



The York Water Company (YORW)

Updated November 7th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$49	5 Year CAGR Estimate:	5.5%	Market Cap:	\$647.6 M
Fair Value Price:	\$45	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	12/30/2021 ¹
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date:	01/15/2022
Dividend Yield:	1.5%	5 Year Price Target	\$60	Years Of Dividend Growth:	24
Dividend Risk Score:	B	Retirement Suitability Score:	D	Last Dividend Increase:	4.0%

Overview & Current Events

The York Water Company is a special one in the industry since it is the oldest investor-owned water utility in the United States, having functioned continuously since 1816. The company showcases a unique record of over 200 years of uninterrupted dividend payments to shareholders. It operates entirely within its franchised territory, which covers 51 municipalities within York, Adams, and Franklin Counties, Pennsylvania, with an estimated population of 202,000. The York Water sees an average daily consumption of 19.9 million gallons, generating around \$55 million in annual revenues. The company is based in York, Pennsylvania.

On November 5th, The York Water Company reported its Q3 results for the period ending September 30th, 2021. For the quarter, revenues came in at \$14.5 million, 2.1% higher year-over-year. Increased revenues were primarily due to the utilization of the Distribution System Improvement Charge (DSIC) and growth in the customer base. The DSIC is a Pennsylvania Public Utility Commission-allowed charge that water utilities collect from customers for the replacement of aging infrastructure. EPS was \$0.36, flat year-over, due to higher operating expenses and interest on debt. During the first nine months of the year, the company invested \$27.4 million in construction expenditure for various infrastructure improvements. Management expects to invest an additional \$7.6 million during the year, excluding acquisitions, for additional main extensions, an elevated water tank, completion of a wastewater treatment plant, and routine improvements to its pipes. We continue to expect FY2021 EPS of \$1.29.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.71	\$0.72	\$0.75	\$0.89	\$0.97	\$0.92	\$1.01	\$1.04	\$1.11	\$1.27	\$1.29	\$1.73
DPS	\$0.53	\$0.54	\$0.56	\$0.58	\$0.60	\$0.63	\$0.65	\$0.67	\$0.70	\$0.73	\$0.75	\$0.91
Shares²	12.7	12.8	12.9	12.9	12.8	12.8	12.8	12.9	13.0	13.0	13.0	13.1

York Water is enjoying very stable and predictable cash flows due to water being a necessary commodity for households. As a result, the company has seen a very steady and gradual growth in its EPS, which features a 10-year CAGR of 6.7%. Future growth catalysts include a growing number of customers and distribution facilities, as well as acquisitions of wastewater systems. For context, during 2020, customers grew by 1.8% to 72,681 (population served of more than 202,000.) Besides organic growth and acquisitions, the company is able to achieve higher revenues over time as a result of increases in water and wastewater rates, which are usually capped at 5% annually and reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. We expect EPS growth of around 6% in the medium-term, in line with the company's historical average. Due to such a predictable business model and financials, the company has been able to deliver one of the most impressive dividend records in the world, numbering more than 200 years of uninterrupted dividend payments. We expect DPS growth of around 4% in the medium-term, in line with its latest increase and the current trend of an improving payout ratio. Dividends have grown annually for 24 consecutive years.

¹ Estimated dividend dates based on past dividend dates.

² Share count is in millions.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	25.1	24.0	25.3	22.9	21.7	32.2	34.7	29.8	41.5	35.4	38.3	35.0
Avg. Yld.	3.0%	3.1%	2.9%	2.8%	2.9%	2.1%	1.9%	2.2%	1.5%	1.6%	1.5%	1.5%

The York Water's valuation multiple has expanded gradually over the past decade, as has been the case with all of its industry peers. The market has been pricing water stocks based on their yield, whose movement mimics that of the T-bills, as water utilities enjoy the most predictable and safe cash flows amongst likely all industries. This explains the yield compression during this time despite the annual dividend increases. We believe that the stock should be priced more modestly, but recognize the high likelihood of investors continuing to price shares at current levels due to their unique and sought-after qualities. Consequently, we expect a rather small valuation compression to a P/E of 35 going forward. We expect the stock's yield to remain close to its current levels in the medium term as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

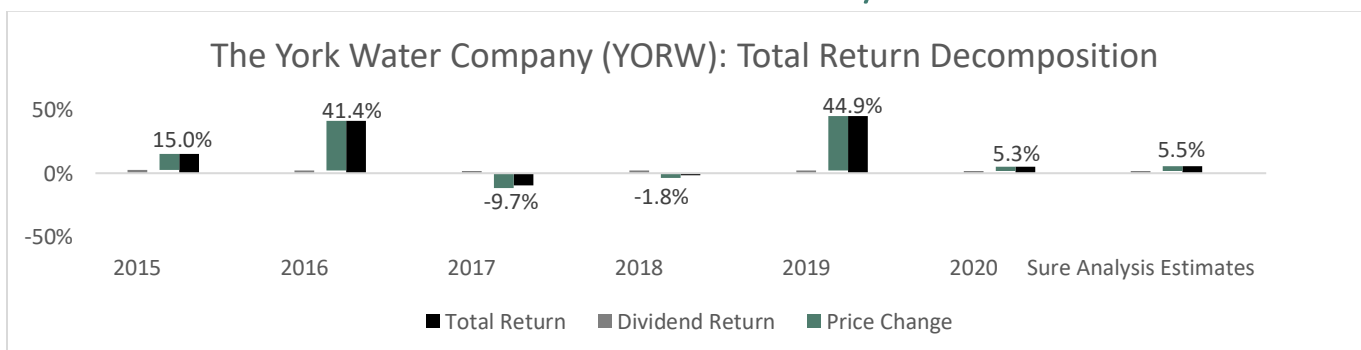
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	75%	75%	75%	65%	62%	68%	64%	64%	63%	57%	58%	53%

As mentioned, The York Water Company's revenues should remain ultimately resilient in the future, powered by a very predictable business model and slow but gradual growth catalysts. The company's cash flows are unlikely to be affected by any potential recession, as was the case during the Great Financial Crisis and the COVID-19 pandemic. York recently paid its 602nd consecutive dividend, which is a testament to its ability to produce robust financials under any potential economic scenario. Finally, the company operates within an exclusive franchised territory that is substantially free from direct competition with other public utilities, municipalities, and other entities, adding another layer of safety to its business model. We believe York's dividend is extremely safe and certainly trustworthy.

Final Thoughts & Recommendation

The York Water company displays one of the longest and most impressive shareholder value creation stories in history. Only a handful of companies can boast such a prolonged record of success and dividend payments. While the company is likely to keep performing well, powered by predictable growth catalysts and a great moat, the market has priced the stock very expensively. In any case, the company's mature operations should deliver relatively modest growth metrics, which combined with the potential for valuation headwinds ahead, pointing towards annualized medium-term returns of around 5.5%. The stock's yield is currently near all-time lows amid the stock's valuation expansion. Future returns will likely be mostly in the form of capital gains. The stock does not offer extraordinary returns, though very conservative income investors may appreciate its robust qualities. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	41	41	42	46	47	48	49	48	52	54
Gross Profit	33	34	35	38	39	40	40	39	41	43
Gross Margin	82.0%	82.6%	82.7%	82.6%	82.9%	83.1%	81.7%	80.0%	79.9%	80.0%
SG&A Exp.	7	7	7	9	9	9	8	8	9	9
D&A Exp.	5	5	6	6	6	6	7	7	8	8
Operating Profit	20	21	21	22	23	23	24	23	24	24
Operating Margin	48.9%	49.6%	49.0%	48.1%	48.1%	48.1%	48.8%	46.5%	46.1%	45.4%
Net Profit	9	9	10	11	12	12	13	13	14	17
Net Margin	22.4%	22.4%	22.8%	25.0%	26.5%	24.9%	26.7%	27.6%	27.9%	30.8%
Free Cash Flow	8	4	9	4	7	6	(5)	1	(2)	(13)
Income Tax	5	6	6	5	5	5	5	2	2	2

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	274	282	283	304	311	320	332	345	364	407
Cash & Equivalents	4	4	8	1	3	4	0	0	0	0
Accounts Receivable	4	4	4	4	4	5	5	5	5	6
Inventories	1	1	1	1	1	1	1	1	1	1
Total Liabilities	179	183	179	200	201	206	213	219	229	264
Accounts Payable	1	1	2	2	2	4	3	3	3	7
Long-Term Debt	85	85	85	85	85	85	91	94	101	124
Shareholder's Equity	95	100	104	105	109	114	119	126	134	143
D/E Ratio	0.89	0.85	0.82	0.81	0.78	0.74	0.76	0.75	0.75	0.86

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.4%	3.3%	3.4%	3.9%	4.1%	3.8%	4.0%	4.0%	4.1%	4.3%
Return on Equity	9.7%	9.5%	9.5%	11.0%	11.7%	10.6%	11.1%	10.9%	11.1%	12.0%
ROIC	5.1%	5.1%	5.2%	6.1%	6.5%	6.0%	6.3%	6.2%	6.3%	6.6%
Shares Out.	12.7	12.8	12.9	12.9	12.8	12.8	12.8	12.9	13.0	13.0
Revenue/Share	3.19	3.23	3.28	3.56	3.67	3.70	3.78	3.75	3.98	4.13
FCF/Share	0.63	0.33	0.66	0.33	0.51	0.48	(0.39)	0.12	(0.13)	(1.00)

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

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