



Artesian Resources Corp. (ARTNA)

Updated March 26th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$35.4	5 Year CAGR Estimate:	10.0%	Market Cap:	\$359M
Fair Value Price:	\$39.8	5 Year Growth Estimate:	5.1%	Ex-Dividend Date:	5/8/24 ¹
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	5/23/24 ²
Dividend Yield:	3.3%	5 Year Price Target	\$51	Years Of Dividend Growth:	29
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 March 13, 2024, Artesian Resources Corporation reported its fourth-quarter and full-year results for 2023. Artesian Resources Corporation generated a net income of \$16.7 million in 2023, a 7.2% decrease from the previous year. Revenues remained stable at \$98.9 million, with water sales revenue increasing due to temporary rate hikes and increased water consumption. However, non-utility operating revenue declined, primarily due to a decrease in contract service revenue. Operating expenses saw mixed performance, with utility operating expenses increasing by 5.6%, mainly due to higher employee benefits and payroll costs, while non-utility operating expenses decreased by 35.4% due to reduced costs associated with a wastewater infrastructure contract.

For the fourth quarter of 2023, net income surged by 49.7% to \$3.5 million compared to the same period in 2022. Revenues totaled \$24.5 million, with water sales revenue increasing primarily due to temporary rate hikes and increased consumption. Capital expenditures for the year amounted to \$62.2 million, focusing on water and wastewater infrastructure projects to ensure high-quality service and meet growth demands. This investment included enhancements to transmission and distribution facilities, treatment facilities, water storage tanks, and wastewater treatment facilities.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.07	\$1.26	\$1.41	\$1.51	\$1.54	\$1.60	\$1.79	\$1.79	\$1.79	\$1.67	\$1.99	\$2.55
DPS	\$0.85	\$0.87	\$0.90	\$0.93	\$0.96	\$0.98	\$1.03	\$1.07	\$1.09	\$1.14	\$1.16	\$1.25
Shares³	8.9	9.1	9.1	9.2	9.3	9.3	9.4	9.4	9.5	10.3	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 5.1% 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 5-7% per year may be difficult going forward and for now, we choose to remain conservative with our estimate.

¹ Estimate

² Estimate

³ Share count is in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2028
Avg. P/E	20.5	18	20.9	24.2	23.9	23.3	21.8	25.9	29.7	21.4	17.8	20.0
Avg. Yld.	3.9%	3.8%	3.1%	2.5%	2.6%	2.6%	2.6%	2.3%	2.1%	3.2%	3.3%	2.4%

Due to its stability, Artesian Resources has historically commanded a rather high valuation. Currently, the P/E ratio is 17.8 and its dividend yield is 3.3%. With high interest rates, we believe that paying over 20x annual earnings is too rich for ARTNA, but it's lower than that today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	79%	69%	64%	62%	62%	61%	58%	60%	61%	68%	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.

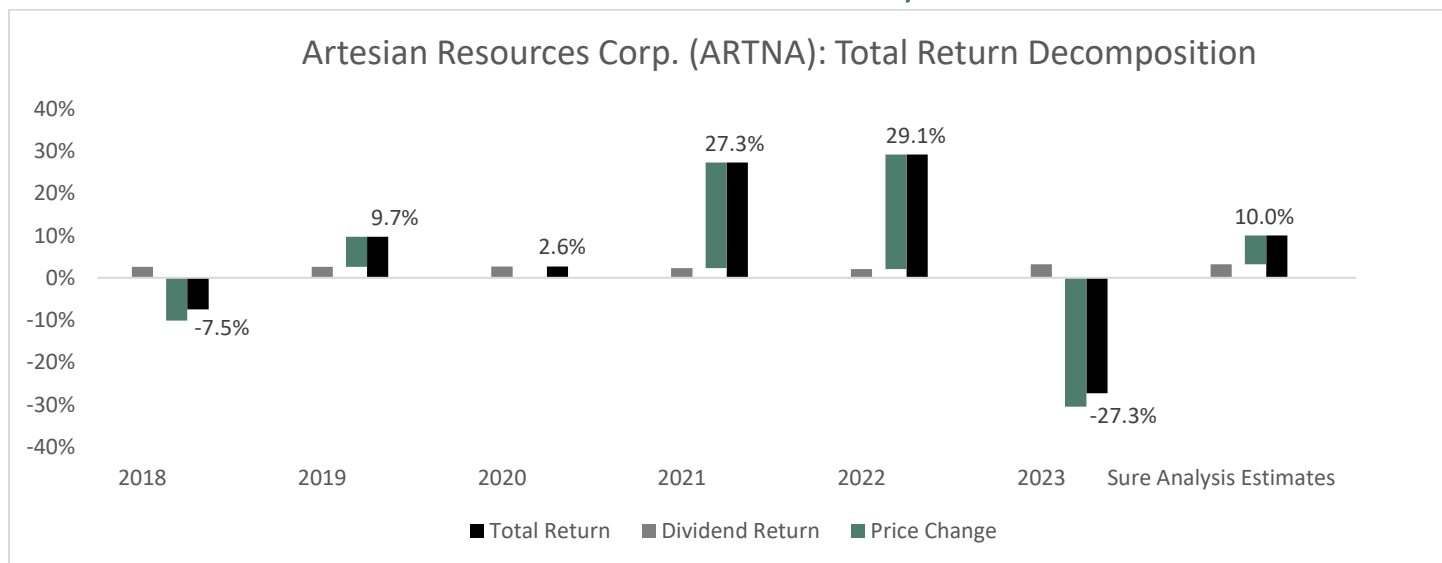
Like most utilities, the company's earnings have historically been very recession-resistant. During the previous recession, the company's earnings-per-share declined by 5% in 2007 and declined by a further 7% in 2008. By 2009, the company had recovered to match its 2006 peak earnings and surpassed that 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 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 10% per year, and therefore consider Artesian Resources to be a Buy at the current time.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	72	77	79	82	80	84	88	91	99	99
Gross Profit	35	39	41	41	39	41	45	46	48	48
Gross Margin	48.8%	50.1%	51.6%	50.1%	48.8%	49.2%	50.5%	50.1%	48.8%	48.8%
D&A Exp.	9	9	9	10	10	11	11	12	13	13
Operating Profit	22	25	27	27	24	25	28	28	30	29
Operating Margin	30.9%	32.9%	34.3%	32.7%	29.8%	30.0%	31.7%	30.9%	30.1%	29.1%
Net Profit	10	11	13	14	14	15	17	17	18	17
Net Margin	13.1%	14.7%	16.4%	17.0%	17.8%	17.9%	19.1%	18.5%	18.2%	16.9%
Free Cash Flow	(5)	8	2	(5)	(20)	(22)	(14)	(10)	(24)	(30)
Income Tax	6	8	8	7	5	5	6	6	6	6

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	422	432	451	495	530	560	593	625	720	767
Cash & Equivalents	0	0	0	1	0	1	0	0	1	3
Accounts Receivable	4	5	5	5	6	6	7	7	6	7
Inventories	2	2	2	2	1	1	2	2	5	6
Total Liabilities	297	299	312	348	377	400	424	447	532	536
Accounts Payable	4	5	6	9	8	8	6	10	11	10
Long-Term Debt	125	115	111	117	134	153	171	172	198	181
Shareholder's Equity	126	132	139	147	153	160	169	178	188	230
LTD/E Ratio	0.99	0.87	0.80	0.79	0.87	0.96	1.01	0.96	1.05	0.78

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.3%	2.6%	2.9%	3.0%	2.8%	2.7%	2.9%	2.8%	2.7%	2.2%
Return on Equity	7.7%	8.8%	9.5%	9.8%	9.5%	9.5%	10.2%	9.7%	9.8%	8.0%
ROIC	3.9%	4.5%	5.2%	5.5%	5.2%	5.0%	5.1%	4.9%	4.9%	4.2%
Shares Out.	8.9	9.1	9.1	9.2	9.3	9.3	9.4	9.4	9.5	10.3
Revenue/Share	8.12	8.55	8.63	8.90	8.65	8.96	9.41	9.64	10.43	9.86
FCF/Share	(0.59)	0.86	0.17	(0.58)	(2.14)	(2.34)	(1.49)	(1.01)	(2.55)	(3.03)

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

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