



# Middlesex Water (MSEX)

Updated June 8<sup>th</sup>, 2025 by Samuel Smith

## Key Metrics

|                             |        |  |         |                                  |                      |
|-----------------------------|--------|--|---------|----------------------------------|----------------------|
| <b>Current Price:</b>       | \$56.1 | <b>5 Year CAGR Estimate:</b>               | 7.6%    | <b>Market Cap:</b>               | \$1.0 B              |
| <b>Fair Value Price:</b>    | \$57.6 | <b>5 Year Growth Estimate:</b>             | 4.6%    | <b>Ex-Dividend Date:</b>         | 8/15/25 <sup>1</sup> |
| <b>% Fair Value:</b>        | 97%    | <b>5 Year Valuation Multiple Estimate:</b> | 0.5%    | <b>Dividend Payment Date:</b>    | 9/2/25 <sup>2</sup>  |
| <b>Dividend Yield:</b>      | 2.4%   | <b>5 Year Price Target</b>                 | \$72    | <b>Years Of Dividend Growth:</b> | 52                   |
| <b>Dividend Risk Score:</b> | A      | <b>Sector:</b>                             | Utility | <b>Rating:</b>                   | Hold                 |

## Overview & Current Events

Middlesex Water Company was formed in 1897. The company is a water and wastewater utility in New Jersey and Delaware. Its market capitalization is \$1 billion. Middlesex has paid consecutive dividends since 1912 and has reached its 52<sup>nd</sup> consecutive year of dividend increases.

First-quarter 2025 results showed diluted earnings per share of \$0.53 on net income of \$9.5 million, compared to \$0.59 and \$10.7 million in Q1 2024—a decline driven largely by a one-time recovery benefiting the prior year. Operating revenue rose to \$44.3 million, up \$3.8 million year-over-year, thanks to rate increases, higher consumption, and customer growth in its New Jersey and Delaware service areas. Operating expenses totaled \$32.7 million, increasing by about \$2.0 million due to elevated production costs, main break responses, and the absence of the previous year's depreciation recovery. The company completed the \$4.6 million acquisition of Ocean View utility assets in Delaware, adding approximately 900 customers. Infrastructure investment reached \$19 million in the quarter, with a full-year plan of \$93 million, while a regulatory Distribution System Improvement Charge (DSIC) application is expected to yield an additional \$1.9 million in annual revenue. The board declared a quarterly dividend of \$0.34, continuing a 52-year streak of annual dividend increases. Despite missing consensus EPS estimates of \$0.55, revenue exceeded expectations of \$43.8 million. With solid revenue growth, strategic acquisitions, strong infrastructure spending, and reliable dividend policy, Middlesex Water delivered a well-rounded quarter that supports its regulated utility growth strategy.

## Growth on a Per-Share Basis

| Year                      | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   | 2025          | 2030          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.22 | \$1.38 | \$1.38 | \$1.96 | \$2.02 | \$2.18 | \$2.07 | \$2.12 | \$1.76 | \$2.33 | <b>\$2.88</b> | <b>\$3.60</b> |
| <b>DPS</b>                | \$0.78 | \$0.81 | \$0.86 | \$0.96 | \$0.98 | \$1.05 | \$1.11 | \$1.18 | \$1.26 | \$1.32 | <b>\$1.36</b> | <b>\$2.08</b> |
| <b>Shares<sup>3</sup></b> | 16.2   | 16.3   | 16.4   | 16.4   | 17.4   | 17.5   | 17.5   | 17.6   | 17.8   | 17.9   | <b>17.9</b>   | <b>20.0</b>   |

Earnings-per-share have been rising steadily over the past decade, although gains have been far from linear. The Great Recession saw earnings fall markedly in 2009 but recovery was fairly quick and since 2009, earnings have roughly tripled. We see annualized earnings-per-share growth for the next five years in the mid-single-digits as the meaningful sources of growth will be the rate increase in New Jersey and inflationary pressures. Adding customers will also help some as it will also improve operational efficiencies through economies of scale.

We are forecasting the dividend to continue its streak of small increases moving forward. Middlesex has an impressive streak of dividend increases that will continue to grow but on a percentage basis, the payout will rise rather slowly. The company's payout ratio was far too high during the Great Recession and management pulled way back on dividend increases to avoid a similar fate down the road.

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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## Valuation Analysis

| Year      | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now  | 2030 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 21.8 | 28.8 | 27.3 | 26.9 | 31.7 | 33.4 | 58.0 | 37.3 | 34.7 | 22.3 | 19.5 | 20.0 |
| Avg. Yld. | 2.9% | 2.0% | 2.3% | 1.8% | 1.5% | 1.4% | 0.9% | 1.5% | 2.1% | 2.5% | 2.4% | 2.9% |

The company's price-to-earnings multiple looks undervalued today. As a result, the stock should enjoy a tailwind to total returns in the coming half-decade from multiple expansion. The dividend yield will likely remain in its current range moving forward though it might rise slightly.

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

| Year   | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 64%  | 59%  | 62%  | 49%  | 49%  | 48%  | 54%  | 56%  | 72%  | 57%  | 47%  | 58%  |

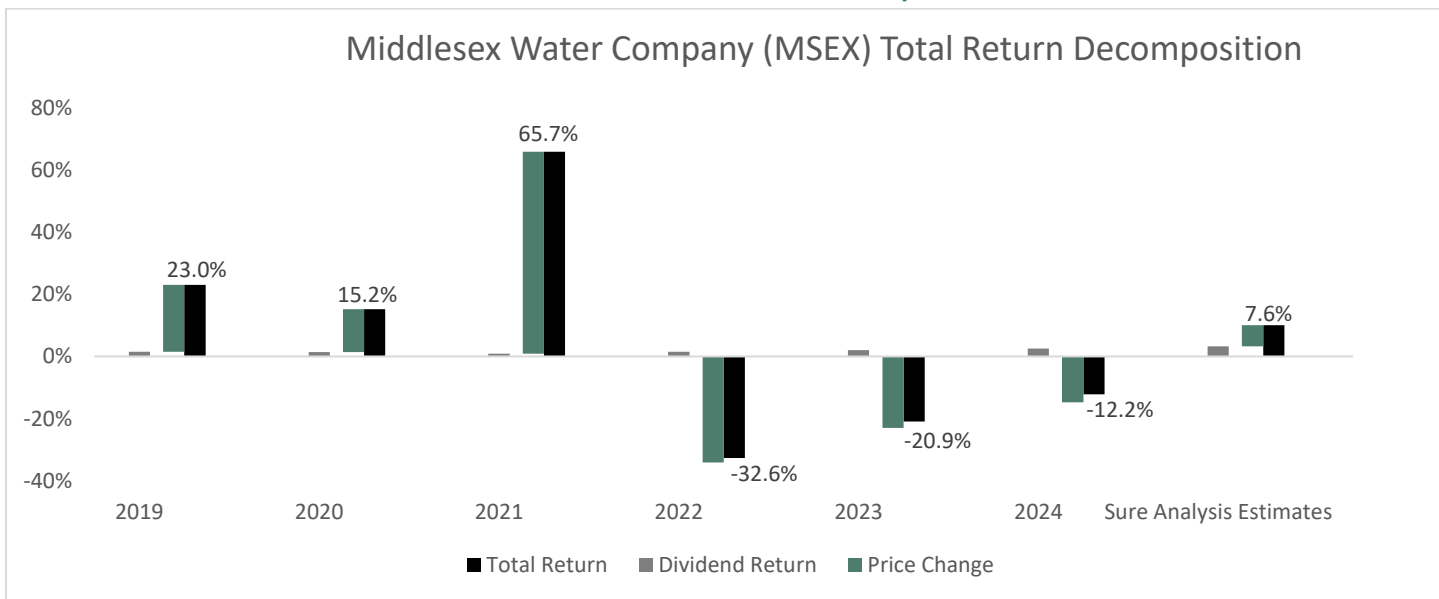
Like many other regulated utilities, Middlesex' quality metrics have remained steady in the past decade thanks to the monopoly-like nature of its assets. However, since pricing is regulated, they cannot drive excessive profitability, thereby explaining the resistance to significant margin expansion. Its assets are mostly debt-financed, allowing for an excellent interest coverage ratio for a utility. Middlesex has the balance sheet to weather virtually any economic storm so there is no question of safety, but obviously growth remains an issue. The payout ratio neared 100% in 2009 but slow growth in dividends and better rates of earnings-per-share growth have led it back down to 47% today, making the dividend very safe.

Middlesex' recession performance is decent given that it sells the most basic staple of all and indeed, its revenue was basically flat in 2009 at the height of the recession. Its earnings did not fare quite as well, but it certainly stood up to the downturn. Its obvious competitive advantage is in the monopoly it enjoys in its service area.

## Final Thoughts & Recommendation

Middlesex offers an annualized total return potential of 7.6% going forward based on our projections, as the current yield and mid-single digit expected annual earnings-per-share growth will be enhanced by very slight expected valuation multiple expansion. The company's impressive dividend growth history is certainly worth noting as well. As a result, we rate the stock a Hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue          | 126   | 133   | 131   | 138   | 135   | 142   | 143   | 162   | 166   | 192   |
| D&A Exp.         | 13    | 14    | 15    | 16    | 17    | 21    | 27    | 27    | 29    | 28    |
| Operating Profit | 36    | 40    | 38    | 37    | 36    | 37    | 33    | 42    | 39    | 53    |
| Operating Margin | 28.4% | 30.3% | 28.9% | 26.9% | 26.4% | 26.4% | 23.2% | 25.9% | 23.6% | 27.7% |
| Net Profit       | 20    | 23    | 23    | 32    | 34    | 38    | 37    | 42    | 32    | 44    |
| Net Margin       | 15.9% | 17.1% | 17.4% | 23.5% | 25.2% | 27.1% | 25.5% | 26.1% | 19.0% | 23.1% |
| Free Cash Flow   | 25    | (0)   | (7)   | (26)  | (53)  | (52)  | (46)  | (30)  | (37)  | (16)  |
| Income Tax       | 11    | 12    | 11    | 1     | (3)   | (4)   | (5)   | 3     | 1     | 7     |

## Balance Sheet Metrics

| Year                 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021  | 2022  | 2023  | 2024  |
|----------------------|------|------|------|------|------|------|-------|-------|-------|-------|
| Total Assets         | 581  | 620  | 661  | 768  | 910  | 976  | 1,020 | 1,074 | 1,236 | 1,255 |
| Cash & Equivalents   | 3    | 4    | 5    | 4    | 2    | 4    | 4     | 4     | 2     | 4     |
| Accounts Receivable  | 10   | 10   | 11   | 12   | 12   | 15   | 15    | 16    | 18    | 19    |
| Inventories          | 3    | 4    | 4    | 5    | 5    | 5    | 5     | 6     | 7     | 7     |
| Total Liabilities    | 372  | 399  | 430  | 517  | 584  | 628  | 650   | 672   | 811   | 808   |
| Accounts Payable     | 7    | 12   | 14   | 19   | 23   | 30   | 21    | 25    | 28    | 28    |
| Long-Term Debt       | 142  | 153  | 174  | 209  | 258  | 282  | 326   | 363   | 409   | 384   |
| Shareholder's Equity | 207  | 218  | 229  | 249  | 324  | 346  | 368   | 400   | 423   | 445   |
| LTD/E Ratio          | 0.68 | 0.69 | 0.75 | 0.83 | 0.79 | 0.81 | 0.88  | 0.90  | 0.96  | 0.86  |

## Profitability & Per Share Metrics

| Year             | 2015 | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   |
|------------------|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Return on Assets | 3.5% | 3.8%   | 3.6%   | 4.5%   | 4.0%   | 4.1%   | 3.7%   | 4.1%   | 2.7%   | 3.6%   |
| Return on Equity | 9.8% | 10.6%  | 10.1%  | 13.4%  | 11.7%  | 11.4%  | 10.2%  | 11.0%  | 7.6%   | 10.2%  |
| ROIC             | 5.6% | 6.3%   | 5.9%   | 7.5%   | 6.5%   | 6.3%   | 5.5%   | 5.8%   | 3.9%   | 5.3%   |
| Shares Out.      | 16.2 | 16.3   | 16.4   | 16.4   | 17.4   | 17.5   | 17.5   | 17.6   | 17.8   | 17.9   |
| Revenue/Share    | 7.72 | 8.09   | 7.93   | 8.35   | 8.00   | 8.06   | 8.13   | 9.17   | 9.32   | 10.69  |
| FCF/Share        | 1.56 | (0.02) | (0.45) | (1.59) | (3.15) | (2.97) | (2.63) | (1.69) | (2.10) | (0.89) |

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

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