



Longbow Research

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Company Update

Aqua America Inc. (WTR)

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Current Price: \$22.43
Rating: NEUTRAL
Target Price: NA

WTR: Solid Start to the Year

SUMMARY

- WTR reported adjusted 1Q11 EPS of \$0.19 (vs. 1Q10 of \$0.16), ahead of our and consensus \$0.18 estimate. Results exclude \$0.04/share positive state income tax benefit associated with bonus depreciation allowance. Sales of \$171M increased 7% y/y vs. our 11% forecast. At first glance, we estimate consumption declined 2% but will seek additional color on the call.
- Operations and Maintenance expenses increased 3% y/y, excluding the impact of a utility system in Texas. Including the impact, O&M expenses would have declined 0.4% y/y. Excluding the impact of the asset sale, the company's O&M ratio declined 140bp y/y to 40.7%. We note that WTR already has the highest efficiency ratio among the large publically traded water utilities and margins exceeded our 41.3% forecast.
- WTR received \$11.5M in rate awards and infrastructure surcharges in 1Q11. The company has \$26M of rate cases pending before seven state regulatory bodies. Additionally, the company expects to seek rate relief by filing cases in seven states later in FY11 that are expected to impact FY12 results.
- WTR invested \$60M in capex thus far in 1Q11 and expects to invest more than \$300M in capex this year. In addition, the company expects to construct three solar plants that are expected to produce 2,000 kilowatts of electricity as a means to reduce purchased energy costs.
- The company recently increased its dividend by 6.9% to \$0.155/share, the 20th dividend increase in the last 19 years.
- The call will likely focus on M&A opportunities and the company's outlook for the year.
- We would expect investors to be pleased with the solid quarter. The conference is at 11:00AM. Dial-in: 888.203.1112 and Password: 9315380.

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

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APPENDIX

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Covered Companies Mentioned Section:

Aqua America Inc.	WTR	\$22.43	Neutral
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Rating Category	Count	Percent
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Sell	2	0.9%

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