



American States Water Co. (AWR)

Updated March 10th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$70	5 Year CAGR Estimate:	-4.5%	Volatility Percentile:	20.6%
Fair Value Price:	\$39	5 Year Growth Estimate:	4.9%	Momentum Percentile:	95.6%
% Fair Value:	179%	5 Year Valuation Multiple Estimate:	-11.0%	Growth Percentile:	34.5%
Dividend Yield:	1.6%	5 Year Price Target	\$50	Valuation Percentile:	1.1%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	0.9%

Overview & Current Events

American States Water is a utility company with two business units: Utilities (primarily water, some electricity) and Services (wastewater services on several US military bases). American States Water is based in California, where it operates its utilities business. The company's services unit spans several US states. American States Water is a Dividend King, which means 50+ years of rising dividends. The company has a small market capitalization of just \$2.6 billion.

American States Water reported its fourth quarter and full year earnings results on February 25. The company reported that it generated revenues of \$111 million during the fourth quarter. This represents a growth rate of 6.6% versus the prior year's quarter. American States Water's revenues were also higher than what the analyst community forecasted, as analysts had expected revenues to come in roughly flat year over year.

American States Water generated earnings-per-share of \$0.37 during the fourth quarter, which was in line with the company's earnings-per-share from the previous year's quarter. During all of 2018, American States Water was able to generate earnings-per-share of \$1.73, which was \$0.06, or 3.6%, more than the company's earnings-per-share during fiscal 2017.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.81	\$1.11	\$1.12	\$1.41	\$1.61	\$1.57	\$1.60	\$1.62	\$1.67	\$1.73	\$1.95	\$2.48
DPS	\$0.51	\$0.52	\$0.55	\$0.64	\$0.76	\$0.83	\$0.87	\$0.91	\$0.99	\$1.06	\$1.12	\$1.36
Shares	37	37	38	39	39	38	37	37	37	37	37	36

American States Water operates in a low-growth industry, therefore its earnings-per-share growth rate is not very high. Between 2009 and 2018 American States Water was able to grow its earnings-per-share at a rate of 8.7% annually, but more recently its growth rate has slowed down considerably. Earnings during 2018 were only slightly higher than the company's profits during fiscal 2013. On the other hand the company managed to increase its profitability even during the last financial crisis, which shows that American States Water's profitability is not cyclical.

American States Water's utility business will most likely continue to grow at a low pace, as regulators will allow the company to increase its rates over time in order to encourage spending on growth and maintenance projects. The company is building out its services business by getting contracts for wastewater services on additional US military bases. The contracts for wastewater services on US military bases span a 50-year period each, so getting one such contract provides for a decades-long and very safe revenue stream. Receiving one new contract every couple of years provides for solid revenue growth potential. On a quarterly basis revenues can still see ups and downs depending on the amount of construction activity on military bases. American States Water should be able to increase its profits going forward. A mid-single digits earnings-per-share growth rate seems highly achievable, based on the further expansion of American States Water's services business and some profit increases for the utilities business.

American States Water has increased its dividend every year for more than fifty years in a row, which can only be described as a very long and successful dividend growth track record. The dividend growth rate was 6.9% during the last five years, which was possible due to an increase in its payout ratio.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	21.2	15.7	15.4	14.3	17.2	20.1	24.6	25.6	27.5	38.2	35.9	20.0
Avg. Yld.	2.9%	3.0%	3.2%	3.1%	2.7%	2.6%	2.2%	2.2%	2.0%	1.7%	1.6%	2.7%

American States Water performed relatively well during the last financial crisis, which explains why the company's stock continued to trade at a valuation that was elevated. Its valuation has expanded further since as the stock's run-up over the last year has led to a very high price to earnings multiple. We believe that the current valuation is unjustifiable, and we forecast meaningful headwinds to the stock's total returns from multiple compression.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	63.0%	46.8%	49.1%	45.4%	47.2%	52.9%	54.4%	56.2%	59.3%	61.3%	57.4%	54.8%

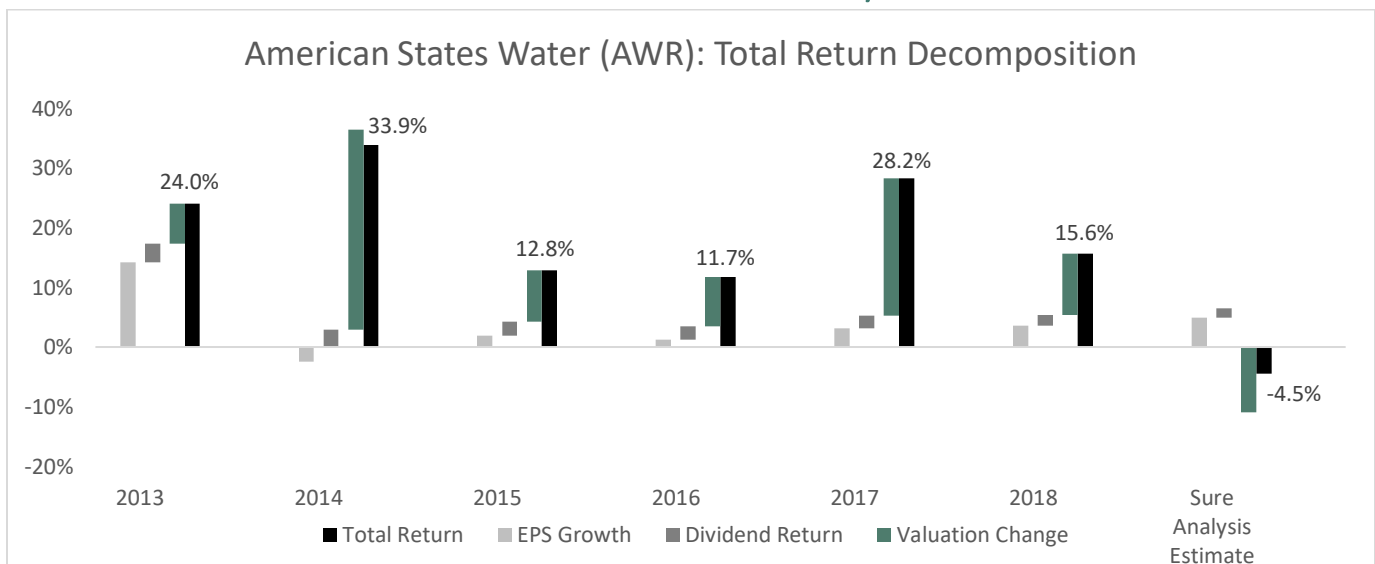
American States Water paid out roughly half of its net profits a year during the last decade. This is not a high payout ratio, especially for a stable company such as American States Water that generated strong earnings during the last financial crisis. We believe that the recession resilience, the moderate payout ratio, and the strong dividend growth track record mean that American States Water's dividend is very safe.

Utilities are not cyclical, and due to the decades-long contract durations with the US military the services business is not cyclical either. American States Water is therefore quite recession-proof. There is a low risk of an earnings decline, shown by the fact that even during the last financial crisis, profits kept increasing. Competition is not a major issue for American States Water's business, as the company operates with very long-term contracts.

Final Thoughts & Recommendation

American States Water was a stable performer during the last financial crisis, and the company's dividend looks very safe for the foreseeable future. The company should be able to grow its profits during the coming years as well. American States Water nevertheless does not look like an attractive investment today, though, as its valuation is absurdly high, which will pressure total returns significantly. We rate the stock a sell right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	353	400	420	467	472	466	459	436	441	437
Gross Profit	262	280	301	350	357	349	338	333	337	328
Gross Margin	74.1%	70.2%	71.6%	75.0%	75.6%	74.9%	73.7%	76.4%	76.5%	75.1%
SG&A Exp.	103	86	74	71	77	78	80	82	82	83
D&A Exp.	34	40	41	43	41	42	43	39	39	41
Operating Profit	69	73	95	111	119	119	118	114	119	101
Operating Margin	19.5%	18.3%	22.6%	23.8%	25.2%	25.6%	25.8%	26.2%	27.0%	23.1%
Net Profit	30	33	46	54	63	61	60	60	69	64
Net Margin	8.4%	8.3%	10.9%	11.6%	13.3%	13.1%	13.2%	13.7%	15.7%	14.6%
Free Cash Flow	-5	-25	0	33	38	91	8	-33	31	10
Income Tax	19	23	30	36	36	38	38	35	39	18

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1113	1192	1238	1281	1310	1378	1344	1470	1417	1501
Cash & Equivalents	2	4	1	23	38	76	4	0	0	7
Accounts Receivable	25	25	19	19	24	19	19	20	26	23
Inventories	2	2	3	5	5	4	5	4	5	6
Goodwill & Int. Ass.	1	1	1	1	1	1	1	1	1	1
Total Liabilities	754	814	830	826	818	871	878	976	887	943
Accounts Payable	34	36	38	41	50	42	51	44	51	60
Long-Term Debt	318	361	343	336	332	326	349	411	380	417
Shareholder's Equity	359	378	409	455	492	507	466	494	530	558
D/E Ratio	0.88	0.96	0.84	0.74	0.68	0.64	0.75	0.83	0.72	0.75

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.7%	2.9%	3.8%	4.3%	4.8%	4.5%	4.4%	4.2%	4.8%	4.4%
Return on Equity	8.8%	9.0%	11.7%	12.5%	13.2%	12.2%	12.4%	12.4%	13.5%	11.7%
ROIC	4.4%	4.7%	6.2%	7.0%	7.8%	7.4%	7.3%	6.9%	7.6%	6.8%
Shares Out.	37	37	38	39	39	38	37	37	37	37
Revenue/Share	9.71	10.67	11.15	12.20	12.15	11.98	12.19	11.87	11.96	11.83
FCF/Share	-0.13	-0.67	0.00	0.87	0.99	2.33	0.21	-0.90	0.85	0.28

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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