$150,751	\$177,098	\$159,840	\$626,972	\$154,487	\$167,333	\$182,354	\$179,154	\$683,328	\$725,678
Costs and expenses:													
Operation and maintenance	219,560	253,092	64,304	65,146	66,743	65,929	262,122	66,989	68,549	71,118	71,662	278,318	289,095
Depreciation	70,895	83,178	21,481	20,619	22,809	23,876	88,785	26,387	24,972	24,972	24,972	101,303	96,800
Amortization	4,146	4,833	1,173	1,012	1,815	1,515	5,515	2,755	3,064	1,900	1,600	9,319	6,955
Taxes other than income taxes	33,343	45,380	12,109	10,845	11,157	10,638	44,749	11,590	11,884	11,671	12,541	47,685	47,712
Operating income	327,944	386,483	99,067	97,622	102,524	101,958	401,171	107,721	108,469	109,661	110,774	436,625	440,561
Other expense (income):													
Interest expense (net)	58,432	66,921	17,130	17,063	17,014	17,365	68,572	16,628	16,809	16,809	16,809	67,055	69,200
Allow. for funds used dur. const.	(3,941)	(2,953)	(956)	(1,100)	(976)	(642)	(3,674)	(625)	(568)	(600)	(1,000)	(2,793)	(3,600)
Gain on sale of water system													
Gain on sale of other assets	(1,194)	(3,494)		(553)	(532)	(514)	(1,599)	(133)	(80)	(200)	(100)	(513)	(1,200)
Income before income taxes	152,250	155,542	24,042	37,719	59,068	41,673	162,502	30,896	42,703	56,684	52,671	182,954	220,717
Provision for income taxes	60,246	60,548	9,721	15,167	23,688	16,008	64,584	12,525	16,850	22,674	20,278	72,327	87,491
Net income	92,004	95,014	14,321	22,552	35,380	25,665	97,918	18,371	25,853	34,011	32,392	110,627	133,227
Dividends on preferred stock													
Net income available to common stk.	\$92,004	\$95,014	\$14,321	\$22,552	\$35,380	\$25,665	\$97,918	\$18,371	\$25,853	\$34,011	\$32,392	\$110,627	\$133,227
Net income	92,004	95,014	14,321	22,552	35,380	25,665	97,918	18,371	25,853	34,011	32,392	110,627	133,227
Other comp. income (loss), net of tax:													
Unreal. hold. gain (loss) on certain inv.	194	1,121		189	4	2	195	37	232				
Minimum pension liability adjustment	3,082												
Unrealized gains on securities													
Reclass. adj. for gains reported		(1,315)			(209)		(209)		5				
Comprehensive income	\$95,280	\$94,820	\$14,321	\$22,741	\$35,175	\$25,667	\$97,904	\$18,408	\$26,090	\$34,011	\$32,392	\$110,627	\$133,227
EPS (FD)	\$0.70	\$0.71	\$0.11	\$0.17	\$0.26	\$0.19	0.73	\$0.14	\$0.19	\$0.25	\$0.24	\$0.82	\$0.97
Diluted average shares outstanding	131,774	133,602	133,970	134,060	135,279	135,586	134,705	135,876	135,939	136,139	136,339	135,338	136,873
Cash div. per share of com. stk.	\$0.444	\$0.480	\$0.125	\$0.125	\$0.125	\$0.135	\$0.510	\$0.135	\$0.135	\$0.135	\$0.145	\$0.550	\$0.587
Rate of Change Analysis:													
Revenues	7.4%	12.9%	1.4%	0.1%	7.0%	7.2%	4.1%	10.9%	11.0%	3.0%	12.1%	9.0%	6.2%
Operating income	4.6%	5.1%	-8.1%	-3.0%	14.1%	11.0%	4.5%	16.3%	10.8%	-2.5%	18.1%	9.3%	15.6%
EPS	-1.4%	1.4%	-15.4%	-5.6%	18.2%	0.0%	2.8%	27.3%	11.8%	-3.9%	25.0%	12.0%	19.1%
EBITDA	7.1%	8.4%	-3.4%	-2.2%	13.3%	11.2%	5.3%	20.7%	16.2%	0.4%	14.0%	11.6%	8.8%
Margin Analysis:													
O&M	41.2%	42.0%	46.2%	43.2%	37.7%	41.2%	41.8%	43.4%	41.0%	39.0%	40.0%	40.7%	39.8%
D&A	14.1%	14.6%	16.3%	14.3%	13.9%	15.9%	15.0%	18.9%	16.8%	14.7%	14.8%	16.2%	14.3%
Taxes other than inc. taxes	6.2%	7.5%	8.7%	7.2%	6.3%	6.7%	7.1%	7.5%	7.1%	6.4%	7.0%	7.0%	6.6%
Operating income	38.5%	35.9%	28.9%	35.2%	42.1%	36.2%	36.0%	30.3%	35.2%	39.9%	38.2%	36.1%	39.3%
Net income	17.9%	15.7%	10.3%	15.1%	19.9%	16.1%	15.6%	11.9%	15.6%	18.7%	18.1%	16.2%	18.4%
Tax rate	39.6%	38.9%	40.4%	40.2%	40.1%	38.4%	39.7%	40.5%	39.5%	40.0%	38.5%	39.5%	39.6%

Source: Company reports and Hilliard Lyons estimates

INVESTMENT CONSIDERATIONS

- 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.

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.

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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
Buy	44	26%	2%	98%
Long-term Buy	35	21%	0%	100%
Neutral	83	49%	5%	95%
Underperform	7	4%	14%	86%

As of 2 October 2009

Other Disclosures

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Morgan Joseph & Co. Inc.
Sales and Trading - New York
Tel. 212.218.3767