American Water Works Company, Inc. (AWK)

Updated February 20th, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	$128	**5 Year CAGR Estimate:**	9.7%	**Market Cap:**	$25 B
Fair Value Price:	$125	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	02/07/2025
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.4%	**Dividend Payment Date:**	03/04/2025
Dividend Yield:	2.4%	**5 Year Price Target**	$184	**Years Of Dividend Growth:**	16
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

American Water Works is the largest and most geographically diverse, publicly traded water and wastewater utility company in the United States, as measured by both operating revenues and population served. The company provides drinking water, wastewater, and other related services to over 14 million people in 24 states in the United States. Its regulated business includes 54,500 miles of pipe, 600 water treatment plants, 190 wastewater facilities, 1200 wells, and 75 dams. The company also provides water and related services to the U.S. government and U.S. military through 18 installations. American Water Works generates around $4.68 billion in annual revenues and based in Camden, New Jersey.

On February 19th, 2025, American Water Works posted its Q4 and full-year results for the period ending December 31st, 2024. For the quarter, revenues rose by 16.4% year-over-year to $1.20 billion. The increase in revenues was primarily a result of i) authorized revenue increases from completed general rate cases and ii) infrastructure proceedings for the recovery of incremental capital and acquisition investments.

EPS came in at $1.22 compared to $0.88 last year. For the year, EPS was $5.39. American Water Works now has general rate cases in progress in four jurisdictions, reflecting a total annualized revenue request of approximately $161 million. For FY2025, management affirmed their forecast, projecting EPS to range between $5.65 and $5.75. They reaffirmed their long-term EPS growth outlook of 7% to 9%.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.66	$2.63	$2.39	$3.15	$3.43	$3.91	$6.96	$4.51	$4.90	$5.39	***$5.70***	***$8.38***
DPS	$1.33	$1.47	$1.62	$1.78	$1.96	$2.15	$2.36	$2.57	$2.78	$3.00	***$3.06***	***$4.50***
Shares[1]	180	179	179	180	181	181	182	182	193	195	***195***	***200***

American Water Works has a highly stable and robust track record both in terms of its profitability and its dividend payments. The company enjoys an extremely resilient business model due to water being a necessity both for residential and industrial usage, as well as a mission-critical asset for the military. As a result, American Water has been able to grow its network and operations with limited risks. Over the next nine years, the company expects to invest about $41 billion in renewing its infrastructure, achieving operational efficiencies through new technologies, ensuring water quality, and expanding its overall operations. Management continues to expect EPS to grow by about 7%-9% annually over the long term, powered by 8%-9% from rate base growth and 2% from regulated acquisitions. They have also mentioned the potential from additional growth from "maximizing revenue opportunities". We have utilized an EPS CAGR of 8.0% in our calculations, which is the mid-point of management's guidance.

Regarding the dividend, it has grown annually over the past 16 years, displaying at 5 and 10-year CAGR of 7.3% and 9.5%, respectively. Management intends to grow the dividend between a rate of 7% and 9% over the long term, which matches their EPS growth outlook. Thus, we have set our expected growth rate at 8% through 2030.

[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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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	19.2	28.5	32.2	27.3	33.8	32.7	24.4	34.4	28.5	24.4	***22.5***	***22.0***
Avg. Yld.	2.6%	2.0%	2.1%	2.1%	1.7%	1.7%	1.4%	1.7%	2.0%	2.3%	***2.4%***	***2.4%***

American Water Works' valuation has hovered at rather inflated levels over the past decade. This has also been the case with all of the company's industry peers, which have also traded at quite rich multiples. We believe this is due to Wall St. treating water stocks (along with their dividends) as ultra-safe investments due to their high operational predictability. Due to higher interest rates, most water stocks, along with AWK, have witnessed a correction in their valuation in recent years. Today, we believe the stock is more or less fairly valued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

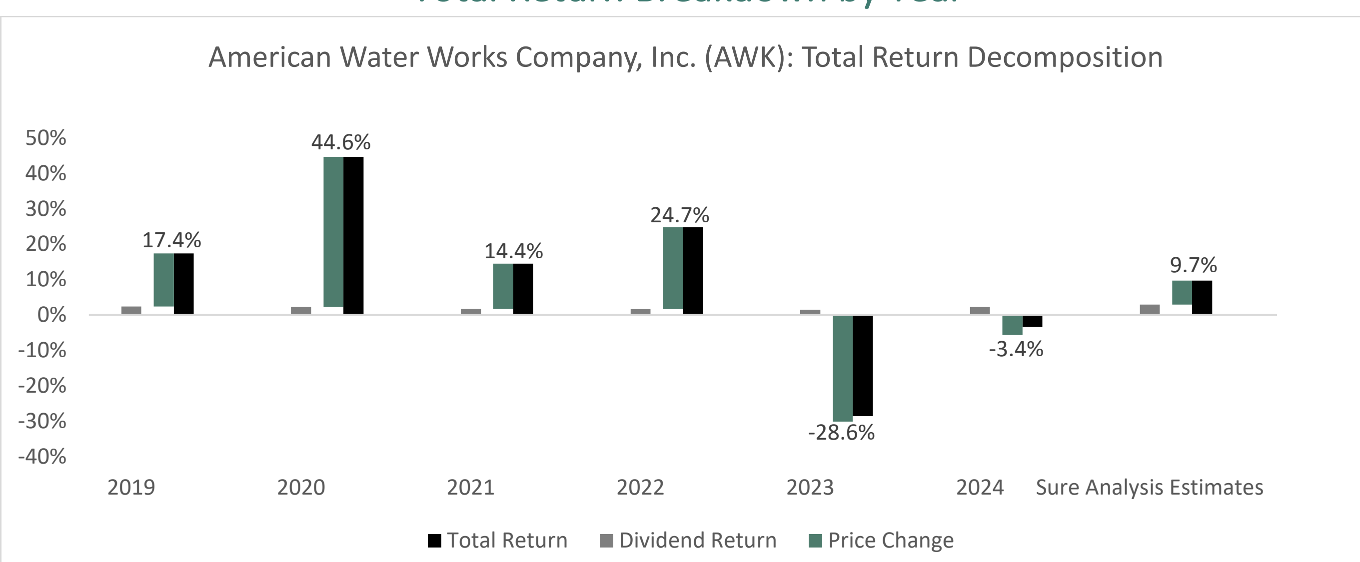
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	50%	56%	68%	57%	57%	55%	34%	57%	57%	56%	***54%***	***54%***

American Water's dividend can be viewed as extremely safe. The payout ratio stands at 58%, and the company has a very clear and predictable path towards growing its EPS. Its cash flows are of high quality due to water being an essential commodity, with much-anticipated consumption rates and robust pricing power. Additionally, the company enjoys a rock-solid competitive advantage, operating in an oligopolistic industry, which is also very capital intensive and hence almost forbids new market participants. The company is the biggest amongst its peers, while its relationship with the government also adds to its already great moat. We expect American Water to deliver resilient results even through a prolonged recession. The company is not meaningfully correlated to the underlying economy. Hence, the excellent results during 2020 and 2021 despite COVID-19.

Final Thoughts & Recommendation

American Water Works comes with several attractive qualities. Moreover, after years of inflated multiples, we now view the stock as relatively fairly valued. Based on management's reaffirmed medium-term guidance, the dividend and our fair value estimate, we expect annualized returns of 9.7% through 2030. Thus, we have assigned a buy rating to the stock. We highlight that AWK offers one of the most predictable future total return-return profiles among dividend-paying stocks.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,011	3,159	3,302	3,357	3,440	3,610	3,777	3,930	3,792	4,234
Gross Profit	1,661	1,755	1,803	1,988	1,961	2,066	2,155	2,153	2,203	2,514
Gross Margin	55.2%	55.6%	54.6%	59.2%	57.0%	57.2%	57.1%	54.8%	58.1%	59.4%
D&A Exp.	424	440	470	492	545	582	604	636	649	704
Operating Profit	1,001	1,072	1,075	1,237	1,139	1,204	1,248	1,196	1,273	1504
Operating Margin	33.2%	33.9%	32.6%	36.8%	33.1%	33.4%	33.0%	30.4%	33.6%	35.5%
Net Profit	423	476	468	426	567	621	709	1,263	820	944
Net Margin	14.0%	15.1%	14.2%	12.7%	16.5%	17.2%	18.8%	32.1%	21.6%	22.3%
Free Cash Flow	63	(72)	(106)	(61)	(287)	(375)	(502)	(432)	(1312)	(860)
Income Tax	280	306	302	486	222	212	215	377	188	252

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	16,038	17,241	18,482	19,482	21,223	22,682	24,766	26,080	27,787	30,298
Cash & Equivalents	23	45	75	55	130	60	547	116	85	330
Accounts Receivable	232	255	269	272	301	294	321	271	334	339
Inventories	37	38	39	41	41	44	47	57	98	112
Goodwill & Int. Ass.	1,208	1,302	1,345	1,388	1,659	1,568	1,559	1,139	1,143	1143
Total Liabilities	11,123	12,192	13,264	14,097	15,359	16,561	18,312	18,780	20,094	20,501
Accounts Payable	100	126	154	195	175	203	189	235	254	294
Long-Term Debt	5,938	6,544	7,172	7,717	8,604	9,453	10,940	10,980	12,382	12,369
Shareholder's Equity	4,915	5,049	5,218	5,385	5,864	6,121	6,454	7,298	7,693	9,797
LTD/E Ratio	1.21	1.30	1.37	1.43	1.47	1.54	1.70	1.51	1.61	1.26

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.7%	2.9%	2.6%	2.2%	2.8%	2.8%	3.0%	5.0%	3.0%	3.3%
Return on Equity	8.8%	9.6%	9.1%	8.0%	10.1%	10.4%	11.3%	18.4%	10.9%	10.8%
ROIC	3.9%	4.2%	3.9%	3.3%	4.1%	4.1%	4.3%	7.1%	4.3%	4.5%
Shares Out.	180	180	179	179	180	181	182	182	182	193
Revenue/Share	16.73	17.55	18.45	18.75	19.11	19.94	20.75	21.59	20.84	21.94
FCF/Share	0.35	(0.40)	(0.59)	(0.34)	(1.59)	(2.07)	(2.76)	(2.37)	(7.21)	(4.46)

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