Artesian Resources Corp. (ARTNA)

Updated November 13th, 2023 by Samuel Smith

Key Metrics

Current Price:	$40.7	**5 Year CAGR Estimate:**	7.0%	**Market Cap:**	$418M
Fair Value Price:	$38.0	**5 Year Growth Estimate:**	6.1%	**Ex-Dividend Date:**	11/15/2023
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Dividend Payment Date:**	11/24/2023
Dividend Yield:	2.9%	**5 Year Price Target**	$51	**Years Of Dividend Growth:**	29
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**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.

On November 6, 2023, Artesian Resources Corporation reported its third-quarter and year-to-date results for 2023. The third quarter revenues remained steady at $26.6 million, matching the figure for the same period in 2022. This consistency was due to a mix of changes across various revenue streams. Other utility operating revenue rose by about $0.4 million, or 13.9%, largely driven by increased wastewater revenue from more customers and the timing of industrial wastewater revenue. However, water sales revenue slightly declined by $0.1 million, or 0.3%, primarily because of decreased water consumption attributed to above-average precipitation during the summer months of 2023, though this was partially offset by higher fixed fee charges from new customers.

Non-utility operating revenue saw a decrease of approximately $0.3 million, or 16.9%, mainly due to the nearing completion of a wastewater infrastructure contract. This was partly balanced by increased revenue from the Service Line Protection Plan. Operating expenses, excluding depreciation and income taxes, went up by $0.8 million, or 5.6%, with utility operating expenses increasing by $1.2 million, or 11.1%. This increase was attributed to higher costs in payroll, employee benefits, repair, maintenance, and chemical treatment, alongside increased expenses in computer system maintenance, subscription fees, and consulting fees.

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	***$1.16***	***$1.25***
Shares[1]	8.8	8.9	9.1	9.1	9.2	9.3	9.3	9.4	9.4	9.5	***9.5***	***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.

[1] Share count is in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	23.9	20.5	18.0	20.9	24.2	23.9	23.3	21.8	25.9	29.7	***21.4***	***20.0***
Avg. Yld.	3.6%	3.9%	3.8%	3.1%	2.5%	2.6%	2.6%	2.6%	2.3%	2.1%	***2.9%***	***2.5%***

Due to its stability, Artesian Resources has historically commanded a rather high valuation. Currently, the P/E ratio is 21.4 and its dividend yield is 2.9%. With high interest rates, we believe that paying over 20x annual earnings is too rich for ARTNA.

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%	***61%***	***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.

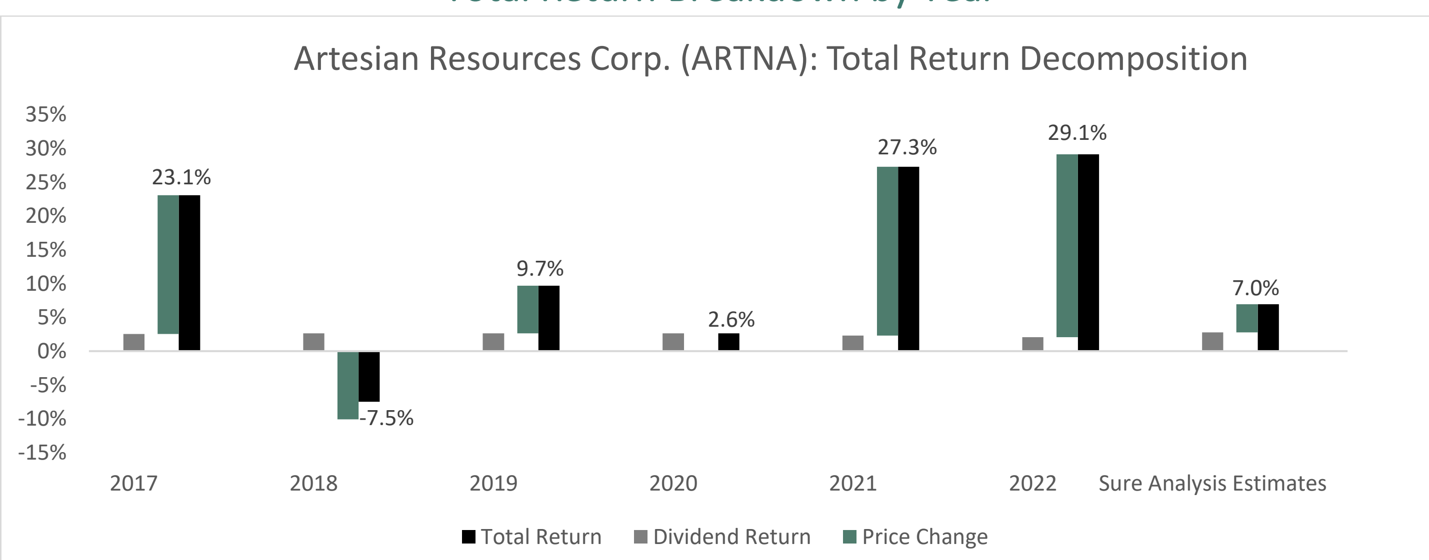
Like most utilities, the company's earnings have historically been very recession-resistant. During the previous recession, the company's earnings-per-share declined by 5% in 2007 and declined by a further 7% in 2008. By 2009, the company had recovered to match its 2006 peak earnings and surpassed that 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 29 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 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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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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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.