The York Water Company (YORW)

Updated November 12th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	1.1%	**Market Cap:**	$532.8 M
Fair Value Price:	$26	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/27/2024[1]
% Fair Value:	144%	**5 Year Valuation Multiple Estimate:**	1.8%	**Dividend Payment Date:**	01/16/2025
Dividend Yield:	2.3%	**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 57 municipalities within York, Adams, and Franklin Counties, Pennsylvania, with an estimated population of 209,000. The York Water sees an average daily consumption of 22.4 million gallons, generating around $71 million in annual revenues. The company is based in York, Pennsylvania.

On November 7th, 2024, The York Water Company reported its Q3 results for the period ending September 30th, 2024. Quarterly revenues were $19.7 million, up 5.1% year-over-year, driven by the distribution system improvement charge (DSIC), which allows York Water to add a charge to customers' water bills for qualifying infrastructure replacement costs without filing for a rate change. Revenues also benefited from customer growth, with the average number of water customers rising by 1,062, from 71,521 to 72,583, and wastewater customers increasing by 567, from 6,018 to 6,585, mainly due to acquisitions. Per capita water consumption in Q3 was up 0.9% compared to the same period last year.

EPS for the quarter came in at $0.41, down eight cents higher year-over-year. The drop in EPS was due to higher operation and maintenance expenses and depreciation, higher interest on debt, and lower allowance for funds used during construction.

Year-to-date, York Water invested $33 million in capital projects, like upgrades to the Lake Williams dam, wastewater treatment construction, and infrastructure improvements. Further, it spent $264,000 acquiring water and wastewater systems, including the Houston Run Community Water System, marking its second acquisition in Lancaster County. The company expects to invest another $9.7 million in 2024 to complete the Lake Williams dam upgrades and further main extensions, excluding acquisitions. We expect FY2024 EPS of $1.43.

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	***$1.43***	***$1.91***
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***
Shares[2]	12.8	12.8	12.8	12.9	13.0	13.0	13.0	13.0	14.0	14.3	***14.4***	***15.0***

York Water is enjoying very stable and predictable cash flows due to water being a vital 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

[1] Estimated dates based on past dividend dates.
[2] 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.

The York Water Company (YORW)

Updated November 12th, 2024 by Nikolaos Sismanis

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 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	***25.9***	***18.0***
Avg. Yld.	2.8%	2.9%	2.1%	1.9%	2.2%	1.5%	1.6%	1.5%	1.8%	2.0%	***2.3%***	***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 likely reminding investors of the wide mispricing. At the current P/E of 25.9, we still think the stock is expensive despite its notable qualities as its growth potential seems soft. We expect the stock's yield to become more attractive.

Safety, Quality, Competitive Advantage, & Recession Resiliency

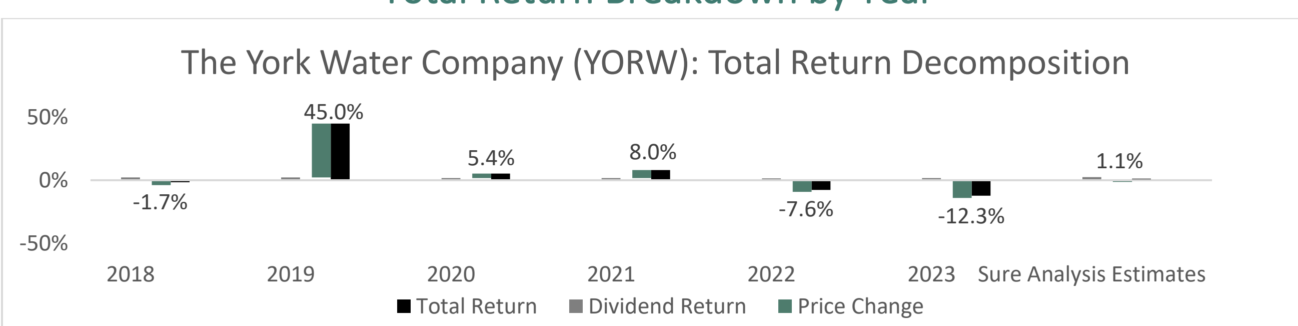
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	62%	68%	64%	64%	63%	57%	58%	58%	56%	49%	***59%***	***54%***

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 615th consecutive dividend, which is a testament to its ability to produce solid 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. However, we believe that valuation pressures will overshadow any benefits from growth and dividends. 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



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.

The York Water Company (YORW)

Updated November 12th, 2024 by Nikolaos Sismanis

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	46	47	48	49	48	52	54	55	60	71
Gross Profit	38	39	40	40	39	41	43	43	46	54
Gross Margin	82.6%	82.9%	83.1%	81.7%	80.0%	79.9%	80.0%	78.2%	76.7%	76.1%
SG&A Exp.	9	9	9	8	8	9	9	10	10	12
D&A Exp.	6	6	6	7	7	8	8	9	10	12
Operating Profit	22	23	23	24	23	24	24	23	24	28
Operating Margin	48.1%	48.1%	48.1%	48.8%	46.5%	46.1%	45.4%	41.8%	40.0%	39.4
Net Profit	11	12	12	13	13	14	17	17	20	24
Net Margin	25.0%	26.5%	24.9%	26.7%	27.6%	27.9%	30.8%	30.9%	33.3%	33.8%
Free Cash Flow	4	7	6	(5)	1	(2)	(13)	(23)	(32)	(34)
Income Tax	5	5	5	5	2	2	2	1	0	1.3

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	304	311	320	332	345	364	407	459	511	588
Cash & Equivalents	1	3	4	0	0	0	0	0	0	0
Accounts Receivable	4	4	5	5	5	5	6	5	7	8
Inventories	1	1	1	1	1	1	1	2	2	3
Total Liabilities	200	201	206	213	219	229	264	306	303	367
Accounts Payable	2	2	4	3	3	3	7	7	11	11
Long-Term Debt	85	85	85	91	94	101	124	146	139	180
Shareholder's Equity	105	109	114	119	126	134	143	153	207	221
LTD/E Ratio	0.81	0.78	0.74	0.76	0.75	0.75	0.86	0.96	0.67	0.81

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.9%	4.1%	3.8%	4.0%	4.0%	4.1%	4.3%	3.9%	4.0%	4.3%
Return on Equity	11.0%	11.7%	10.6%	11.1%	10.9%	11.1%	12.0%	11.5%	10.9%	11.1%
ROIC	6.1%	6.5%	6.0%	6.3%	6.2%	6.3%	6.6%	6.0%	6.1%	6.4%
Shares Out.	12.9	12.8	12.8	12.8	12.9	13.0	13.0	13.1	13.9	14.3
Revenue/Share	3.56	3.67	3.70	3.78	3.75	3.98	4.13	4.22	4.30	4.97
FCF/Share	0.33	0.51	0.48	(0.39)	0.12	(0.13)	(1.00)	(1.79)	(2.29)	(2.33)

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