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Rating: Buy
Suitability: 2
Water Utilities

	Value	Blend	Growth
Large			
Mid			
Small			

Aqua America Inc.

(WTR - NYSE)

Highlights from analyst day

Recent Price	\$17.20	Fiscal Year (Dec.)	2008	2009	2010
12-Month Price Target	\$23	Q1	\$0.11	\$0.14	
52-Week Range	\$12-22	Q2	\$0.17	\$0.19	
Shares Outstanding (M-Q2'09)	135.9	Q3	\$0.26	\$0.25	E
Market Cap. (M)	\$2,338	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	23.6x	21.0x	17.7x
Dividend / Annl. Yield	\$0.58 3.4%	ROE	9.6%	10.4%	12.4%
Avg. Daily Volume ('000)	667	EBITDA Margin	51.1%	52.3%	53.6%

Company Description: Aqua America is the 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.

- Yesterday WTR hosted a very well attended analyst day in New York. There were no new announcements, but with eight presenters from management and an in depth presentation investors were afforded an insightful level of specificity related to current operations and growth opportunities.
- One of the highlights was an opportunity to hear from former Chairman of the Pennsylvania Public Utility Commission, Wendell Holland, who served as a commissioner from 1990-1993 and then Chairman from 2004-2008. A positive regulatory environment is essential when investing in any utility, and on this front WTR appears to be seen favorably in the eyes of the regulators. This is driven largely by the company's concerted efforts to curtail customer rates through means such as actively working to reduce expense and lower debt costs, as well as WTR's willingness to take over troubled systems and quickly get them within acceptable standards.
- One of the principal themes was the company's appetite for making acquisitions, which we believe will be one of the principle drivers of earnings growth for the foreseeable future. Over the past 17 years, WTR has made over 240 acquisitions in a disciplined approach adding accretive assets in favorable regulatory environments. Most of the activity will likely be centered around the "tuck-in" variety, but it is our view that management is focused on a more sizable deal and is being actively opportunistic.

Note Important Disclosures on Pages 6 and 7.
Note Analyst Certification on Page 6.

- While acquisitions will remain a growth staple, we also note that the company is continuing its pruning process whereby it is shedding underperforming assets which serve as a drag to overall profitability.
- Thus far in 2009 the company has received \$27.2 million in rate awards, and pending rate cases and anticipated filings for this year total \$58.9 million. Importantly, this includes New Jersey (December filing) and Pennsylvania (DSIC in October and all divisions in November).
- Additionally on the rate front, we note that WTR proactively continues to improve the rate making process, through initiatives such as single tariff pricing (recent improvements get Florida from 82 divisions down to 8, North Carolina from 23 to 4, and Virginia 21 to 1) and the implementation of surcharges (New Jersey could be next).
- The company's capital expenditure program continues to be robust with approximately \$300-\$315 million of expenditures anticipated in 2009 focused on pipe replacement projects and plant upgrades, compared to \$267 million in 2008. In 2010 cap ex will likely be around ~\$325 million. Due to internally generated cash, the company does not anticipate any equity raising needs for the near term but an equity offering could be necessary in 2010.
- We recently reduced our Q3'09 EPS estimate from \$0.29 per share to \$0.25 and thus our FY'09 estimate from \$0.86 to \$0.82 due to heavy rainfall in Pennsylvania. In August the company had three times the normal rainfall in much of its southeastern operating area, and YTD totals are 6% above normal. Sendout for the summer months (which includes June in Q2) was 10% lower than in 2008. Rainy days in Philadelphia for July and August total 26 versus 17 last year, in addition to cooler temperatures. *(Please refer to our latest Utilities Monthly for additional weather related data/detail.)* Our FY'10 EPS estimate of \$0.97 is unchanged.
- We are also maintaining our \$23 price target, which we derive by applying a multiple of 24x to our 2009 earnings estimate, which is at the low end of multiples where the company typically trades. The stock is currently trading at 21.0x and 17.7x our 2009 and 2010 EPS estimates, respectively. The company is trading a slight premium to 2009 estimated earnings at 20.7x but a meaningful discount to 2010 at 18.7x.

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.

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	60,528	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

Aqua America, Inc.

Selected Balance Sheet Items	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
Cash	\$44,039	\$14,540	\$16,509	\$14,800	\$15,968	\$14,944	\$14,944	\$16,744	\$13,822	\$826	\$4,521	\$4,521	\$4,176
A/R	72,149	82,921	73,674	81,864	94,086	84,523	84,523	77,280	84,851	94,824	93,877	93,877	94,723
Other	18,512	18,050	19,936	23,198	19,817	21,574	21,574	20,707	23,857	21,882	21,498	21,498	21,692
Total current assets	134,700	115,511	110,119	119,862	129,871	121,041	121,041	114,731	122,530	117,532	119,896	119,896	120,591
Net PP&E	2,505,995	2,792,794	2,802,123	2,872,247	2,922,516	2,997,383	2,997,383	3,026,696	3,060,481	3,118,609	3,177,037	3,177,037	3,393,282
Regulatory assets	165,063	164,034	160,429	158,805	162,983	222,057	222,057	220,378	230,786	230,786	230,786	230,786	232,786
Other	72,145	154,573	153,212	143,323	148,669	144,541	144,541	120,164	116,467	153,177	164,822	164,822	166,307
Total Assets	\$2,877,903	\$3,226,912	\$3,225,883	\$3,294,237	\$3,364,039	\$3,485,022	\$3,485,022	\$3,481,969	\$3,530,264	3,620,105	3,692,541	3,692,541	3,912,966
Current portion of long-term debt	31,155	23,927	11,956	7,002	7,123	7,297	7,297	27,533	27,659	27,659	27,659	27,659	30,000
Loans payable	119,150	56,918	83,827	79,725	103,069	80,589	80,589	84,407	97,078	175,060	143,323	143,323	144,615
A/P	49,406	45,801	23,420	28,256	30,801	50,044	50,044	27,157	29,521	43,765	57,329	57,329	57,846
Goodwill	22,580	36,631	36,876	36,867	37,979	41,007	41,007	40,842	40,842	40,842	40,842	40,842	40,842
Other	33,320	19,935	18,382	11,714	39,311	14,234	14,234	12,096	10,672	87,530	68,795	68,795	69,415
Total current liab	255,611	183,212	174,461	163,564	218,283	193,171	193,171	192,035	205,722	374,856	337,949	337,949	342,718
LTD	951,660	1,215,053	1,213,640	1,212,423	1,211,388	1,248,104	1,248,104	1,226,232	1,227,744	1,235,244	1,275,244	1,275,244	1,347,903
Def inc taxes & invst tax credits	273,199	307,651	307,966	326,990	341,875	355,166	355,166	365,525	375,907	320,943	365,474	365,474	368,768
Customers' adv for construction	76,820	85,773	82,378	83,115	71,892	72,955	72,955	73,890	77,998	102,118	103,909	103,909	104,846
Other	78,285	83,236	80,369	80,237	77,475	137,485	137,485	135,547	148,085	87,530	101,043	101,043	101,953
CIAC	320,698	375,689	386,354	405,794	415,107	419,695	419,695	425,946	419,317	386,591	444,302	444,302	448,306
Shareholders' equity	921,630	976,289	980,715	1,022,114	1,028,019	1,058,446	1,058,446	1,062,794	1,075,441	1,075,441	1,075,441	1,075,441	1,075,441
Total Liab & SE	\$2,877,903	\$3,226,912	\$3,225,883	\$3,294,237	\$3,364,039	\$3,485,022	\$3,485,022	\$3,481,969	\$3,530,264	3,620,105	3,692,541	3,692,541	3,912,966
Selected Cash Flow Items	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
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
D&A	75,041	88,011	22,654	21,631	24,624	25,391	94,300	29,142	28,036	26,872	26,572	110,622	103,755
(Inc.) dec. in working cap.	(20,305)	(82,709)	(1,390)	(22,349)	45,878	(17,306)	4,833	6,974	3,016	12,348	(9,086)	13,252	12,795
Other operating activities	23,986	93,852	8,289	12,281	(27,780)	31,665	24,455	8,209	(13,052)	2,652	24,086	21,895	47,205
Operating cash flow	170,726	194,168	43,874	34,115	78,102	65,415	221,506	62,696	43,853	75,883	73,964	256,396	296,982
Cap ex	(271,706)	(238,140)	(56,467)	(54,056)	(77,540)	(79,355)	(267,418)	(62,135)	(54,999)	(85,000)	(85,000)	(287,134)	(320,000)
Acq. of water & wastewater systems	(11,848)	(51,226)	0	(1,600)	(12,625)	(434)	(14,659)	(290)	(880)	(10,000)	(10,000)	(21,170)	(40,000)
Divestiture gains							0			0	0	0	0
Other investing activities	58,205	(54,678)	18,062	13,124	4,427	7,693	43,306	23,794	5,773	0	0	29,567	50,000
Investing cash flow	(225,349)	(344,044)	(38,405)	(42,532)	(85,738)	(72,096)	(238,771)	(38,631)	(50,106)	(95,000)	(95,000)	(278,737)	(310,000)
Customer adv and CIAC	12,031	9,605	1,769	2,097	1,466	1,033	6,365	581	1,943	2,000	2,000	6,524	8,000
Long-term debt proceeds	103,360	275,757	56	15,386	1,408	35,891	52,741	303	3,402	20,000	40,000	63,705	75,000
Debt (repaid)	(43,961)	(109,219)	13,401	(25,707)	21,013	(24,074)	(15,367)	1,897	10,942	0	0	12,839	0
Stock issued	58,088	10,399	2,628	25,009	2,731	2,929	33,297	2,879	3,017	2,500	2,500	10,896	10,000
Stock (repurchased)	(972)	(863)	(283)	(12)	(3)	(99)	(397)	(300)	0	0	0	(300)	0
Dividends	(58,023)	(63,763)	(16,678)	(16,705)	(16,875)	(18,246)	(68,504)	(18,283)	(18,313)	(18,379)	(19,769)	(74,744)	(80,327)
Other financing activities	16,267	(1,539)	(4,393)	6,640	(936)	8,223	9,534	(9,342)	2,340	0	0	(7,002)	0
Financing cash flow	86,790	120,377	(3,500)	6,708	8,804	5,657	17,669	(22,265)	3,331	6,121	24,731	11,918	12,673
Net cash flow	32,167	(29,499)	1,969	(1,709)	1,168	(1,024)	404	1,800	(2,922)	(12,996)	3,695	(10,423)	(345)
Free cash flow (incl div)	(112,646)	(213,639)	(11,209)	(25,122)	(24,511)	(24,927)	(85,769)	5,782	(24,566)	(37,496)	(40,805)	(97,085)	(93,345)
FCF/share	(\$0.85)	(\$1.60)	(\$0.08)	(\$0.19)	(\$0.18)	(\$0.18)	(\$0.64)	\$0.04	(\$0.18)	(\$0.28)	(\$0.30)	(0.71)	(0.68)
EBITDA	280,588	304,027	62,870	74,760	99,198	83,273	320,101	75,908	86,900	99,565	94,952	357,325	388,872
EBITDA margin	52.6%	50.5%	45.1%	49.6%	56.0%	52.1%	51.1%	49.1%	51.9%	54.6%	53.0%	52.3%	53.6%
EBITDA/share	2.1x	2.3x	0.5x	0.6x	0.7x	0.6x	2.4x	0.6x	0.6x	0.7x	0.7x	2.6x	2.8x
EV/EBITDA	13.9x	13.3x	14.8x	11.2x	9.1x	12.1x	12.5x	12.9x	10.5x	10.3x	11.2x	11.9x	11.2x
Selected Financial Statistics	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
Book value	\$6.99	\$7.31	\$7.32	\$7.62	\$7.60	\$7.81	\$7.86	\$7.82	\$7.91	\$7.90	\$7.89	\$7.95	\$7.86
Tangible book value	\$6.82	\$7.03	\$7.05	\$7.35	\$7.32	\$7.50	\$7.55	\$7.52	\$7.61	\$7.60	\$7.59	\$7.64	\$7.56
Price/book	3.3x	2.9x	2.6x	2.1x	2.3x	2.6x	2.6x	2.6x	2.3x	2.7x	2.8x	2.8x	2.8x
LT debt/total capital	50.8%	55.4%	55.3%	54.3%	54.1%	54.1%	54.1%	53.6%	53.3%	53.5%	54.2%	54.2%	55.6%
ROE (TTM)	10.6%	10.0%	9.6%	9.2%	9.7%	9.6%	9.6%	9.8%	10.0%	9.7%	10.3%	10.4%	12.4%

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
Buy	45	27%	2%	98%
Long-term Buy	36	21%	0%	100%
Neutral	77	46%	5%	95%
Underperform	9	5%	11%	89%
Suspended	2	1%	0%	100%

As of 10 September 2009