



# Essential Utilities (WTRG)

Updated May 23<sup>rd</sup>, 2025 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$39	<b>5 Year CAGR Estimate:</b>	8.3%	<b>Market Cap:</b>	\$10.9 B
<b>Fair Value Price:</b>	\$38	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	5/13/2025
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.7%	<b>Dividend Payment Date:</b>	6/2/2025
<b>Dividend Yield:</b>	3.3%	<b>5 Year Price Target</b>	\$50	<b>Years Of Dividend Growth:</b>	33
<b>Dividend Risk Score:</b>	B	<b>Sector:</b>	Utilities	<b>Rating:</b>	Hold

## Overview & Current Events

Aqua America changed its name to Essential Utilities and its ticker from WTR to WTRG on February 3<sup>rd</sup>, 2020 in order to reflect its acquisition of Peoples, a natural gas distribution company. Essential Utilities is the second largest publicly traded water utility in the U.S., serving approximately 5.5 million customers across ten states. The \$10.9 billion company has raised its dividend for 33 consecutive years, which qualifies it to be a member of the Dividend Champions, and has paid a quarterly dividend for 79 consecutive years.

In mid-May, Essential Utilities reported (5/12/25) financial results for the first quarter of fiscal 2025. Its revenue grew 28% over the prior year's quarter, mostly thanks to rate hikes and higher volumes of natural gas. Thanks to these factors, earnings-per-share grew 6%, from \$0.97 to \$1.03, and exceeded the analysts' consensus by \$0.23.

Management reiterated its guidance for annual rate hikes of ~6% in the regulated water division and ~11% in the regulated gas division until 2029. It also reaffirmed its guidance for earnings-per-share of \$2.07-\$2.11 in 2025, implying 6% growth at the mid-point. Accordingly, we still expect earnings-per-share of \$2.09 this year. The company is essentially immune to recessions and high inflation.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$1.14	\$1.32	\$1.35	\$1.41	\$1.47	\$1.58	\$1.67	\$1.77	\$1.86	\$1.97	<b>\$2.09</b>	<b>\$2.80</b>
<b>DPS</b>	\$0.69	\$0.74	\$0.79	\$0.85	\$0.91	\$0.97	\$1.04	\$1.11	\$1.19	\$1.26	<b>\$1.30</b>	<b>\$1.74</b>
<b>Shares<sup>1</sup></b>	176.5	177.4	177.7	178.4	232.6	254.8	262.2	263.3	273.5	275.0	<b>280.0</b>	<b>330.0</b>

Essential Utilities has compounded its earnings-per-share at a rate of 6.3% per year over the last decade. It grew its customer base 2% last year organically and via acquisitions and has repeatedly confirmed its guidance for 2%-3% annual customer growth. Even better, we note that the company has many acquisitions in its pipeline, which can add up to \$500 million in annual revenue in the next few years. This amount is 24% of current annual revenue. We expect 6% average annual growth of earnings-per-share until 2030, in line with the 5%-7% guidance of management until 2027.

The growth strategy of Essential Utilities is to acquire smaller water utilities and integrate them into its vast operations. It has implemented nearly 200 acquisitions and growth ventures in the last ten years. The takeover of Peoples was a major acquisition, given that the \$4.3 billion value of the deal was 37% of the market cap of Essential Utilities at the time of the transaction. The new company has ample room for future growth via infrastructure investment.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
<b>Avg. P/E</b>	23.5	23.9	24.7	25.0	27.6	28.0	28.3	26.6	21.6	19.3	<b>18.7</b>	<b>18.0</b>
<b>Avg. Yld.</b>	2.6%	2.3%	2.4%	2.4%	2.2%	2.2%	2.2%	2.4%	3.0%	3.3%	<b>3.3%</b>	<b>3.5%</b>

<sup>1</sup> In millions.

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While we are usually hesitant to publish estimates that deviate significantly from historical base rates, we believe that the 10-year average price-to-earnings ratio of 24.9 of Essential Utilities is significantly higher than its fair valuation level. Instead, we believe that a fair P/E ratio for a stock like Essential Utilities is around 18. The stock is currently trading at a P/E ratio of 18.7, which is slightly higher than our fair value estimate. If Essential Utilities trades at a P/E ratio of 18 in five years, it will incur a -0.7% annualized drag in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

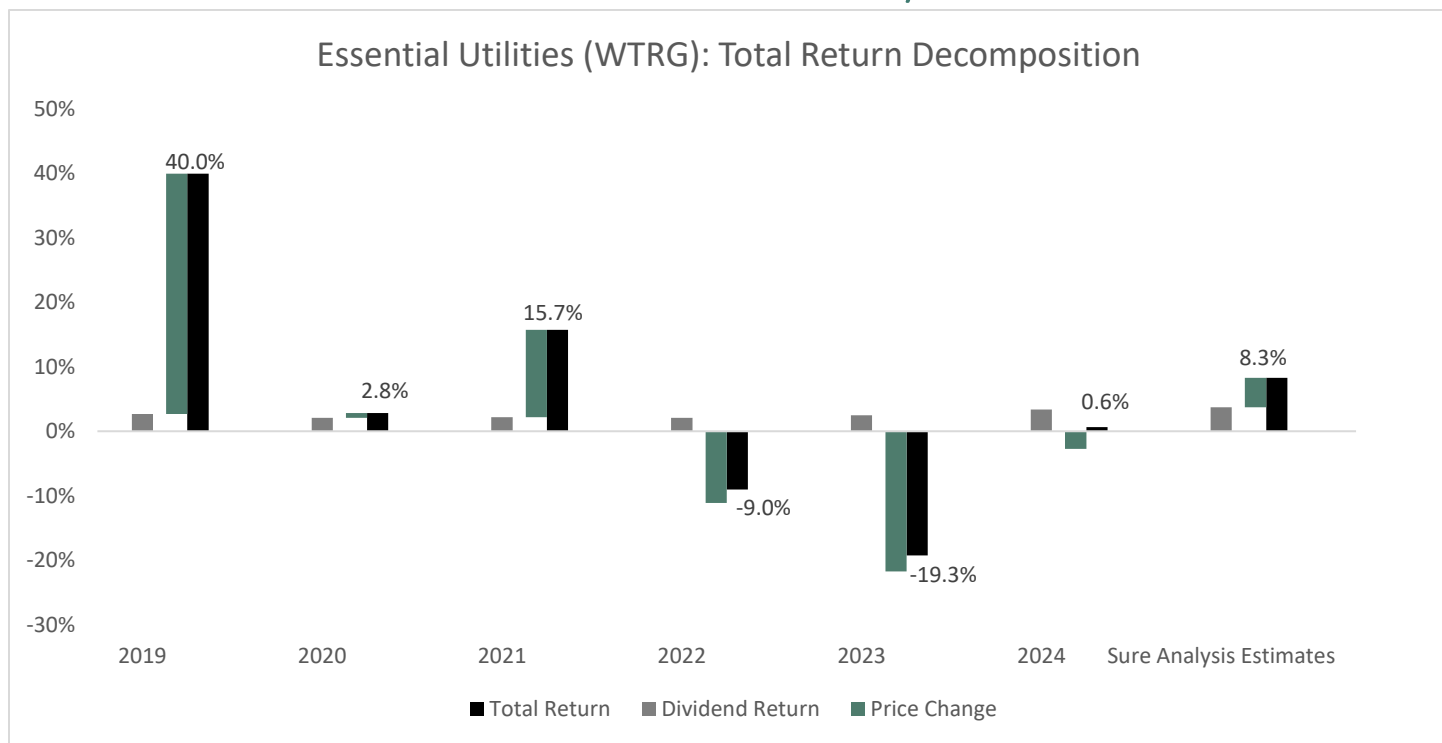
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	60.5%	56.1%	58.5%	60.3%	61.9%	61.4%	62.3%	62.7%	64.0%	64.0%	62.2%	62.2%

The competitive advantage of Essential Utilities comes from its entrenched position in a highly capital-intensive and regulated industry. The company has invested billions of dollars into its network of infrastructure assets and its fee hikes must be approved by regulatory authorities. For competitors, these barriers are highly discouraging, which limits competition and leads us to believe that the company will remain highly profitable for decades to come. The company's interest coverage has been quite stable, typically ranging between 3 and 4. Thanks to the reliable cash flows that result from the regulated nature of their business, utilities can safely operate with a lower interest coverage ratio than their peers in other sectors.

## Final Thoughts & Recommendation

The presence of Essential Utilities in the water utility industry gives it a higher level of stability than almost any other company in our investment universe. This advantage is of paramount importance. The stock has rallied 15% off its bottom in January, but it could still offer an 8.3% average annual return over the next five years thanks to 6.0% earnings growth and its 3.3% dividend, partly offset by a -0.7% valuation headwind. The stock remains highly attractive, maintains its hold rating and it will have ample upside whenever inflation and interest rates decrease. If it declines 4% off its current price, it will earn a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	814	820	810	838	890	1463	1,878	2,288	2,054	2,086
Gross Profit	505	523	527	530	557	768	987	1,072	1,126	1,222
Gross Margin	62.0%	63.8%	65.1%	63.2%	62.6%	52.5%	52.6%	46.9%	54.8%	58.6%
D&A Exp.	129	133	137	147	156	257	298	321	344	370
Operating Profit	321	333	334	323	340	435	603	661	709	758
Operating Margin	39.4%	40.7%	41.2%	38.6%	38.2%	29.7%	32.1%	28.9%	34.5%	36.3%
Net Profit	202	234	240	192	225	285	432	465	498	595
Net Margin	24.8%	28.6%	29.6%	22.9%	25.2%	19.5%	23.0%	20.3%	24.2%	28.5%
Free Cash Flow	6	13	(97)	(127)	(212)	(328)	(376)	(462)	(266)	(559)
Income Tax	15	21	17	(14)	(13)	(20)	(10)	(14)	-66	(22)

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	5,718	6,159	6,332	6,964	9,362	13,705	14,658	15,719	16,841	18,027
Cash & Equivalents	3	4	4	4	1,869	5	11	11	5	9
Accounts Receivable	57	64	66	68	69	189	198	266	200	211
Inventories	12	13	14	16	18	58	110	200	113	94
Goodwill & Int. Ass.	34	42	42	53	64	2,332	2,347	2,345	2,344	2,344
Total Liabilities	3,992	4,309	4,375	4,955	5,481	9,021	9,474	10,342	10,945	11,828
Accounts Payable	56	47	59	77	75	177	193	239	221	259
Long-Term Debt	1,773	1,895	2,125	2,558	3,074	5,670	5,977	6,828	7,054	7,698
Shareholder's Equity	1,726	1,850	1,958	2,009	3,881	4,684	5,184	5,377	5,896	6,199
LTD/E Ratio	1.03	1.02	1.09	1.27	0.79	1.21	1.15	1.27	1.20	1.24

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	3.6%	3.9%	3.8%	2.9%	2.8%	2.5%	3.0%	3.1%	3.1%	3.4%
Return on Equity	11.9%	13.1%	12.6%	9.7%	7.6%	6.7%	8.7%	8.8%	8.8%	9.8%
ROIC	5.9%	6.5%	6.1%	4.4%	3.9%	3.3%	4.0%	4.0%	4.0%	4.4%
Shares Out.	176.5	177.4	177.7	178.4	232.6	254.8	262.2	262.9	267.7	274.4
Revenue/Share	4.59	4.61	4.54	4.70	4.12	5.74	7.27	8.70	7.67	7.60
FCF/Share	0.03	0.07	(0.54)	(0.71)	(0.98)	(1.29)	(1.46)	(1.76)	(0.99)	(2.04)

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

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