



American States Water Co. (AWR)

Updated November 24th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$98.9	5 Year CAGR Estimate:	-0.7%	Market Cap:	\$3.6B
Fair Value Price:	\$61.3	5 Year Growth Estimate:	7.1%	Ex-Dividend Date:	02/14/23 ¹
% Fair Value:	161%	5 Year Valuation Multiple Estimate:	-9.1%	Dividend Payment Date:	03/01/23
Dividend Yield:	1.6%	5 Year Price Target	\$86	Years Of Dividend Growth:	68
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

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 it has 50+ years of rising dividends. The company has a small market capitalization of \$3.6 billion. American States Water reported its third quarter earnings results on November 7th, 2022, which included a \$0.07 per share decrease in recorded third quarter consolidated diluted EPS compared to third quarter of 2021, or \$0.06 per share increase in terms of adjusted consolidated diluted EPS. Third quarter results reflect an unfavorable variance of \$0.03 per share from losses on investments held to fund a retirement plan. Third quarter results also reflect 2021 water rates. 2022 water rates, if approved as settled, would be retroactive to January 1, 2022 and add \$0.10 per share to the quarter.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.41	\$1.61	\$1.57	\$1.60	\$1.62	\$1.74	\$1.72	\$2.24	\$2.33	\$2.47	\$2.45	\$3.45
DPS	\$0.64	\$0.76	\$0.83	\$0.87	\$0.91	\$0.99	\$1.06	\$1.22	\$1.34	\$1.40	\$1.59	\$2.04
Shares¹	38.5	38.7	38.2	36.5	36.6	36.7	36.8	36.9	36.9	36.9	37.0	36.9

Between 2011 and 2020 American States Water was able to grow its earnings-per-share at a rate of 7.6% annually but moving forward we expect its growth rate to slow down slightly to 7.1% per year. 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 decent 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 high-single-digits earnings-per-share growth rate seems 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 68 years in a row, which can only be described as a very long and successful dividend growth track record.

¹ 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.3	17.2	20.1	24.6	25.6	27.5	38.2	42.0	34.9	37.2	40.4	25.0
Avg. Yld.	3.2%	2.7%	2.6%	2.2%	2.2%	2.2%	1.6%	1.3%	1.6%	1.6%	1.6%	2.4%

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 is elevated. Its valuation has expanded further since the stock's recent run-up 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, though low interest rates have prompted us to increase the fair value estimate to 25 times earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	45.4%	47.2%	52.9%	54.4%	56.2%	56.9%	61.6%	54.5%	57.5%	56.7%	64.9%	59.1%

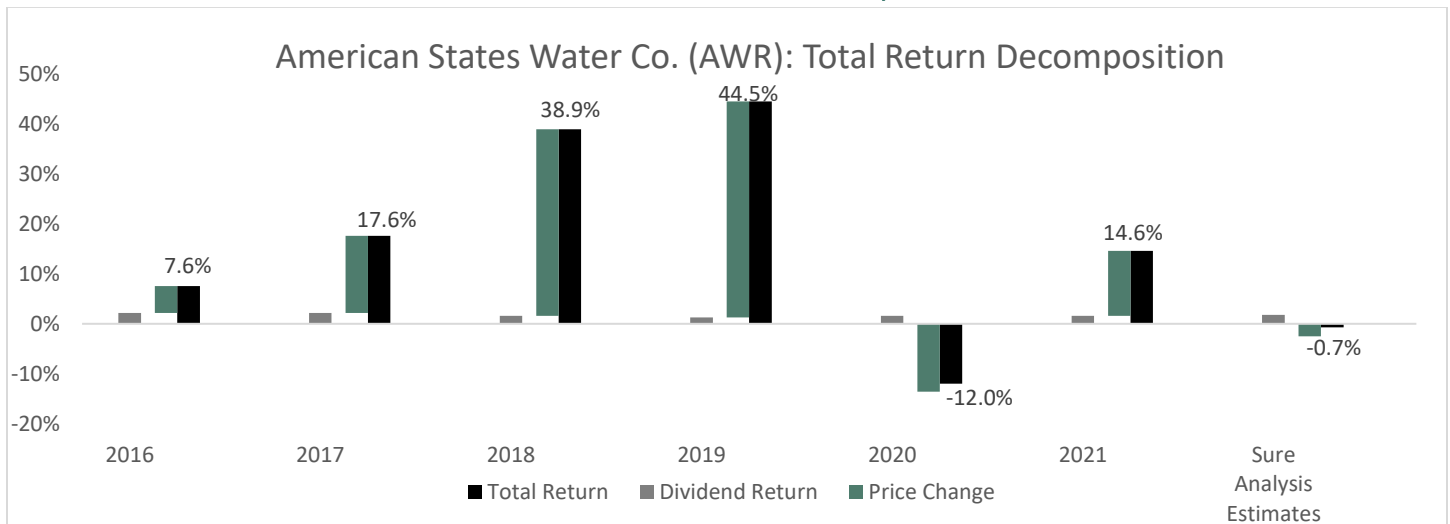
American States Water paid out roughly half of its net profits a year during the last decade. This is not a high payout ratio, especially for a stable company such as American States Water that generated strong earnings during the last financial crisis. We believe that the recession resilience, the moderate 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. American States Water nevertheless does not look like an attractive investment today, though, as its valuation is very high, which will pressure total returns significantly, and the meager dividend yield and attractive growth rate will be largely offset by significant valuation compression, leading to expected annualized total returns of -0.7% over the next half decade. As a result, we rate the stock a Sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	467	472	466	459	436	441	437	474	488	499
Gross Profit	350	357	349	338	333	337	328	354	369	378
Gross Margin	75.0%	75.6%	74.9%	73.7%	76.4%	76.5%	75.1%	74.6%	75.5%	75.7%
SG&A Exp.	71	77	78	80	82	82	83	83	84	84
D&A Exp.	43	41	42	43	39	39	41	36	37	40
Operating Profit	111	119	119	118	114	119	101	127	131	141
Operating Margin	23.8%	25.2%	25.6%	25.8%	26.2%	27.0%	23.1%	26.8%	26.7%	28.2%
Net Profit	54	63	61	60	60	69	64	84	86	94
Net Margin	11.6%	13.3%	13.1%	13.2%	13.7%	15.7%	14.6%	17.8%	17.7%	18.9%
Free Cash Flow	33	38	91	8	(33)	31	10	(35)	(8)	(29)
Income Tax	36	36	38	38	35	39	18	25	28	30

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,281	1,310	1,378	1,344	1,470	1,417	1,501	1,641	1,792	1,901
Cash & Equivalents	23	38	76	4	0	0	7	1	37	5
Accounts Receivable	19	24	19	19	20	26	23	21	29	34
Inventories	5	5	4	5	4	5	6	6	9	12
Goodwill & Int. Ass.	1	1	1	1	1	1	1	1	1	1
Total Liabilities	826	818	871	878	976	887	943	1,040	1,150	1,215
Accounts Payable	41	50	42	51	44	51	60	56	64	66
Long-Term Debt	336	332	326	349	411	380	417	486	575	618
Shareholder's Equity	455	492	507	466	494	530	558	602	642	686
LTD/E Ratio	0.74	0.68	0.64	0.75	0.83	0.72	0.75	0.81	0.90	0.90

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.3%	4.8%	4.5%	4.4%	4.2%	4.8%	4.4%	5.4%	5.0%	5.1%
Return on Equity	12.5%	13.2%	12.2%	12.4%	12.4%	13.5%	11.7%	14.5%	13.9%	14.2%
ROIC	7.0%	7.8%	7.4%	7.3%	6.9%	7.6%	6.8%	8.2%	7.5%	7.5%
Shares Out.	38.5	38.7	38.2	36.5	36.6	36.7	36.8	36.9	36.9	36.9
Revenue/Share	12.20	12.15	11.98	12.19	11.87	11.96	11.83	12.82	13.20	13.48
FCF/Share	0.87	0.99	2.33	0.21	(0.90)	0.85	0.28	(0.95)	(0.22)	(0.78)

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

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