California Water Services (CWT)

Updated March 3rd, 2025 by Jonathan Weber

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$2.8B
Fair Value Price:	$47	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	05/03/25[1]
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date:**	05/18/25[2]
Dividend Yield:	2.6%	**5 Year Price Target**	$60	**Years Of Dividend Growth:**	58
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

California Water Service is the 3rd largest publicly-owned water utility in the United States. The company has six subsidiaries that provide water to about two million people, mainly in California, with some additional operations in Washington, New Mexico, and Hawaii. California Water Service was founded in 1926 and has increased its dividend for more than 50 consecutive years, which makes the company a Dividend King.

California Water Service reported its fourth quarter earnings results on February 27. The company reported that its operating revenues totaled $222 million during the quarter, which was 4% more than the revenues that California Water Service generated during the previous year's quarter. This represents a stronger performance compared to what the analyst community had forecasted. The operating revenue increase was driven by rate increases over the last year, partially offset by lower accrued unbilled revenue compared to the previous year's quarter.

California Water Service generated earnings-per-share of $0.33 during the fourth quarter, which was better than what was expected by the analyst community. California Water Services is generally most profitable during the summer quarter, when water demand is way higher than during the winter quarters, thus lower profits during the fourth quarter are in line with historic patterns. Profits soared in 2024 but will likely pull back to some degree in 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.94	$1.01	$1.52	$1.36	$1.31	$1.97	$1.96	$1.77	$0.89	$3.25	***$2.35***	***$3.00***
DPS	$0.67	$0.69	$0.72	$0.75	$0.79	$0.85	$0.92	$1.00	$1.04	$1.12	***$1.20***	***$1.61***
Shares[3]	48	48	48	48	48	50	53	55	57	59	***60***	***65***

Between 2014 and 2022, California Water Service grew its earnings-per-share at an average annual rate of 5%, which is a decent pace of earnings growth for a utility, whereas earnings-per-share were abnormally low/high in 2023 and 2024, due, in part, to some one-time items during those two years. The second and third quarters are usually significantly more profitable than the rest of the year, as demand for fresh water is significantly higher during the very warm summer months in California when consumers use more water, e.g. for watering their lawns.

During the Great Recession, California Water Service's earnings-per-share did not decline meaningfully, as earnings-per-share dropped by just 4% between 2008 and 2010. This is not surprising, as consumption behavior and demand for fresh water is more reliant upon the weather than on the strength of the overall economy.

We believe that California Water Service's earnings-per-share will continue to grow at a mid-single-digits rate going forward, as it did in the past. Earnings growth in the long run should be achievable thanks to the rate hikes that are regularly approved by regulators. Regulators need to continuously encourage the company to keep investing in the expansion and maintenance of its network, as its customers are dependent on high-quality infrastructure that will remain reliable in the future, which is why future rate increases are more or less a given.

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[1] Estimated date

[2] Estimated date

[3] 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	24.8	29.6	26.9	35.3	39.7	27.4	36.7	34.5	58.4	13.8	***19.6***	***20.0***
Avg. Yld.	2.9%	2.3%	1.9%	1.6%	1.5%	1.6%	1.3%	1.6%	2.0%	2.5%	***2.6%***	***2.7%***

California Water Service has never been a high-growth stock, but the resilience during economic downturns and the relatively predictable earnings and dividend growth have made it appropriate for risk-averse investors. The valuation of the company's shares has expanded significantly through 2023, but due to much higher profits in 2024, the earnings multiple dropped massively last year. For the current year, according to current earnings-per-share estimates, California Water Services seems fairly valued right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	71.3%	68.3%	51.4%	55.1%	60.3%	43.1%	46.9%	56.5%	117%	34.5%	***51.1%***	***53.5%***

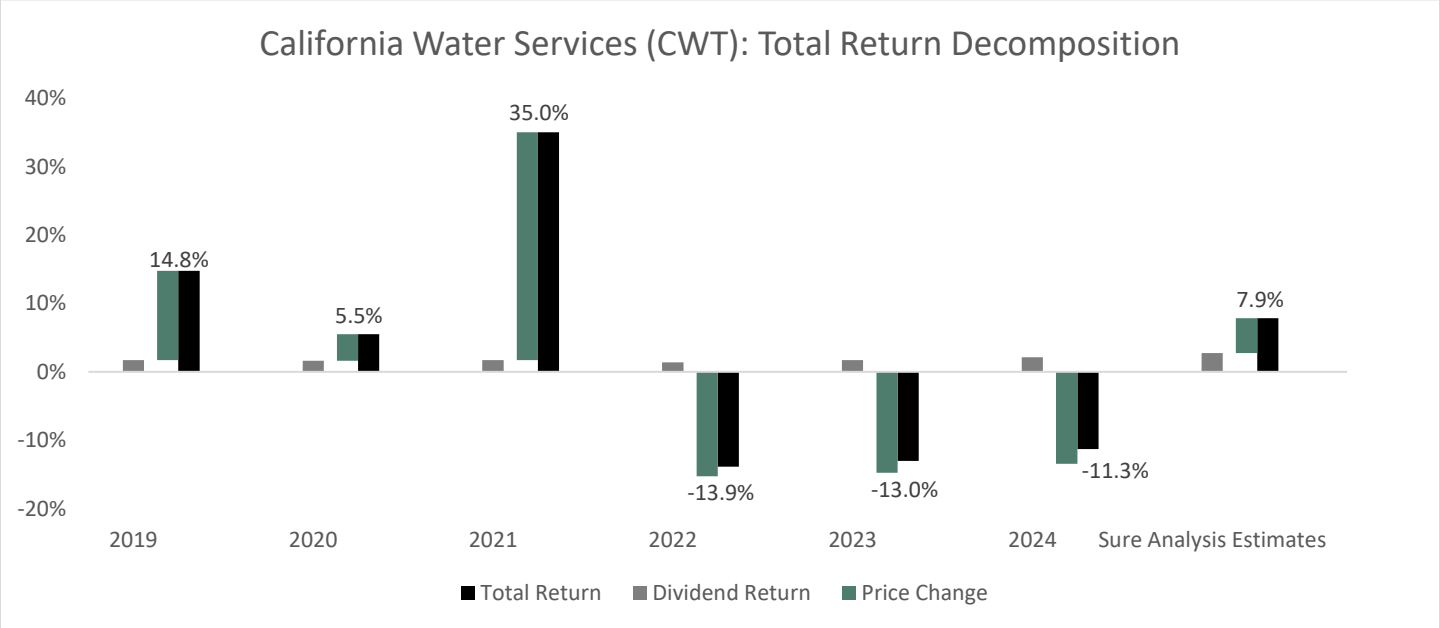
California Water Service has paid out between 40% and 70% of its net profits throughout most of the last decade. The dividend payout ratio has seen some major ups and downs over that time, with 2023 being an outlier with a payout ratio of more than 100%. With earnings-per-share recovering substantially in 2024, the dividend looks quite sustainable again, and the fact that the company has increased its dividend for more than five decades is very encouraging.

California Water Service is a regulated utility, and as such, it does not have to worry about competition too much. The company is not vulnerable to recessions or economic downturns, as consumers need fresh water no matter the strength of the economy. Weather conditions/temperature can impact results, though, and are unpredictable.

Final Thoughts & Recommendation

As a regulated water utility, California Water Service operates in a relatively unspectacular industry. This is not necessarily a negative for investors, as businesses like these can still be strong and reliable investments when bought at the right price. California Water Service looks like a reasonable investment today, trading around fair value and offering solid total returns per year from the current level. We thus rate California Water Service a hold right now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	588	609	676	698	715	794	791	846	795	1,037
Gross Profit	359	366	412	421	431	487	484	530	476	693
Gross Margin	61.0%	60.1%	60.9%	60.3%	60.4%	61.4%	61.2%	62.7%	59.9%	66.8%
SG&A Exp.	113	88	93	101	109	117	127	133	142	140
D&A Exp.	63	65	79	86	91	101	112	117	123	134
Operating Profit	96	112	142	129	115	146	129	132	64	262
Operating Margin	16.3%	18.4%	21.1%	18.5%	16.0%	18.4%	16.3%	15.6%	8.0%	25.3%
Net Profit	45	49	73	66	63	97	101	96	52	191
Net Margin	7.7%	8.0%	10.8%	9.4%	8.8%	12.2%	12.8%	11.3%	6.5%	18.4%
Free Cash Flow	(32)	(68)	(111)	(93)	(105)	(181)	(61)	(84)	(166)	(180)
Income Tax	25	27	37	16	18	12	4	6	(7)	42

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,241	2,412	2,745	2,838	3,111	3,394	3,623	4,265	4,596	5,180
Cash & Equivalents	9	25	95	47	43	45	78	62	40	50
Accounts Receivable	32	30	32	30	32	53	68	62	66	64
Inventories	6	6	6	7	8	9	10	13	16	21
Goodwill & Int. Ass.	15	14	25	27	27	59	67	54	58	61
Total Liabilities	1,599	1,752	2,045	2,108	2,331	2,473	2,451	2,942	3,165	3,542
Accounts Payable	66	78	94	96	108	132	144	141	157	168
Long-Term Debt	548	655	807	880	984	1,156	1,096	1,126	1,233	1,382
Shareholder's Equity	642	659	699	730	780	921	1,167	1,318	1,427	1,635
LTD/E Ratio	0.85	0.99	1.15	1.21	1.26	1.25	0.94	0.85	0.86	0.85

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	2.0%	2.1%	2.8%	2.3%	2.1%	3.0%	2.9%	2.4%	1.2%	3.9%
Return on Equity	7.1%	7.5%	10.7%	9.2%	8.4%	11.4%	9.7%	7.7%	3.8%	12.4%
ROIC	3.9%	3.9%	5.2%	4.2%	3.7%	5.0%	4.7%	4.1%	2.0%	6.7%
Shares Out.	48	48	48	48	48	50	53	55	57	59
Revenue/Share	12.29	12.71	14.08	14.53	14.83	16.12	15.32	15.57	13.95	17.68
FCF/Share	(0.67)	(1.43)	(2.32)	(1.93)	(2.18)	(3.67)	(1.19)	(1.54)	(2.91)	(3.07)

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

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