



The York Water Company (YORW)

Updated March 9th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	2.6%	Market Cap:	\$618.3 M
Fair Value Price:	\$34	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/27/2023
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	04/14/2023
Dividend Yield:	1.9%	5 Year Price Target	\$60	Years Of Dividend Growth:	26
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Sell

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 204,000. The York Water sees an average daily consumption of 21.1 million gallons, generating around \$60 million in annual revenues. The company is based in York, Pennsylvania.

On November 22nd, 2022, The York Water Company increased its dividend by 4% to a quarterly rate of \$0.2027.

On March 7th, 2023, The York Water Company reported its Q4-2022 and full-year results for the period ending December 31st, 2022. For the quarter, revenues came in at \$15.1 million, 10.3% higher year-over-year. Increased revenues were primarily due to growth in the customer base from the West Manheim Township wastewater acquisition and the utilization of the Distribution System Improvement Charge (DSIC). The DSIC is a Pennsylvania Public Utility Commission-allowed charge that water utilities collect from customers for the replacement of aging infrastructure. EPS was \$0.35, four cents higher year-over-year, following relatively minor increases in operating expenses and interest on debt. For the year, EPS rose by 7.7% to \$1.40.

During the year, the company invested \$50.5 million in construction expenditures for various infrastructure improvements. Management expects to invest about \$60.6 million this year and \$47.1 million in 2023, excluding acquisitions. Funds will be used for armoring and replacing the spillway of the Lake Williams dam, additional main extensions, and routine improvements to its pipes, service lines, and other facilities. We now expect FY2023 EPS of \$1.53.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.89	\$0.97	\$0.92	\$1.01	\$1.04	\$1.11	\$1.27	\$1.30	\$1.30	\$1.40	\$1.53	\$2.05
DPS	\$0.58	\$0.60	\$0.63	\$0.65	\$0.67	\$0.70	\$0.73	\$0.76	\$0.76	\$0.79	\$0.81	\$0.99
Shares¹	12.9	12.8	12.8	12.8	12.9	13.0	13.0	13.0	13.0	14.0	14.3	15.0

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 very steady and gradual growth in its EPS, which features a 10-year CAGR of 5.2%. Future growth catalysts include a growing number of customers and distribution facilities, as well as acquisitions of wastewater systems. For context, during 2022, customers grew by 4.9% to 77,731 (population served of more than 208,000.) 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

¹ Share count is in millions.

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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 26 consecutive years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	25.3	22.9	21.7	32.2	34.7	29.8	41.5	35.4	36.1	31.2	28.5	22.0
Avg. Yld.	2.9%	2.8%	2.9%	2.1%	1.9%	2.2%	1.5%	1.6%	1.5%	1.8%	1.9%	2.2%

The York Water's valuation multiple has expanded gradually over the past decade, as has been the case with all of its industry peers. We believe that the stock should be priced significantly lower, but recognize the high likelihood of investors continuing to price shares at current levels due to their unique and sought-after qualities. Still, we would expect a rather noteworthy valuation compression to a P/E of 22 going forward, which is where we consider the stock fairly priced. This is due to a rising-rates environment, which could eventually compress the valuation of even the most reliable companies. We expect the stock's yield to remain relatively thin in the medium-term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

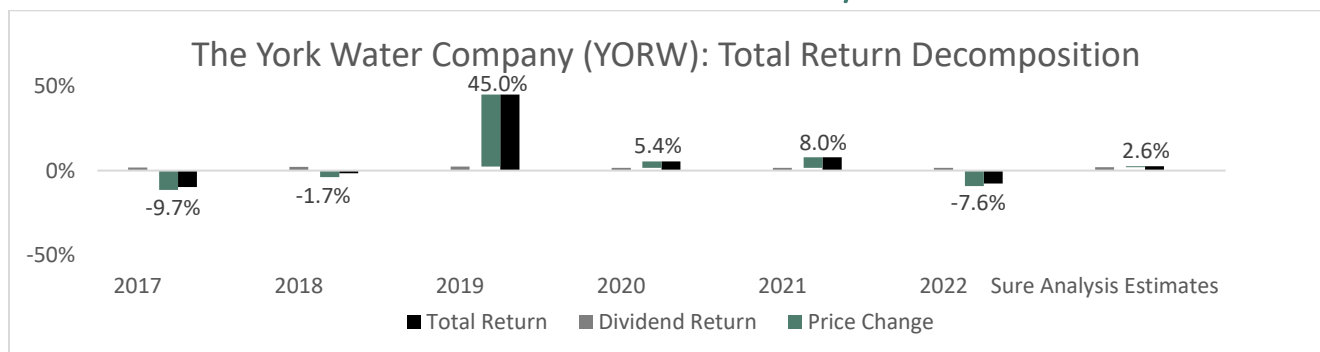
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	65%	62%	68%	64%	64%	63%	57%	58%	58%	56%	53%	48%

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 declared its 609th 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. Despite its predictable growth catalysts and a great moat, however, the stock is very expensive. The company's mature operations should deliver relatively modest growth metrics. Along with the potential for valuation headwinds ahead, we estimate annualized medium-term returns of just 2.6%. The stock does not offer a very attractive total return profile ahead, though very conservative income investors may appreciate its robust qualities. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	41	42	46	47	48	49	48	52	54	55
Gross Profit	34	35	38	39	40	40	39	41	43	43
Gross Margin	82.6%	82.7%	82.6%	82.9%	83.1%	81.7%	80.0%	79.9%	80.0%	78.2%
SG&A Exp.	7	7	9	9	9	8	8	9	9	10
D&A Exp.	5	6	6	6	6	7	7	8	8	9
Operating Profit	21	21	22	23	23	24	23	24	24	23
Operating Margin	49.6%	49.0%	48.1%	48.1%	48.1%	48.8%	46.5%	46.1%	45.4%	41.8%
Net Profit	9	10	11	12	12	13	13	14	17	17
Net Margin	22.4%	22.8%	25.0%	26.5%	24.9%	26.7%	27.6%	27.9%	30.8%	30.9%
Free Cash Flow	4	9	4	7	6	(5)	1	(2)	(13)	(23)
Income Tax	6	6	5	5	5	5	2	2	2	1

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	282	283	304	311	320	332	345	364	407	459
Cash & Equivalents	4	8	1	3	4	0	0	0	0	0
Accounts Receivable	4	4	4	4	5	5	5	5	6	5
Inventories	1	1	1	1	1	1	1	1	1	2
Total Liabilities	183	179	200	201	206	213	219	229	264	306
Accounts Payable	1	2	2	2	4	3	3	3	7	7
Long-Term Debt	85	85	85	85	85	91	94	101	124	146
Shareholder's Equity	100	104	105	109	114	119	126	134	143	153
LTD/E Ratio	0.85	0.82	0.81	0.78	0.74	0.76	0.75	0.75	0.86	0.96

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.3%	3.4%	3.9%	4.1%	3.8%	4.0%	4.0%	4.1%	4.3%	3.9%
Return on Equity	9.5%	9.5%	11.0%	11.7%	10.6%	11.1%	10.9%	11.1%	12.0%	11.5%
ROIC	5.1%	5.2%	6.1%	6.5%	6.0%	6.3%	6.2%	6.3%	6.6%	6.0%
Shares Out.	12.8	12.9	12.9	12.8	12.8	12.8	12.9	13.0	13.0	13.1
Revenue/Share	3.23	3.28	3.56	3.67	3.70	3.78	3.75	3.98	4.13	4.22
FCF/Share	0.33	0.66	0.33	0.51	0.48	(0.39)	0.12	(0.13)	(1.00)	(1.79)

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

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