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**Giving Investors “More to Get Excited About” in 2010/2011;
Reiterating Buy Rating and \$26 Target Price**

**Buy
Target Price: \$26**

Investment Summary

Aqua America reported 4Q09 results that were essentially in line with expectations. Revenue in the quarter of \$168 million (a 5% YoY increase) fell a bit short of our \$181 million estimate, and EPS of \$0.20 fell a penny shy of our \$0.21 estimate (but met consensus). For the year, revenues rose 7% to \$675 million and EPS grew to \$0.77 from \$0.73, which we consider especially impressive given the challenging economic conditions and unfavorable weather experienced throughout the year. The company did an excellent job managing (and growing) its business under the most difficult of operating environments, and improvements in the underlying operating model should allow the company to reap substantial benefits in the years to come. Continued operating investments, coupled with timely rate relief and tuck-in acquisitions set the stage for a much improved 2010/2011 performance. We reiterate our Buy rating and \$26 target price, based on the shares attaining a level of 26x our 2011 EPS estimate of \$0.98.

Discussion

- **Quarterly results essentially in-line with expectations.** Aqua America reported 4Q09 revenue of \$168 million, which was up 5% from the same quarter last year, due mainly to new rate cases. For the full year 2009, Aqua received \$37 million in increased revenues from rate case awards. EPS in the quarter of \$0.20 came in just a penny shy of our estimate.
- **More rate relief scheduled for 2010.** Given the economic environment and the poor weather conditions in 2010, the company’s strong financial performance should be considered especially impressive. After securing \$37 million in additional revenues from rate cases in 2009, Aqua remains on track in 2010, having received rate increases of \$6 million YTD. The company has also filed rate cases in several states and has \$65 million in rate cases pending that regulatory bodies are expected to decide upon by the end of the year. Further, Aqua expects to seek rate relief by filing approximately \$30 million of rate requests in 2010 that are expected to impact 2011 results.
- **More capex, more acquisitions.** In 2009, the company invested a record \$284 million in infrastructure, focusing on improvements to the distribution network to enhance water quality and service. The company plans to invest over \$300 million in 2010 for system improvements. And over the span of the year, Aqua completed 18 acquisitions of water or wastewater systems.
- **More dividends to shareholders.** The dividend was recently increased 7.4% to \$0.145 per share, which was the 19th dividend increase in the past 18 years. The company has paid consecutive quarterly dividends for over 60 years, and its operations should generate sufficient profitability to continue paying and increasing dividends in future years. Additionally, the current 3.4% yield is toward the high end of the company’s historical range (see page 2 of this note for further details).

Price	\$17.21
52-Week High/Low	\$20.37 - 15.39
Shares Outstanding (mm)	136.27
Market Cap. (mm)	\$2,345.22
Average Daily Volume (mm)	0.73

EPS	FY09A	FY10E	FY11E
Mar	\$0.14	\$0.18	\$0.20
Jun	\$0.19	\$0.22	\$0.24
Sep	\$0.25	\$0.28	\$0.29
Dec	\$0.20	\$0.24	\$0.25
Prior	-	\$0.26	-
FY	\$0.77	\$0.91	\$0.98
Prior	NA	\$0.93	-
Consensus	NA	\$0.90	\$0.96
P/E	22.5x	18.8x	17.5x
FY Rev. (mm)	\$670.54	\$710.77	\$767.63

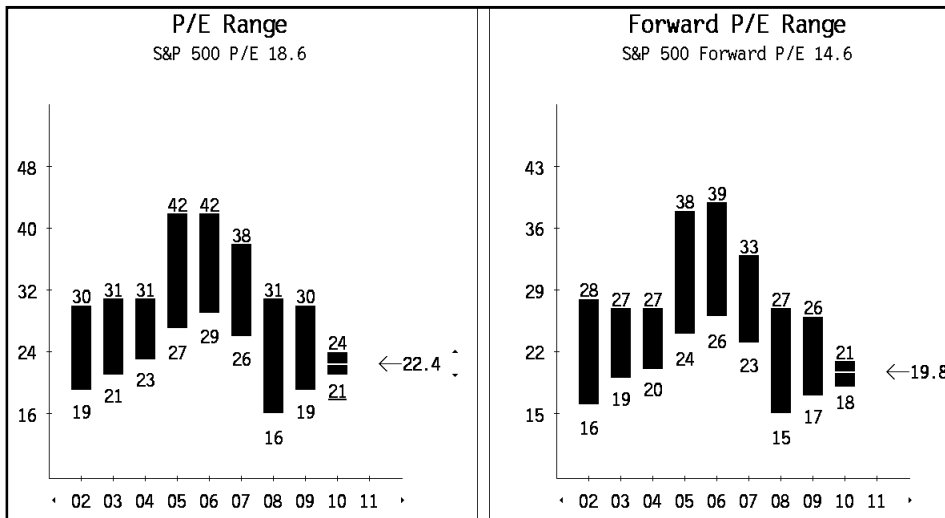


Source: BigCharts.com

Adjusting 2010 estimates and introducing 2011 estimates. We are lowering our 2010 EPS estimate to \$0.91 from \$0.93, which we consider insignificant from a valuation perspective, and introducing our 2011 EPS estimate of \$0.98.

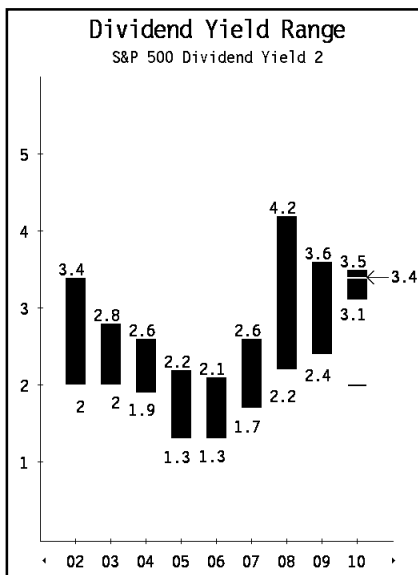
Valuation. With the shares now trading at 17x our 2011 ESP estimate of \$0.98, we consider them attractively priced at current levels. The company continues to prove itself to be the perfect model of consistency (even in the face of strong headwinds). We recommend investors add to or take new positions, especially given that the shares are now trading toward the bottom of historical P/E ranges and carry a dividend yield of 3.4%. We reiterate our Buy rating and maintain our target price of \$26, based on the shares attaining a P/E multiple of 26x our 2011 EPS estimate of \$0.98.

Aqua America Historical and Forward P/E Ranges, 2002 - 2010

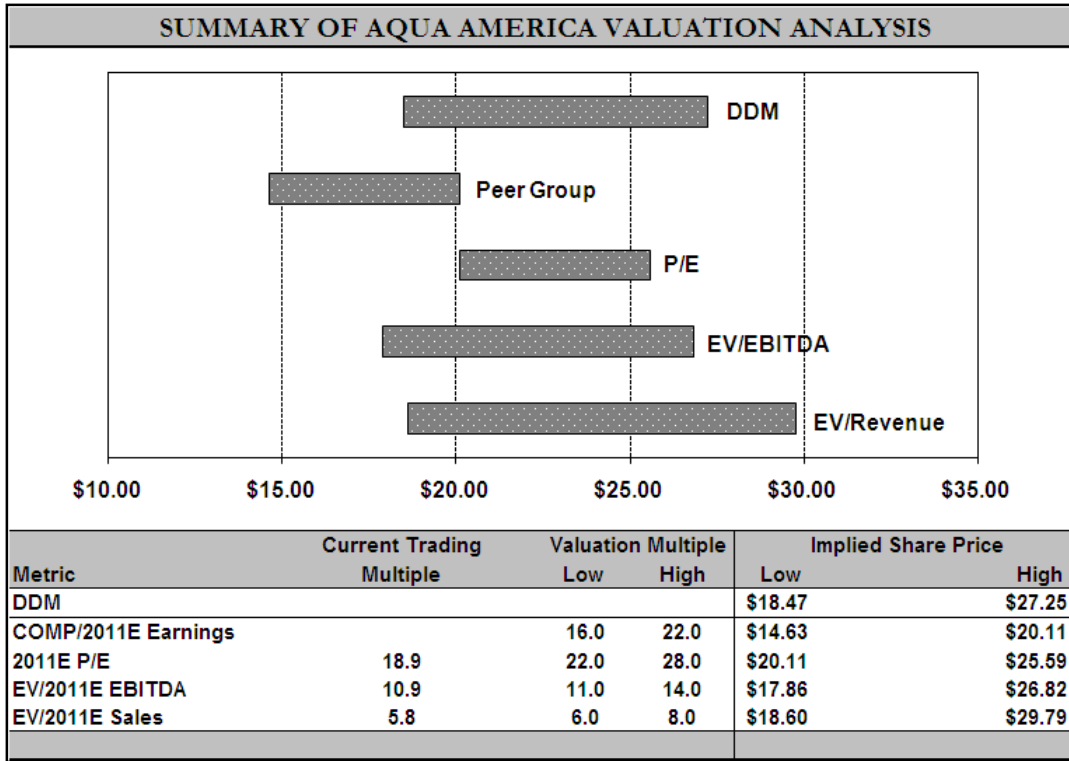


Source: Baseline

Aqua America Dividend Yield Range, 2002 - 2010



Source: Baseline



Source: Company data and Brean Murray, Carret & Co. estimates

Aqua America		Quarterly Income Statement, 2010E								
(\$000, except per share data)										
Fiscal year ends December 31										
	1Q10E	% Rev or Margin	2Q10E	% Rev or Margin	3Q10E	% Rev or Margin	4Q10E	% Rev or Margin	2010E	% Rev or Margin
Sales	163,756		177,373		191,676		177,967		710,771	
Operating & maintenance	68,123	41.6%	72,723	41.0%	75,904	39.6%	70,475	39.6%	287,224	40.4%
Depreciation	26,201	16.0%	25,187	14.2%	23,959	12.5%	24,025	13.5%	99,373	14.0%
Amortization	2,456	1.5%	2,661	1.5%	1,917	1.0%	1,958	1.1%	8,991	1.3%
Non-income taxes	10,972	6.7%	11,174	6.3%	11,501	6.0%	10,856	6.1%	44,503	6.3%
Operating income	56,005	34.2%	65,628	37.0%	78,395	40.9%	70,653	39.7%	270,681	38.1%
Interest expense, net	17,194	10.5%	17,737	10.0%	16,101	8.4%	16,729	9.4%	67,761	9.5%
AFC	(1,000)	-0.6%	(1,000)	-0.6%	(1,000)	-0.5%	(1,000)	-0.6%	(4,000)	-0.6%
Gain on sale of other assets	(500)	-0.3%	(500)	-0.3%	(500)	-0.3%	(500)	-0.3%	(2,000)	-0.3%
Income before taxes	40,310	24.6%	49,391	27.8%	63,795	33.3%	55,424	31.1%	208,919	29.4%
Income taxes	16,124	40.0%	19,756	40.0%	25,518	40.0%	22,170	40.0%	83,568	40.0%
Net income	24,186	14.8%	29,634	16.7%	38,277	20.0%	33,254	18.7%	125,352	17.6%
Earnings per share	\$0.18		\$0.22		\$0.28		\$0.24		\$0.91	
Shares outstanding (000)	136,760		137,010		137,260		137,510		137,135	
Aqua America		Quarterly Income Statement, 2011E								
(\$000, except per share data)										
Fiscal year ends December 31										
	1Q11E	% Rev or Margin	2Q11E	% Rev or Margin	3Q11E	% Rev or Margin	4Q11E	% Rev or Margin	2011E	% Rev or Margin
Sales	176,857		191,563		207,010		192,204		767,633	
Operating & maintenance	73,572	41.6%	78,541	41.0%	81,769	39.5%	76,113	39.6%	309,995	40.4%
Depreciation	25,114	14.2%	25,095	13.1%	24,841	12.0%	25,755	13.4%	100,805	13.1%
Amortization	1,769	1.0%	1,916	1.0%	1,656	0.8%	1,730	0.9%	7,070	0.9%
Non-income taxes	11,849	6.7%	12,068	6.3%	12,421	6.0%	11,724	6.1%	48,063	6.3%
Operating income	64,553	36.5%	73,943	38.6%	86,323	41.7%	76,882	40.0%	301,701	39.3%
Interest expense, net	19,985	11.3%	19,923	10.4%	19,666	9.5%	20,566	10.7%	80,139	10.4%
AFC	(800)	-0.5%	(800)	-0.4%	(800)	-0.4%	(800)	-0.4%	(3,200)	-0.4%
Gain on sale of other assets	(300)	-0.2%	(300)	-0.2%	(300)	-0.1%	(300)	-0.2%	(1,200)	-0.2%
Income before taxes	45,668	25.8%	55,121	28.8%	67,757	32.7%	57,416	29.9%	225,961	29.4%
Income taxes	18,267	40.0%	22,048	40.0%	27,103	40.0%	22,966	40.0%	90,385	40.0%
Net income	27,401	15.5%	33,072	17.3%	40,654	19.6%	34,449	17.9%	135,577	17.7%
Earnings per share	\$0.20		\$0.24		\$0.29		\$0.25		\$0.98	
Shares outstanding (000)	137,760		138,010		138,260		138,510		138,135	

Source: Company data and Brean Murray, Carret & Co. estimates

Important Disclosures

Ratings and Target Price History



Priced intraday on 2/25/10.

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Brean Murray, Carret & Co. Stock Rating System

- Buy - Expected to appreciate by at least 10% within the next 12 months.
- Hold - Fully valued, not expected to appreciate or decline materially within the next 12 months.
- Sell - Expected to decline by at least 10% within the next 12 months.

	# of Securities	% of Total Securities	# of IB-Related Securities in Past 12 mos.	% of Total Securities
BUY	128	67.72%	16	12.5%
HOLD	52	27.51%	0	0%
SELL	6	3.17%	0	0%
NOT RATED	3	1.59%	0	0%
TOTAL	189			

Note: Stock price volatility may cause temporary non-alignment of some ratings with some target prices.

Valuation Methodology and Risks

Aqua America (WTR): Our target price of \$26 is based on the shares attaining a P/E multiple of 26x our 2011 EPS estimate of \$0.98. Risks to the achievement of our target price include weather, acquisitions, interest rates, environmental / public health responsibilities and regulatory climate.

Analyst Certification

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