

Water

Aqua America, Inc.

(WTR) - BUY

Price: **\$17.27**
 Fair Value Estimate: \$20.00
 52-Week Range: \$20.37-\$15.39
 Market Cap (MM): \$2,354
 Shr.O/S-Diluted (mm): 136.3
 Average Daily Volume: 996,961
 Dividend: \$0.58
 Yield: 3.4%

FYE: Dec	2008A	2009A	2010E
EPS:	\$0.73	\$0.77	\$0.89
Prior EPS:			NC
P/E Ratio:	23.7x	22.4x	19.4x

Quarterly EPS:

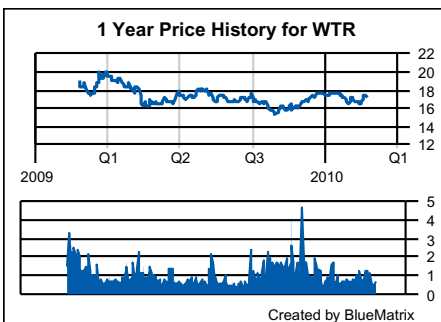
Quarter	2009	2010	2010E
Q1	\$0.11	\$0.14	\$0.16
Q2	\$0.17	\$0.19	\$0.24
Q3	\$0.26	\$0.25	\$0.28
Q4	\$0.19	\$0.20	\$0.22

EPS: 2010 estimates under review

First Glance: 4Q In Line; 2009 Earnings up 7% Despite Weather; Maintain BUY

KEY POINTS:

- Aqua America reported fourth quarter earnings of \$0.20, in line with our estimate and consensus and a penny better than last year's comparable period. For the full year, EPS grew 7% to \$0.77 – not bad considering the unfavorable weather, slow organic growth, and constricted usage patterns experienced this year. The consensus EPS estimate of \$0.80 as reported by Bloomberg includes two outliers not included in quarterly consensus.
- **Operations.** Quarterly revenue increased 5%, below our 6.5% expectations; however, costs were also lighter than we had forecasted. The O&M (operating expense / revenue) ratio was under 40% for the second quarter in a row, and these lower costs contributed to the company meeting our operating income expectations. Aqua invested a record \$283.6 million in 2009, upgrading pipe, plants, and storage facilities. Organic growth was negligible in 2009, thanks to a weak economy, but the company was able to growth its customer base a meager 1% due to 18 small acquisitions.
- **Regulatory Update.** After receiving \$37 million in annualized rates in 2009, the company has approximately \$65 million in outstanding rate cases, with the largest requests pending in Pennsylvania and New Jersey. To date in 2010, Aqua received rate decisions for annualized revenue of \$6 million. With plans for \$300 million in capex this year, the company anticipates filing for an additional \$30 million in rates in 2010, leading to an earnings impact in 2011.
- **Conference Call.** Management will host a conference call at 10am ET this morning. In addition to an update on regulatory matters and the acquisition outlook, we expect management to comment on certain aspects of operations since the beginning of the year. Specifically, we are curious about the impact that record snowfall and cold temperatures in Pennsylvania and New Jersey have had on maintenance expenses (associated with ruptured water mains). Additionally, commentary on changes in water demand and sendout levels could indicate how Q1 is shaping up.
- **Thesis Intact.** Aqua has relatively outperformed its peer group so far in 2010, down 1.4% compared to the group mean of -2.3% (excluding SouthWest Water). The company has expanded its capital expenditure program, accelerating its rate base growth, which will ultimately fuel future earnings. Management also continues to control costs, improving its efficiency ratio in 2009 to 40% from 42% in 2008 (one of the leanest operating structures in the group). We maintain our BUY rating and \$20 fair value ahead of today's conference call.



Company Description

Aqua America, Inc. provides water and wastewater utility service to suburban areas outside of Philadelphia, Chicago, and Cleveland, as well as other communities throughout 13 states, including Pennsylvania, New York, Ohio, North Carolina, Illinois, Texas, Florida, New Jersey, Indiana, Virginia, Maine, Missouri, and South Carolina.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Debra G. Coy and Heike M. Doerr, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

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BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 12/31/09

Rating	IB Serv./Past 12 Mos.			
	Count	Percent	Count	Percent
BUY [B]	164	51.00	15	9.00
NEUTRAL [N]	152	47.00	7	5.00
SELL [S]	5	2.00	0	0.00

***Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.**

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