



Longbow Research

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Company Update

Aqua America Inc. (WTR)

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Current Price: \$21.05
Rating: NEUTRAL
Target Price: NA

WTR: First Read on 1Q as Cost Controls Drive Beat

SUMMARY

- WTR reported adjusted 2Q11 EPS of \$0.27 (vs. 2Q10 of \$0.22), ahead of our \$0.23 forecast and consensus of \$0.24. Results include \$0.03/share positive state income tax benefit associated with a 100% bonus depreciation allowance. Sales of \$118M increased 6% y/y, slightly worse than our 9% view. At first glance, we estimate that consumption declined 8% y/y, worse than the historical average, but will see additional color on the call.
- Operations and Maintenance expenses increased 2% y/y and are up just 1% in 1H11 compared to the year ago period as management remains focused on controlling costs. The company's O&M ratio declined 140bp y/y during the quarter and has improved 210bp YTD. We note that WTR already has the highest efficiency ratio among the large publically traded water utilities and operating margins of 39.8% came in ahead of our 37.2% forecast.
- YTD, the company has received water and wastewater rate awards that are expected to increase annualized revenues by ~\$18M. The company has \$25M 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 \$134M in capex thus far in 1H11 (\$74M in 2Q) and expects to invest a record \$325M in FY11, which is ahead of management's previous guidance of \$300M in capex spend.
- The company remains active on the M&A front and has engaged in a number of asset swaps with its peers in recent months as it looks to build critical mass in certain key states to generate economies of scale. We would expect the call to focus largely on these developments and management's outlook for similar opportunities going forward.
- We would expect investors to be pleased with the solid quarter and management's ability to contain costs. The conference is at 11:00AM EDT. Dial-in 888.203.1112 and Pwd:7104800

IMPORTANT DISCLOSURES ARE LOCATED IN THE APPENDIX.

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APPENDIX

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Covered Companies Mentioned Section:

Aqua America Inc.	WTR	\$21.05	Neutral
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Rating Category	Count	Percent
Buy	87	37.2%
Neutral	146	62.4%
Sell	1	0.4%

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