



# Longbow Research

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Company Update

Aqua America Inc. (WTR)

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Current Price: \$21.55  
Rating: NEUTRAL  
Target Price: NA

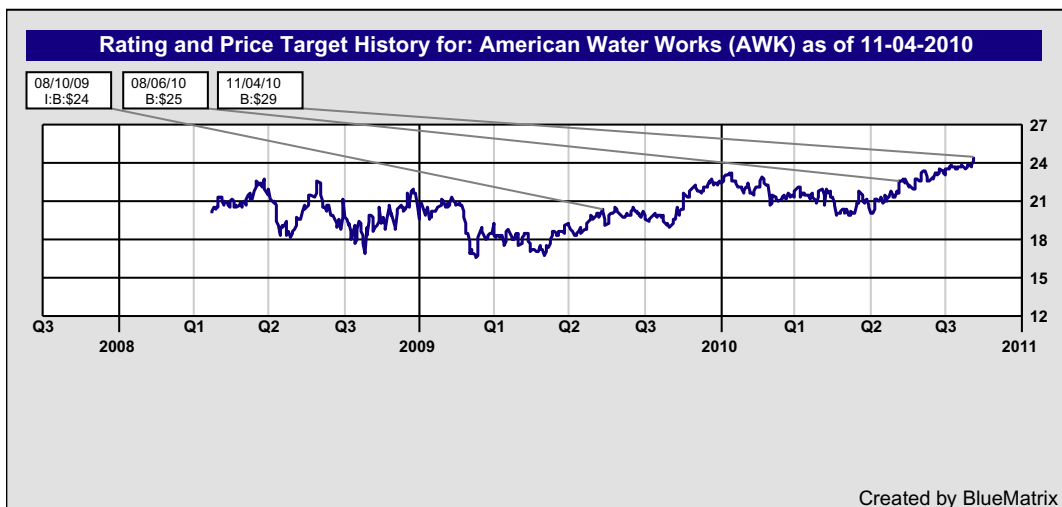
## WTR: First Read on 3Q as Increased Demand Drives Beat

### SUMMARY

- WTR reported 3Q10 diluted EPS of \$0.32 vs. our \$0.30 forecast and consensus of \$0.28. Total revenues increased 15% y/y vs. our 12% forecast. As expected, hot and dry weather in the East was cited as the primary driver of increased customer usage as volumes were up 9% vs. our 3% forecast.
- Operations & Maintenance expense increased 7% y/y due to non-cash charges resulting from the write-off of previously deferred expenses related to rate filings and expenses associated with increased water use. That being said, the O&M ratio improved 280bp y/y vs. our 100bp expectation. Leverage off improved sales drove the increase. We note that WTR already has the highest efficiency ratio among the large publicly traded water utilities and its focus on cost control helps cash flows and reduces its reliance outside funding for its capital programs.
- YTD the company has invested \$240M in capex and is on pace to meet its \$300M target for the year.
- WTR currently has \$19M of pending rate cases and are expected to file \$11.5M in additional rate increases in 4Q10 that are expected to impact FY11 and FY12 results.
- The company has completed 14 acquisitions YTD (2 in 3Q) and continues to expect to complete a total of 20-30 acquisitions in FY10. That being said, given the pace of deals so far this year, we'd expect the company to come in towards the low end of the range, if not below.
- We maintain our NEUTRAL rating on the shares largely due to valuation. We'll be interested to hear WTR's perspective on 4Q demand as AWK (BUY, \$29 price target) yesterday warned increased uncertainty on near term consumption levels due to broader economic concerns and conservation efforts.
- Conference call is at 11:00AM EsT, Dial in: 888.203.1112; ID# 6214803

**IMPORTANT DISCLOSURES ARE LOCATED IN THE APPENDIX.**

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**APPENDIX**

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**Covered Companies Mentioned Section:**

American Water Works	AWK	\$24.54	Buy
Aqua America Inc.	WTR	\$21.55	Neutral

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<b>Rating Category</b>	<b>Count</b>	<b>Percent</b>
Buy	86	37.4%
Neutral	142	61.7%
Sell	2	0.9%

**RATING SYSTEM:**

“Buy” means that Longbow Securities expects total return to exceed 20% over a 12-month period.

“Neutral” means that Longbow Securities expects total return to be within a range of plus or minus 20% over a 12-month period.

“Sell” means that Longbow Securities expects total return to be negative by greater than 20% over a 12-month period.

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