



Artesian Resources Corp. (ARTNA)

Updated May 15th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$38.6	5 Year CAGR Estimate:	7.7%	Market Cap:	\$373M
Fair Value Price:	\$44.6	5 Year Growth Estimate:	2.3%	Ex-Dividend Date:	8/6/2021 ¹
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.9%	Dividend Payment Date:	8/21/2021 ²
Dividend Yield:	2.7%	5 Year Price Target	\$50	Years Of Dividend Growth:	24
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	1.5%

Overview & Current Events

Artesian Resources Corp. was founded in 1905 in New Castle County, Delaware. Through its subsidiaries, the company provides water, wastewater and other services, primarily in the Delaware region. Artesian Resources sells and distributes water to residential, commercial, industrial, governmental, and utility customers throughout the state. In addition, Artesian Resources provides water for public and private fire protection in Delaware, Maryland, and Pennsylvania. The company produces 7.9 billion gallons of water annually through 1,311 miles of water main with a population of approximately 301,000 served. Artesian has 235 employees, and a market capitalization of \$373 million. On May 4th, 2021, Artesian Resources reported Q1 results. Earnings-per-share increased by 2.3% to \$0.45 in Q1. Revenue also increased by 4.2% to \$20.7 million year-over-year. Operating expenses, excluding depreciation and income taxes, increased 5.3% to \$0.6 million. Meanwhile, the company approved a 1.5% increase in the common stock dividend while also investing \$9.3 million in water and wastewater infrastructure in 2020. Depreciation and amortization increased 9.4% to \$0.3 million.

Fortunately, the company's businesses are essential to their clients so impacts from COVID-19 were minimal.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.83	\$1.13	\$0.94	\$1.07	\$1.26	\$1.41	\$1.51	\$1.54	\$1.60	\$1.79	\$2.23	\$2.50
DPS	\$0.76	\$0.79	\$0.82	\$0.85	\$0.87	\$0.90	\$0.93	\$0.96	\$0.98	\$1.03	\$1.04	\$1.25
Shares³	8.6	8.7	8.8	8.9	9.1	9.1	9.2	9.3	9.3	9.4	9.4	9.7

Artesian Resources has enjoyed strong growth for a utility. EPS growth over the past decade has averaged just under 8% per year.

That being said, we expect growth to slow somewhat moving forward to a ~2.3% annualized growth rate over the next five years. Delaware's population growth averages approximately 1% per year, which along with 1%-2% annual price increases, provides a baseline growth rate for the company of approximately 2%-3%. The company can potentially increase this further by offering new services, improving economies of scale, and expanding its area, but growth beyond 4% per year may be difficult going forward and for now, we choose to remain conservative with our assumption.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	22.5	18.3	23.9	20.5	18.0	20.9	24.2	23.9	23.3	21.8	17.3	20.0
Avg. Yld.	4.1%	3.8%	3.6%	3.9%	3.8%	3.1%	2.5%	2.6%	2.6%	2.6%	2.7%	2.5%

¹ Estimate

² Estimate

³ Share count is in millions.

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Due to its stability, Artesian Resources has historically commanded a rather high valuation. Its P/E ratio dropped to under 17 during the previous recession but has often floated over 20 during normal economic times. Currently the P/E ratio is 17.3 and its dividend yield is 2.7%.

Low government bond yields across the developed world have resulted in substantial equity premiums for recession-resistant stocks, meaning that even at rich valuations they potentially offer a sizable return premium over safe government bonds. Still, we believe that paying over 20x annual earnings is too rich given the lack of growth potential, and that a P/E of 20 or less for a company with this level of growth and high earnings resiliency is warranted.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	92%	70%	87%	79%	69%	64%	62%	62%	61%	58%	47%	50%

Artesian Resources has a solid balance sheet as annual interest expense is well-covered by operating income. The company uses a substantial amount of leverage but is in line with other utilities on this metric due to their stable, recession-resistant cash flows and large base of assets.

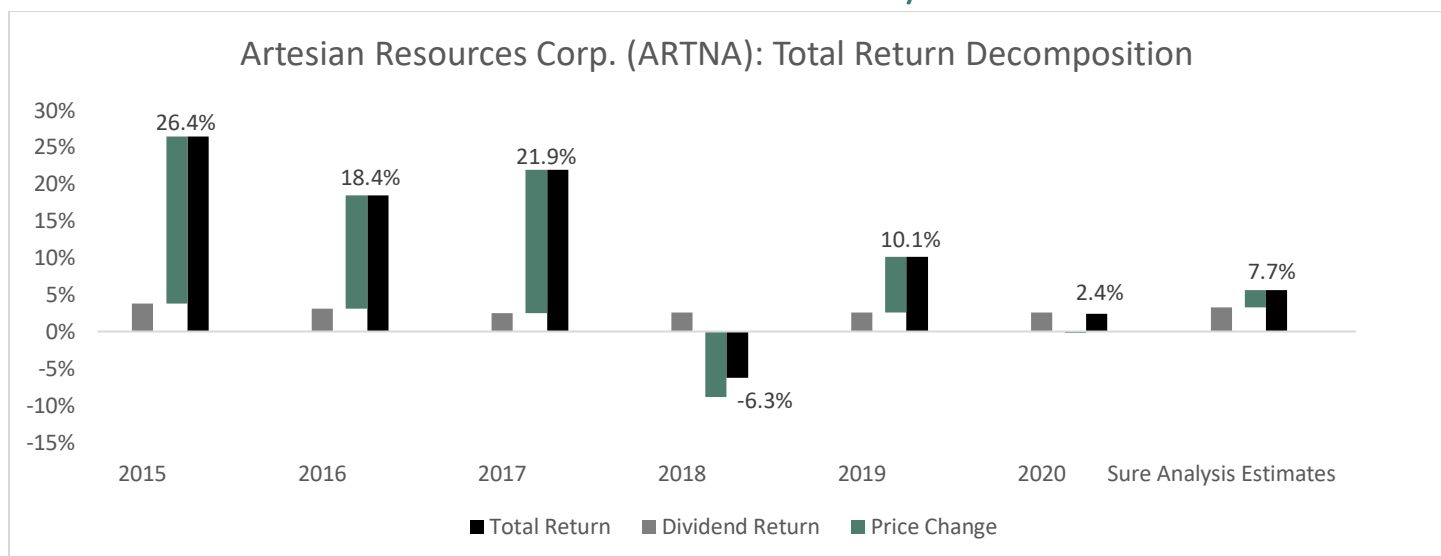
Like most utilities, the company's earnings have historically been very recession resistant. During the previous recession, the company's earnings-per-share declined by 5% in 2007 and declined by a further 7% in 2008. By 2009, the company had recovered to match its 2006 peak earnings and surpassed that peak in 2010. The company operates in a regulated environment with long-term contracts, and its cash flows should be very safe going forward. The company has increased its dividend for 24 consecutive years, although at times the payout ratio was high. Since 1992, the company has had the same CEO, Dian Taylor, who has proven to be an intelligent allocator of shareholder capital.

Final Thoughts & Recommendation

Artesian Resources has been a very successful utility company with a long stretch of consecutive annual dividend increases, and a solid growth rate in an otherwise slow-growing industry.

However, Artesian Resources' forward returns are likely to be lower than past returns, as the company's growth rate is likely to slow moving forward. We expect total returns over the next five years to average approximately 7.7% per year, and therefore consider Artesian Resources to be a hold at the current time.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	65	71	69	72	77	79	82	80	84	88
Gross Profit	30	34	32	35	39	41	41	39	41	45
Gross Margin	45.5%	48.7%	47.0%	48.8%	50.1%	51.6%	50.1%	48.8%	49.2%	50.5%
D&A Exp.	7	8	8	9	9	9	10	10	11	11
Operating Profit	18	22	20	22	25	27	27	24	25	28
Operating Margin	28.3%	31.8%	29.1%	30.9%	32.9%	34.3%	32.7%	29.8%	30.0%	31.7%
Net Profit	7	10	8	10	11	13	14	14	15	17
Net Margin	10.4%	14.0%	12.0%	13.1%	14.7%	16.4%	17.0%	17.8%	17.9%	19.1%
Free Cash Flow	3	3	(0)	(5)	8	2	(5)	(20)	(22)	(14)
Income Tax	5	7	6	6	8	8	7	5	5	6

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	379	392	404	422	432	451	495	530	560	593
Cash & Equivalents	0	1	0	0	0	0	1	0	1	0
Accounts Receivable	3	4	4	4	5	5	5	6	6	7
Inventories	1	1	1	2	2	2	2	1	1	2
Total Liabilities	266	274	282	297	299	312	348	377	400	424
Accounts Payable	3	3	4	4	5	6	9	8	8	6
Long-Term Debt	120	118	117	125	115	111	117	134	153	171
Shareholder's Equity	113	118	122	126	132	139	147	153	160	169
D/E Ratio	1.06	1.00	0.96	0.99	0.87	0.80	0.79	0.87	0.96	1.01

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.8%	2.6%	2.1%	2.3%	2.6%	2.9%	3.0%	2.8%	2.7%	2.9%
Return on Equity	6.5%	8.5%	6.9%	7.7%	8.8%	9.5%	9.8%	9.5%	9.5%	10.2%
ROIC	2.9%	4.2%	3.5%	3.9%	4.5%	5.2%	5.5%	5.2%	5.0%	5.1%
Shares Out.	8.6	8.7	8.8	8.9	9.1	9.1	9.2	9.3	9.3	9.4
Revenue/Share	7.97	8.09	7.82	8.12	8.55	8.63	8.90	8.65	8.96	9.41
FCF/Share	0.42	0.32	(0.02)	(0.59)	0.86	0.17	(0.58)	(2.14)	(2.34)	(1.49)

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

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