



The York Water Company (YORW)

Updated March 8th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	2.2%	Market Cap:	\$505.0 M
Fair Value Price:	\$26	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/28/2024
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	04/15/2024
Dividend Yield:	2.4%	5 Year Price Target	\$60	Years Of Dividend Growth:	27
Dividend Risk Score:	B	Retirement Suitability Score:	B	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 208,000. The York Water sees an average daily consumption of 26 million gallons, generating around \$71 million in annual revenues. The company is based in York, Pennsylvania.

On December 27th, 2023, The York Water Company increased its dividend by 4% to a quarterly rate of \$0.2108.

On March 5th, 2024, The York Water Company reported its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, revenues came in at \$18.1 million, 19.8% higher year-over-year. Increased revenues were primarily due to an increase in rates effective March 1st, 2023, partially offset by a reset to zero 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. Growth in the customer base also added to revenues.

EPS for the quarter came in at \$0.42, 20% higher year-over-year. For the year, EPS jumped to \$1.66. During the year, the company invested \$464.6 million in construction expenditures for various infrastructure enhancements. Management expects to invest \$42.2 million in 2024, excluding acquisitions. Funds will be used for armoring and replacing the spillway of the Lake Williams dam, wastewater treatment plant construction, and routine improvements to its pipes, service lines, and other facilities. We expect FY2024 EPS of \$1.61.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.97	\$0.92	\$1.01	\$1.04	\$1.11	\$1.27	\$1.30	\$1.30	\$1.40	\$1.66	\$1.61	\$2.15
DPS	\$0.60	\$0.63	\$0.65	\$0.67	\$0.70	\$0.73	\$0.76	\$0.76	\$0.79	\$0.82	\$0.84	\$1.03
Shares¹	12.8	12.8	12.8	12.9	13.0	13.0	13.0	13.0	14.0	14.3	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 6.2%. Future growth catalysts include a growing number of customers and distribution facilities, as well as acquisitions of wastewater systems. For context, during 2023, customers grew by 1.5% to 77,893 (population served of more than 209,000.) 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.

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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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 27 consecutive years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.9	21.7	32.2	34.7	29.8	41.5	35.4	36.1	31.2	24.8	21.9	16.0
Avg. Yld.	2.8%	2.9%	2.1%	1.9%	2.2%	1.5%	1.6%	1.5%	1.8%	2.0%	2.4%	3.0%

The York Water's valuation multiple was hovering at a steep premium between 2016 and 2022, as was 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, the valuation did indeed started to normalize from 2023 onwards, with rising rates reminding investors of the wide mispricing. At the current P/E of 21.9, we still think the stock is expensive despite its notable qualities as its growth potential appears soft. We expect the stock's yield to remain relatively thin.

Safety, Quality, Competitive Advantage, & Recession Resiliency

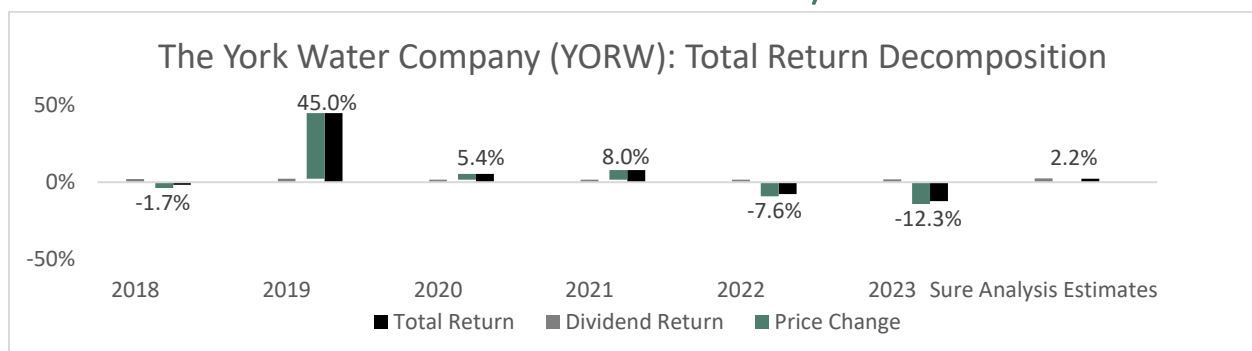
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	62%	68%	64%	64%	63%	57%	58%	58%	56%	49%	52%	48%

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 612th 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. Few companies can boast such an extended record of success and dividend payments. Despite its predictable growth catalysts and a great moat, however, the stock remains 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 2.2%. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	42	46	47	48	49	48	52	54	55	60
Gross Profit	35	38	39	40	40	39	41	43	43	46
Gross Margin	82.7%	82.6%	82.9%	83.1%	81.7%	80.0%	79.9%	80.0%	78.2%	76.7%
SG&A Exp.	7	9	9	9	8	8	9	9	10	10
D&A Exp.	6	6	6	6	7	7	8	8	9	10
Operating Profit	21	22	23	23	24	23	24	24	23	24
Operating Margin	49.0%	48.1%	48.1%	48.1%	48.8%	46.5%	46.1%	45.4%	41.8%	40.0%
Net Profit	10	11	12	12	13	13	14	17	17	20
Net Margin	22.8%	25.0%	26.5%	24.9%	26.7%	27.6%	27.9%	30.8%	30.9%	33.3%
Free Cash Flow	9	4	7	6	(5)	1	(2)	(13)	(23)	(32)
Income Tax	6	5	5	5	5	2	2	2	1	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	283	304	311	320	332	345	364	407	459	511
Cash & Equivalents	8	1	3	4	0	0	0	0	0	0
Accounts Receivable	4	4	4	5	5	5	5	6	5	7
Inventories	1	1	1	1	1	1	1	1	2	2
Total Liabilities	179	200	201	206	213	219	229	264	306	303
Accounts Payable	2	2	2	4	3	3	3	7	7	11
Long-Term Debt	85	85	85	85	91	94	101	124	146	139
Shareholder's Equity	104	105	109	114	119	126	134	143	153	207
LTD/E Ratio	0.82	0.81	0.78	0.74	0.76	0.75	0.75	0.86	0.96	0.67

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.4%	3.9%	4.1%	3.8%	4.0%	4.0%	4.1%	4.3%	3.9%	4.0%
Return on Equity	9.5%	11.0%	11.7%	10.6%	11.1%	10.9%	11.1%	12.0%	11.5%	10.9%
ROIC	5.2%	6.1%	6.5%	6.0%	6.3%	6.2%	6.3%	6.6%	6.0%	6.1%
Shares Out.	12.9	12.9	12.8	12.8	12.8	12.9	13.0	13.0	13.1	13.9
Revenue/Share	3.28	3.56	3.67	3.70	3.78	3.75	3.98	4.13	4.22	4.30
FCF/Share	0.66	0.33	0.51	0.48	(0.39)	0.12	(0.13)	(1.00)	(1.79)	(2.29)

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

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