



Artesian Resources Corp. (ARTNA)

Updated August 23rd, 2023 by Samuel Smith

Key Metrics

Current Price:	\$45.6	5 Year CAGR Estimate:	6.8%	Market Cap:	\$470M
Fair Value Price:	\$42.8	5 Year Growth Estimate:	6.1%	Ex-Dividend Date:	11/16/2023 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	11/26/2023 ²
Dividend Yield:	2.4%	5 Year Price Target	\$57	Years Of Dividend Growth:	28
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

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 Resources announced its Q2 results on August 7th, 2023. The diluted net income per share for the quarter decreased to \$0.44 and to \$0.84 year-to-date, in contrast to \$0.53 and \$1.01 in the corresponding periods of the previous year. The company achieved an increase in revenue by \$0.2 million in the second quarter and \$0.5 million year-to-date. Artesian Resources took the initiative to request increased water rates from the Delaware Public Service Commission on April 28th. This measure aimed to support the ongoing capital improvement program and address rising operational costs. Notably, the company invested \$32.3 million year-to-date in water and wastewater infrastructure, underscoring its commitment to enhancing its services. Additionally, the company raised \$36.2 million in capital through the sale of around 763,339 shares of its Class A Non-Voting Common Stock.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.94	\$1.07	\$1.26	\$1.41	\$1.51	\$1.54	\$1.60	\$1.79	\$1.79	\$1.79	\$1.90	\$2.55
DPS	\$0.82	\$0.85	\$0.87	\$0.90	\$0.93	\$0.96	\$0.98	\$1.03	\$1.07	\$1.09	\$1.14	\$1.25
Shares³	8.8	8.9	9.1	9.1	9.2	9.3	9.3	9.4	9.4	9.5	10.3	9.8

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 6.1% 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 6-7% per year may be difficult going forward and for now, we choose to remain conservative with our estimate.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	23.9	20.5	18	20.9	24.2	23.9	23.3	21.8	25.9	29.7	24.0	22.5
Avg. Yld.	3.6%	3.9%	3.8%	3.1%	2.5%	2.6%	2.6%	2.6%	2.3%	2.1%	2.4%	2.2%

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 24 and its dividend yield is 2.4%.

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, with interest rates rising, we believe that paying over 22.5x annual earnings is too rich given the lack of growth potential, and that a P/E of 22.5 or less for a company with this level of growth and high earnings resiliency is warranted.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	87%	79%	69%	64%	62%	62%	61%	58%	60%	61%	58%	49%

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.

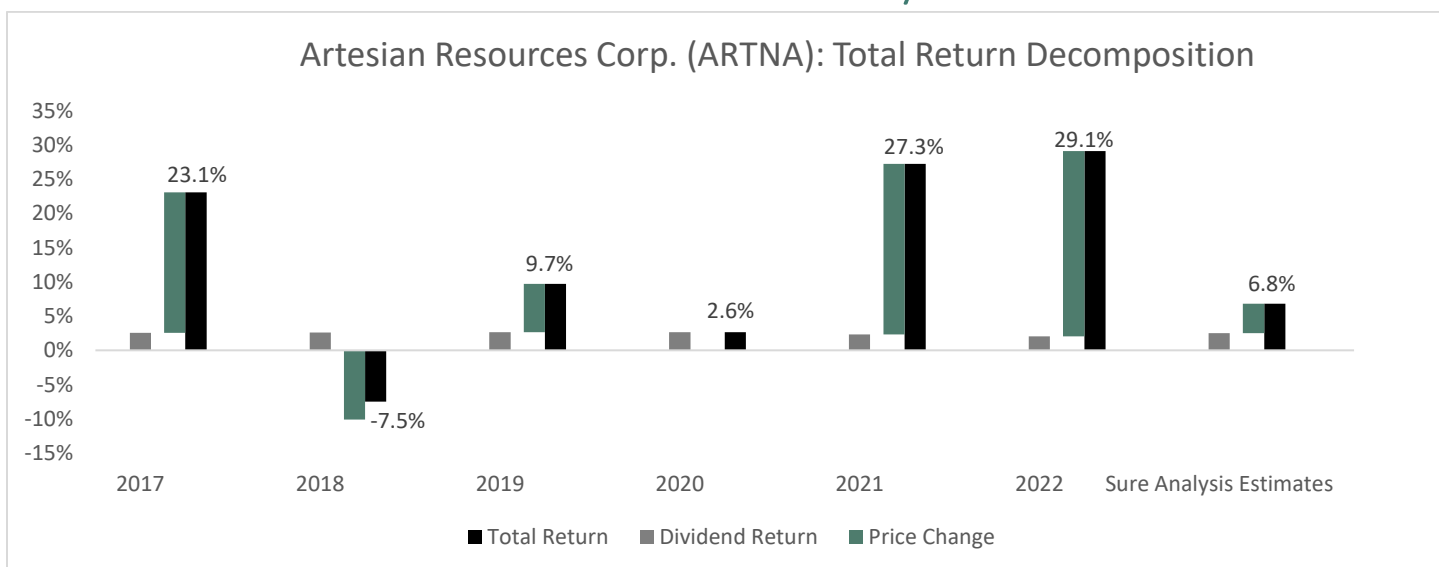
Like most utilities, the company's earnings have historically been very recession resistant. During the previous recession, the company's earnings-per-share declined by 5% in 2007 and declined by a further 7% in 2008. By 2009, the company had recovered to match its 2006 peak earnings and surpassed that 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 28 consecutive years, although at times the payout ratio was high.

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 6.8% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	69	72	77	79	82	80	84	88	91	99
Gross Profit	32	35	39	41	41	39	41	45	46	48
Gross Margin	47.0%	48.8%	50.1%	51.6%	50.1%	48.8%	49.2%	50.5%	50.1%	48.8%
D&A Exp.	8	9	9	9	10	10	11	11	12	13
Operating Profit	20	22	25	27	27	24	25	28	28	30
Operating Margin	29.1%	30.9%	32.9%	34.3%	32.7%	29.8%	30.0%	31.7%	30.9%	30.1%
Net Profit	8	10	11	13	14	14	15	17	17	18
Net Margin	12.0%	13.1%	14.7%	16.4%	17.0%	17.8%	17.9%	19.1%	18.5%	18.2%
Free Cash Flow	(0)	(5)	8	2	(5)	(20)	(22)	(14)	(10)	(24)
Income Tax	6	6	8	8	7	5	5	6	6	6

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	404	422	432	451	495	530	560	593	625	720
Cash & Equivalents	0	0	0	0	1	0	1	0	0	1
Accounts Receivable	4	4	5	5	5	6	6	7	6	6
Inventories	1	2	2	2	2	1	1	2	2	5
Total Liabilities	282	297	299	312	348	377	400	424	447	532
Accounts Payable	4	4	5	6	9	8	8	6	10	11
Long-Term Debt	117	125	115	111	117	134	153	171	172	198
Shareholder's Equity	122	126	132	139	147	153	160	169	178	188
LTD/E Ratio	0.96	0.99	0.87	0.80	0.79	0.87	0.96	1.01	0.96	1.05

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.1%	2.3%	2.6%	2.9%	3.0%	2.8%	2.7%	2.9%	2.8%	2.7%
Return on Equity	6.9%	7.7%	8.8%	9.5%	9.8%	9.5%	9.5%	10.2%	9.7%	9.8%
ROIC	3.5%	3.9%	4.5%	5.2%	5.5%	5.2%	5.0%	5.1%	4.9%	4.9%
Shares Out.	8.8	8.9	9.1	9.1	9.2	9.3	9.3	9.4	9.4	9.5
Revenue/Share	7.82	8.12	8.55	8.63	8.90	8.65	8.96	9.41	9.64	10.43
FCF/Share	(0.02)	(0.59)	0.86	0.17	(0.58)	(2.14)	(2.34)	(1.49)	(1.01)	(2.55)

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

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