



Utilities Monthly

Natural Gas and Water

February 2017

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<p>Note Important Disclosures on page 22 Note Analyst Certifications on page 22</p>

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Natural Gas Utilities

PRICE PERFORMANCE

In January, natural gas utilities lagged the broader market but still rallied following a strong 2016. Our covered companies gained an average of 1.53% last month; the S&P 500 rose 1.79% (**Exhibit 1**). Neutral-rated WGL Holdings, Inc. (WGL) was our strongest name last month after agreeing to be acquired; Long-term Buy-rated Chesapeake Utilities (CPK) slipped 2.32% to start the year.

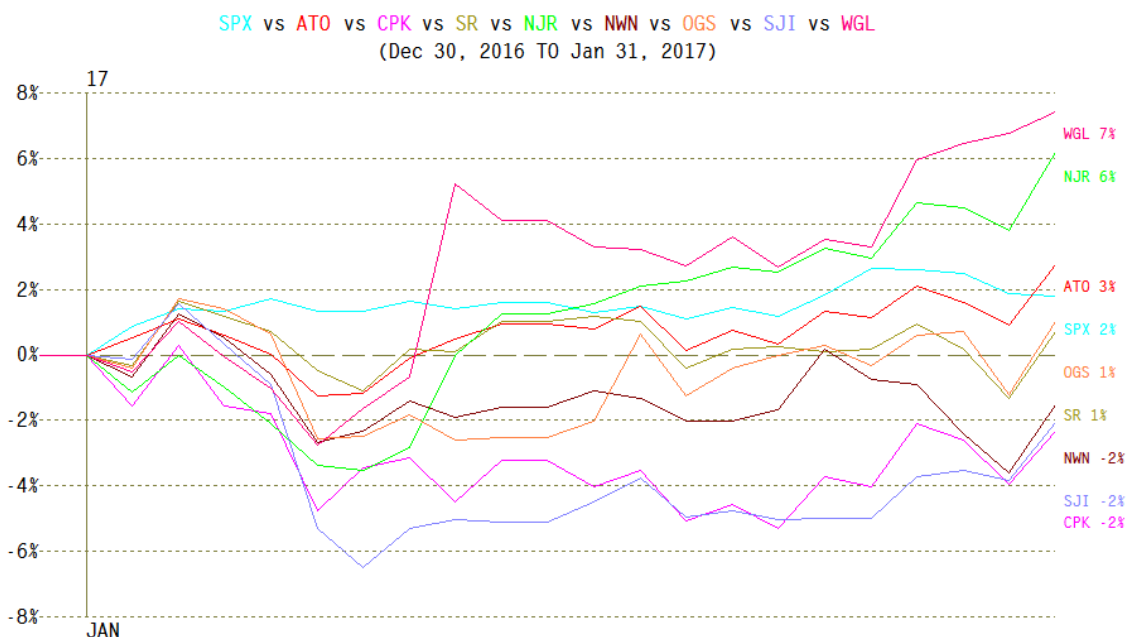
Although still early in 2017, we are pleased with YTD performance for our gas utilities thus far, with the group showing some resiliency despite coming off a third consecutive year of outperformance in 2016. Our gas utilities underperformed the S&P 500, on average, by just a few basis points in January (**Exhibit 2**).
note: SR is not on all charts due to unavailable data from our service provider. SR is included in all averages

Trailing 52-week returns for our coverage group more/less still reflect returns from a strong calendar-2016, although performance versus the S&P comes across a bit more subdued given a market swoon from which to measure in January 2016 (**Exhibit 3**).

Past performance is no guarantee of future results.

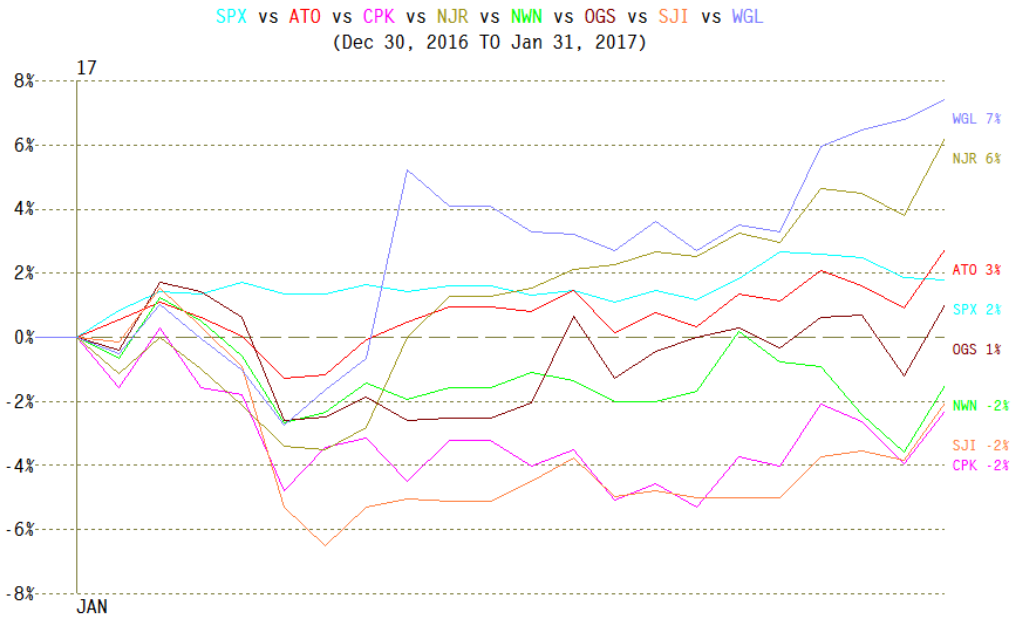
Since our prior *Utilities Monthly*, we have been active due to calendar-Q4 earnings season, and updated investors after WGL agreed to be acquired. Most notably, we moved our suitability rating on the DC-based utility from ‘2’ to ‘4-speculative/most aggressive’ on January 26. We rate SR and CPK as Long-term Buy, and assign shares of ATO, NJR, OGS, SJI, and WGL a Neutral rating; NWN is rated Underperform.

Exhibit 1
Hilliard Lyons Covered Gas Utilities Monthly Price Performance vs. S&P 500—Daily Chart



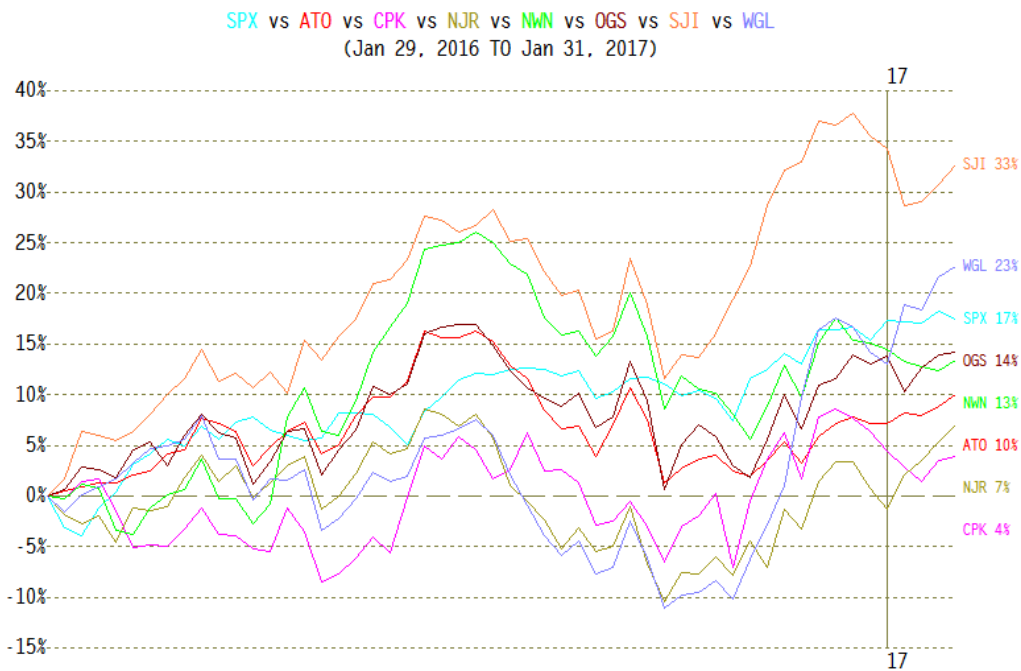
Source: Baseline SPX-S&P 500 Index; ATO-Atmos; CPK-Chesapeake Utils; SR-Spire Inc; NJR-New Jersey Resc; NWN-Northwest Ntrl; OGS-ONE Gas; PNY-Piedmont Nat Gas; SJI- South Jersey Indust; WGL-WGL Hldgs *Note: It is not possible to invest directly in an index*

Exhibit 2
Hilliard Lyons Covered Gas Utilities YTD Price Performance vs. S&P 500—Daily Chart



Source: Baseline SPX-S&P 500 Index; ATO-Atmos; CPK-Chesapeake Utils; SR-Spire Inc; NJR-New Jersey Resc; NWN-Northwest Ntrl; OGS-ONE Gas; PNY-Piedmont Nat Gas; SJI- South Jersey Indust; WGL-WGL Hldgs *Note: It is not possible to invest directly in an index*

Exhibit 3
Hilliard Lyons Covered Gas Utilities One-Year Price Performance vs. S&P 500—Daily Chart



Source: Baseline SPX-S&P 500 Index; ATO-Atmos; CPK-Chesapeake Utils; SR-Spire Inc; NJR-New Jersey Resc; NWN-Northwest Ntrl; OGS-ONE Gas; PNY-Piedmont Nat Gas; SJI- South Jersey Indust; WGL-WGL Hldgs *Note: It is not possible to invest directly in an index*

COMMENTARY AND OUTLOOK

The gas utility industry was surprisingly firm last month, in our view, with our group trading higher despite any potential rotation following a robust 2016. A 1.53% rise, on average, for our coverage group lagged an S&P 500 advance of 1.79% last month, but outpaced small cap stocks in general (as measured by the Russell 2000). Thus far in February, the group has managed to remain positive, but has failed to keep pace with a market that has rallied ~3%.

Boosting returns for the group is the agreed upon acquisition of WGL holdings by a peer utility conglomerate based in Canada. WGL's 7% return in January is likely not repeatable over the balance of this year; however, a steady trickle of deal flow helps support the industry valuation, in our view. Separately, earnings season for us has been a bit mixed thus far, but we believe narratives remain strong enough to support the industry over the next several months. Half of our 8-company coverage have reported calendar-Q4 results (all fiscal Q1'17s); we expect the full group to be done reporting by early-March.

The relatively late-start, and subsequent lull, to earnings season has given us time early this year to evaluate potential impacts of the new Trump Administration. On balance we see mostly upside risk to status quo, but urge tempered expectations. A modest allocation to unregulated operations leaves some room for the group to benefit from a lower statutory tax rate, while 100%-domestic operations mitigate risks rising from protectionist rhetoric. A slight caveat here is that import/export shocks could affect natural gas pricing, which could have longer-term effects on the distribution industry. Separately, we like the industry's positioning within the energy complex, which has seen tangible support already from the Trump Administration as it pertains to the Keystone and Dakota Access projects. We further like gas utilities' legitimate status as US-job creators that own/operate US infrastructure.

The core of our gas utility investment thesis continues to seek out the strongest and most attractively priced regulated growth stories; we view regulated profits as more resilient and worthy of higher valuations based on predictable cash flows and guaranteed rates of return. Having said that, we are increasingly open to faster-growing plays (at the expense of profit mix) as we expect these names to offer a better risk scenario during a period of rising interest rates, and leave some upside optionality tied to comprehensive tax reform. From a business risk/reward/return standpoint, we still strongly support major mid-stream investments by our local distribution utilities (mostly regulated at the FERC/Federal level); however, increasing project delays bring some level of risk, in our view. This note of caution could come under review with the new Trump administration, although we maintain reservations at this point.

Raising our allocation recommendation for the gas utility industry to Marketweight in January proved fortuitous timing, and we stick with our raised outlook as we trade through February. For the most part, we believe the group adequately priced in potential Fed rate hike activity this year via declines in 2H'16, and as discussed, we like the group's positioning in the prevailing political climate. Additionally, we see the potential for consolidation activity to continue, which brings an element of positive headline risk to the gas utility space. Despite a handful of qualitative positives, average valuation on an absolute basis remains a concern, and keeps us below an Overweight positioning.

Despite a relatively sanguine full-year view toward interest rates (as noted above), we believe the broader market is acutely mispricing the likelihood of a Fed hike in March, and as such, cite our favorite growth play as our current top pick in the space: Chesapeake Utilities Corp. We believe the small-cap utility remains one of the best capital allocators in the industry, and actually see the firm's comparatively lower indicated yield (<2%) as tactically de-risking the stock at this juncture versus 'income-oriented' peer utilities. We are comfortable with current valuation, and see adequate upside over the next couple of years to our 2-yr price target of \$75, which implies total return potential of ~18%.

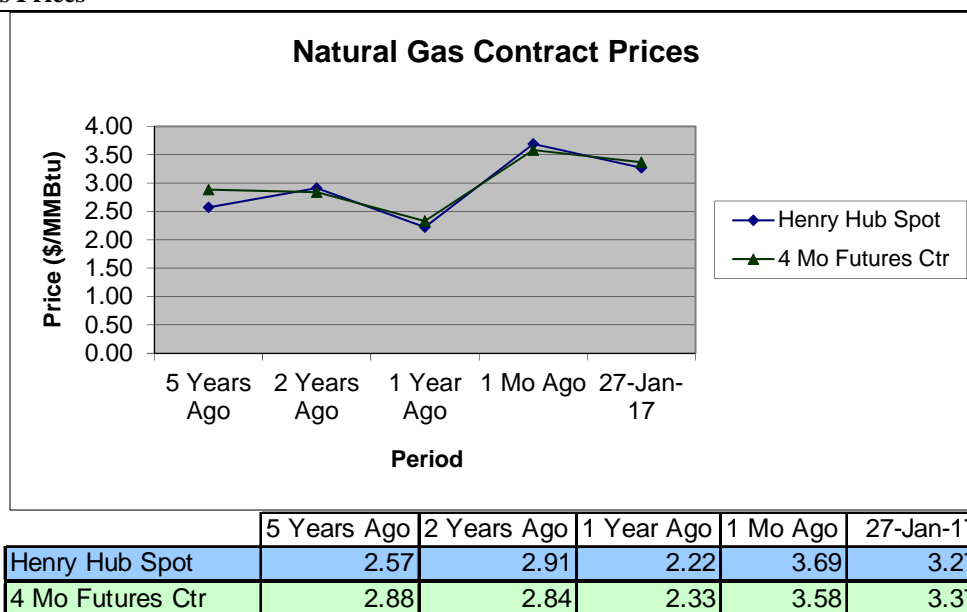
NATURAL GAS NEWS & PRICES

The spot price of natural gas ended the last week of January at \$3.27/Mcf, a slide of 11.4% from the end of 2016, but still well above the \$2.76/Mcf at which the commodity closed November. Volatility that percolated through the final few months of last year persisted into early 2017, albeit across mostly lower price levels than what prevailed in December. Demand has remained weak to start the year (on a yr/yr basis), primarily on weather concerns, despite the secular shift toward gas fired generation and growth in both LNG exports and piped gas-to-Mexico exports. Spot gas is ~\$2.98/Mcf at press time, having mostly leaked lower across the first couple weeks of February, despite gas in storage trending below yr-ago levels.

The US rig count (oil + gas) averaged 683 in January, up 49 from the December average and higher by more than 100 over the past quarter. Notably, rig count in January 2017 was up yr/yr versus 654 in January 2016. Taking a snapshot at the end of last month, the US natural gas rig count marked 145, a rise of ~10% from 132 to close the last week of December.

From the perspective of utility-centric investing, low and stable natural gas prices are a positive for regulated segments. Increased demand (including from the secular shift in power generation) presents growth opportunities for distribution companies, and is often driven by cost concerns. We believe prices generally at or below \$5/Mcf are sufficient to keep our demand growth thesis intact. Noteworthy, in our view, from **Exhibit 4** below is just how long at this point that natural prices have been able to roughly hold below our ‘\$5’ bogey.

Exhibit 4
Natural Gas Prices



Source: Energy Information Administration

RECENT EVENTS -- Hilliard Lyons Coverage Universe (reverse chronological order)

For earnings announcements, quarterly results and rating actions, please consult our most recently published notes. Dividend announcements outside of raises and special items are omitted.

WGL Holdings, Inc. (WGL - \$82.73, Neutral) 2/9/17—WGL raised FY 2017 EPS guidance by a dime on each end to a range of \$3.40-\$3.60, due to fewer shares outstanding as WGL prepares to be acquired.

South Jersey Industries (SJI - \$33.36, Neutral) 1/30/17—SJI announced the filing of a base rate case in New Jersey. South Jersey Gas is requesting a gross revenue increase of ~\$75MM in its first filing since 2013. We expect final approval and/or settlement of the case to fall sometime in 2H'18.

WGL Holdings, Inc. (WGL - \$82.73, Neutral) 1/25/17—WGL announced an agreement to be acquired by Canadian firm AltaGas (Toronto Stock Exchange: ALA—CAD33.32, Not Rated), in a ~\$6.2B deal that values WGL at about 13.1x TTM EBITDA on an enterprise value basis. WGL investors are to receive \$88.25 (US dollars) per share at closing, which is suggested to occur in the second quarter of 2018.

Atmos Energy (ATO - \$75.90, Neutral) 1/19/17—ATO announced that CFO Bret Eckert would be leaving the company, effective 2/1/2017. He has been succeeded by Christopher T. Forsythe, who was promoted from the Controller position and participated in the firm's recent Q1 conference call.

ONE Gas Inc. (OGS - \$64.01, Neutral) 1/17/17—OGS announced EPS guidance for 2017 in the range of \$2.87-\$3.07; consensus into the release was \$2.83. Separately, OGS hiked its quarterly dividend by 20% to \$0.42/share from \$0.35/share. Management expects dividend growth of 8%-10% per year through 2021.

Atmos Energy (ATO - \$75.90, Neutral) 1/6/17—ATO filed a general rate case for its Atmos Pipeline Texas (APT) division. This is a required filing due to the regulatory framework in Texas tied to utilizing GRIP surcharge mechanisms (5-year cycle). ATO is asking for a net operating income increase of \$55.2MM, based on a 13.5% ROE and 59.83% equity capitalization. The pipeline's current rate structure is based on an 11.8% ROE and a balanced 50/50 cap structure.

Atmos Energy (ATO - \$75.90, Neutral) 1/1/17—ATO closed on the sale of Atmos Energy Marketing, for cash of ~\$40MM, net of working capital consideration which should contribute additional cash of about \$100MM. Atmos is now operating as a 100%-regulated company.

Atmos Energy (ATO - \$75.90, Neutral) 12/20/16—ATO simultaneously signed and closed an agreement to acquire the North Texas Pipeline assets of Enlink Midstream (ENLC—\$19.15, Not Rated). Per the fiscal Q1'17 cash flow statement, the purchase price was in the range of \$80MM-\$90MM.

New Jersey Resources (NJR - \$37.85, Neutral) 12/20/16—NJR placed into service its fifth onshore wind project, 'Ringer Hill' located about 60 miles southeast of Pittsburgh, PA. The 40MW facility is NJR Clean Energy Venture's second largest to-date; 26.6MW of capacity has been contracted via a 15-year power purchase agreement with a data storage REIT.

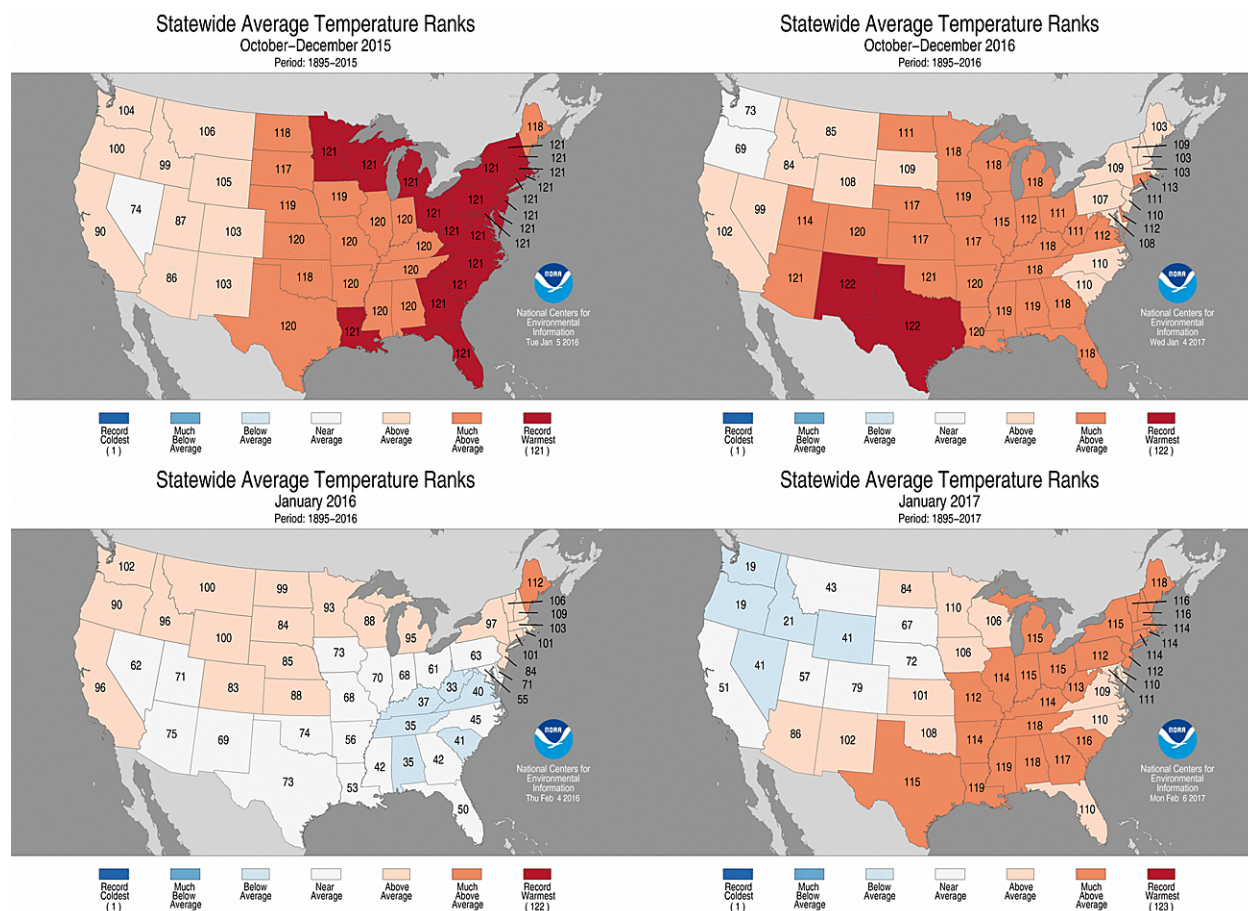
Spire Inc. (SR - \$64.50, Long-term Buy, \$77 TP) 12/14/16—SR entered into a new syndicated revolving credit facility with a consortium of banks, which replaces a prior facility that would have expired in 2019. The new 5-year plan holds aggregate borrowing capacity of \$975MM, split as: Laclede Gas \$475MM, Spire Inc. \$300MM, and Alagasco \$200MM.

TEMPERATURE DATA

With several of our companies yet to report calendar-Q4 results, we hold over our fourth quarter weather charts from our prior *Utilities Monthly*, but do add comparisons for January (**Exhibit 5**). Although Q4'16 held more heating degree days than Q4'15 for much our covered service territories, a particularly late start to the heating season crimped margin from what we have seen through earnings thus far. We expect a similar scenario to play out for SJI/CPK/OGS, when they report, but note NWN is a likely exception given their Pacific Northwest footprint.

Whereas the 'heat' abated somewhat as the calendar rolled over into 2016, the same has not been the case entering 2017, with markedly above average temperatures playing out in January for most of the Eastern US. Again, the exception here has been the Pacific Northwest and cooler than average conditions across the territories of Northwest Natural Gas. Coupled with an anecdotally benign February, we are close to assuming normalized temperatures are unattainable at this point, and expect estimate revisions may be necessary prior to calendar Q1 reports in early-May.

**Exhibit 5
Temperatures by State—Comparisons for Q4 2016 and Q1 2017**



Source: National Climatic Data Center; NOAA Satellite and Information Service

HILLIARD LYONS NATURAL GAS UTILITY COVERAGE COMPARABLES

Company	Ticker	Price 16-Feb-17	Target Price	Rating	Rev TTM (\$MM's)	Mkt Cap (\$MM)	LTD/ Price/ Cap. Book	LTD/ Cap. (%)	Actual // Estimate						5-Yr Avg P/E	3-Yr Avg EPS Growth	Curr EV/ EBITDA	Div. Yld.	Div. Payout (%)	30-day Avg. Vol.
									EPS											
									FY'16E	FY'17E	FY'18E	FY'16E	FY'17E	FY'18E						
Atmos Energy	ATO	\$ 75.90	--	Neutral	3,224	7,890.9	2.2x	38.0	\$3.46	<u>\$3.53</u>	<u>\$3.77</u>	21.9x	21.5x	20.1x	18.5x	8%	11.3x	2.4%	47	384,966
Chesapeake Utilities	CPK	\$ 65.80	\$ 75	LT Buy	462	1,072.6	2.6x	25.0	<u>\$2.91</u>	<u>\$3.11</u>	<u>\$3.50</u>	22.6x	21.2x	18.8x	17.8x	12%	11.1x	1.9%	38	43,516
Spire Inc.	SR	\$ 64.50	\$ 77	LT Buy	-	-	-	-	<u>\$3.42</u>	<u>\$3.52</u>	<u>\$3.78</u>	18.9x	18.3x	17.1x	-	-	-	3.3%	61	-
New Jersey Resources	NJR	\$ 37.85	--	Neutral	1,978	3,259.0	2.7x	46.0	\$1.57	<u>\$1.68</u>	<u>\$1.77</u>	24.1x	22.6x	21.3x	16.2x	-5%	17.8x	2.7%	66	603,110
Northwest Natural	NWN	\$ 59.05	\$ 49	Underprf	673	1,687.1	2.1x	40.0	<u>\$2.20</u>	<u>\$2.17</u>	<u>\$2.30</u>	26.8x	27.2x	25.7x	20.7x	5%	10.5x	3.2%	77	109,326
ONE Gas	OGS	\$ 64.01	--	Neutral	1,376	3,344.2	1.8x	39.0	<u>\$2.69</u>	<u>\$2.97</u>	<u>\$3.14</u>	23.8x	21.5x	20.4x	-	-	11.6x	2.6%	57	208,968
South Jersey Industries	SJI	\$ 33.36	--	Neutral	964	2,644.4	2.3x	39.0	<u>\$1.39</u>	<u>\$1.39</u>	<u>\$1.50</u>	24.0x	24.0x	22.2x	19.4x	-7%	13.8x	3.3%	67	354,679
WGL Holdings	WGL	\$ 82.73	--	Neutral	2,346	4,234.7	2.9x	51.0	\$3.29	<u>\$3.54</u>	<u>\$3.62</u>	25.2x	23.3x	22.9x	18.5x	17%	13.3x	2.5%	59	791,036
Averages:							2.4x	39.7				23.4x	22.5x	21.1x	18.5x	5.0%	12.7x	2.7%	59	

Source: Company reports, Baseline, and Hilliard Lyons estimates

** ATO, NJR, SR and WGL (September fiscal year-end) **

NATURAL GAS UTILITY INDUSTRY COMPARABLES

Company	Tkr	Price 16-Feb-17	Mkt Cap (\$MM)	Price/ Book	LTD/ Cap. (%)	Actual // Estimate						5-Yr Avg P/E	3-Yr Avg EPS Growth	Current EV/ EBITDA	Div. Yld.	Div. Payout (%)	30-day Avg. Vol.	
						Consensus EPS												
						FY'16	FY'17E	FY'18E	FY'16E	FY'17E	FY'18E							
Atmos Energy	ATO	\$ 75.90	7,890.9	2.2x	38.0	\$3.41	<u>\$3.58</u>	<u>\$3.76</u>	22.3x	21.2x	20.2x	18.5x	8%	11.3x	2.4%	47	384,966	
Chesapeake Utilities	CPK	\$ 65.80	1,072.6	2.6x	25.0	<u>\$2.87</u>	<u>\$3.19</u>	<u>\$3.53</u>	22.9x	20.6x	18.6x	17.8x	12%	11.1x	1.9%	38	43,516	
Delta Natural Gas	DGAS	\$ 25.24	179.8	2.3x	39.0	\$0.70	<u>\$0.88</u>	\$0.88	36.1x	28.7x	28.7x	22.6x	-21%	12.9x	3.3%	118	6,795	
Gas Natural	EGAS	\$ 12.60	132.6	1.4x	37.0	<u>\$0.12</u>	<u>\$0.51</u>	\$0.51		24.7x	24.7x	20.9x	-54%	4.5x	2.4%	118	33,210	
Spire Inc.	SR	\$ 64.50	-	-	-	\$3.42	<u>\$3.53</u>	<u>\$3.68</u>	18.9x	18.3x	17.5x	-	-	-	3.3%	61	-	
National Fuel Gas	NFG	\$ 60.16	5,123.3	2.3x	57.0	\$3.09	<u>\$3.32</u>	<u>\$3.27</u>	19.5x	18.1x	18.4x	19.3x	-8%	5.2x	2.7%	48	476,319	
New Jersey Resources	NJR	\$ 37.85	3,259.0	2.7x	46.0	\$1.64	<u>\$1.70</u>	<u>\$1.82</u>	23.1x	22.3x	20.8x	16.2x	-5%	17.8x	2.7%	66	603,110	
Northwest Natural Gas	NWN	\$ 59.05	1,687.1	2.1x	40.0	<u>\$2.21</u>	<u>\$2.30</u>	<u>\$2.44</u>	26.7x	25.7x	24.2x	20.7x	5%	10.5x	3.2%	77	109,326	
ONE Gas	OGS	\$ 64.01	3,344.2	1.8x	39.0	<u>\$2.63</u>	<u>\$2.95</u>	<u>\$3.06</u>	24.3x	21.7x	20.9x	-	-	11.6x	2.6%	57	208,968	
South Jersey Industries	SJI	\$ 33.36	2,644.4	2.3x	39.0	<u>\$1.34</u>	<u>\$1.35</u>	<u>\$1.57</u>	24.9x	24.7x	21.2x	19.4x	-7%	13.8x	3.3%	33.5	354,679	
Southwest Gas	SWX	\$ 83.51	3,965.2	2.5x	49.0	<u>\$3.17</u>	<u>\$3.46</u>	<u>\$3.66</u>	26.3x	24.1x	22.8x	18.2x	0%	9.5x	2.2%	55	222,192	
UGI Corp.	UGI	\$ 47.50	8,216.7	2.7x	57.0	\$2.06	<u>\$2.44</u>	<u>\$2.48</u>	23.1x	19.5x	19.2x	17.8x	2%	9.8x	2.0%	41	597,101	
WGL	WGL	\$ 82.73	4,234.7	2.9x	51.0	\$3.28	<u>\$3.47</u>	<u>\$3.72</u>	25.2x	23.8x	22.2x	18.5x	17%	13.3x	2.5%	59	791,036	
Averages:					2.3x	43.1				24.4x	22.6x	21.5x	19.1x	-4.6%	10.9x	2.7%	63.0	

Source: Company reports and Baseline

Water Utilities

PRICE PERFORMANCE

Our covered water utilities slipped an average of 1.31% during January; the S&P 500 gained 1.79% last month (**Exhibit 6**). Underperform-rated York Water Company (YORW) fell over 5% to pace the industry to the downside, while Neutral-rated California Water Service Group (CWT) was our strongest name, rising 1.77%.

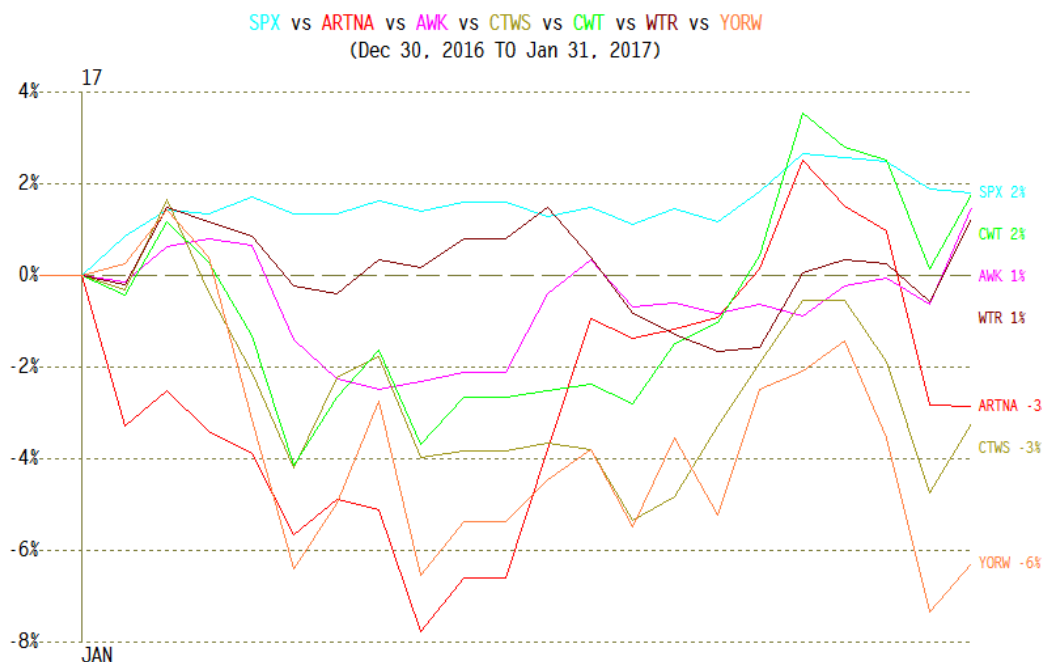
Early 2017 returns for the water group are not particularly strong, in our view, although we are not surprised to see some give back after the group rallied ~30% last year. Our water stocks trailed the S&P 500 by an average of 300+ bps YTD through January 31 (**Exhibit 7**). Along with some natural rotation, we expect underperformance from small-cap stocks has weighed on the group.

Trailing 52-week performance mostly reflects a robust 2016 (**Exhibit 8**), although we note that a market swoon in January 2015 makes the timeframe a bit unfair on a relative basis. Our water stocks advanced an average of ~18% over the past twelve months, nearly in line with the S&P.

Past performance is no guarantee of future results.

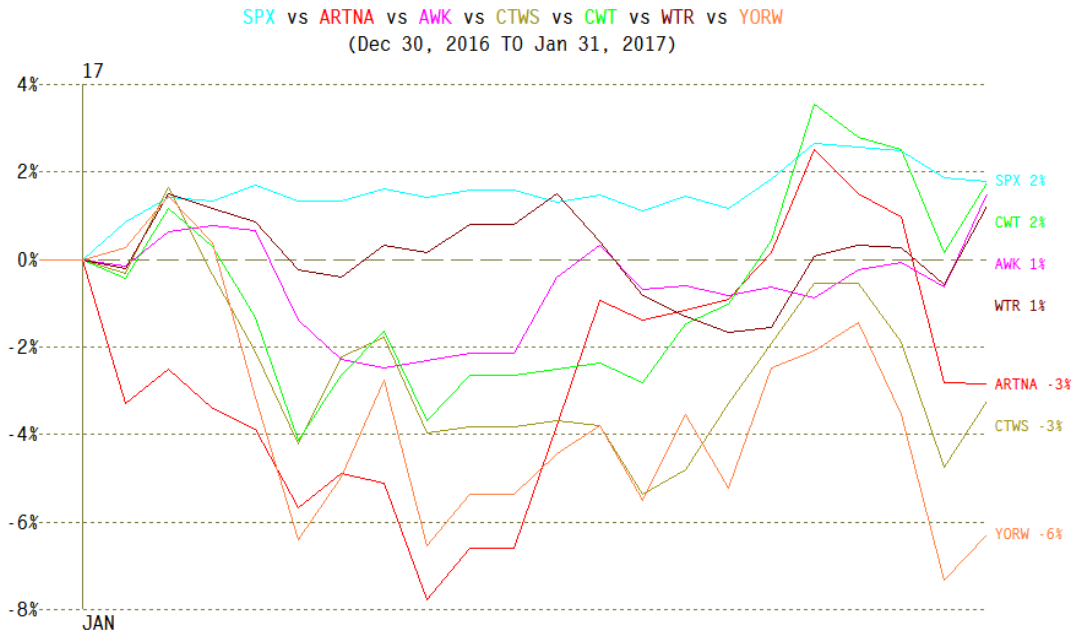
After upgrading both AWK and ARTNA just prior to publishing our most recent *Utilities Monthly*, we have been relatively quiet over the past month. We expect to publish updates for each of our companies in coming week as they report Q4'16 results. We currently rate AWK and ARTNA as Long-term Buy, while CTWS and CWT are rated at Neutral; YORW and WTR carry Underperform ratings.

Exhibit 6
Hilliard Lyons Covered Water Utilities Monthly Price Performance vs. S&P 500—Daily Chart



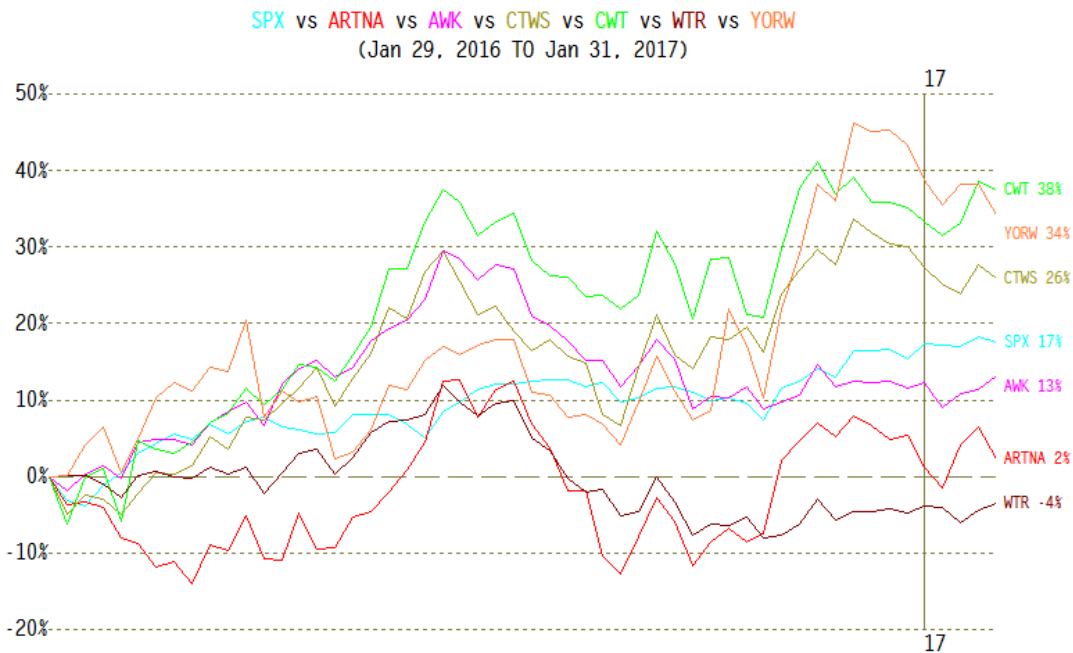
Source: Baseline SPX-S&P 500 Index; ARTNA-Artesian Resources; AWK-American Water Works; CTWS-CT Water Svc; CWT-California Water Svc Group; WTR-Aqua America; YORW-The York Water Company **Note: It is not possible to invest directly in an index**

Exhibit 7
Hilliard Lyons Covered Water Utilities YTD Price Performance vs. S&P 500—Daily Chart



Source: Baseline SPX-S&P 500 Index; ARTNA-Artesian Resources; AWK-American Water Works; CTWS-CT Water Svc; CWT-California Water Svc Group; WTR-Aqua America; YORW-The York Water Company **Note: It is not possible to invest directly in an index**

Exhibit 8
Hilliard Lyons Covered Water Utilities One-Year Price Performance vs. S&P 500—Weekly Chart



Source: Baseline SPX-S&P 500 Index; ARTNA-Artesian Resources; AWK-American Water Works; CTWS-CT Water Svc; CWT-California Water Svc Group; WTR-Aqua America; YORW-The York Water Company **Note: It is not possible to invest directly in an index**

COMMENTARY AND OUTLOOK

Water utilities declined, on average, to start the year, breaking a streak of four consecutive month of gains to close 2016. Our 6-company coverage group fell an average of 1.31% last month versus a 1.79% rise for the S&P 500, although large-caps AWK and WTR both managed to rise ~1%. We expect rotation away from SMID-caps played a role in underperformance to start the year, although we also suspect a natural level of profit taking after the group rallied an average of 30.5% last year. The water industry lagged both the gas and electric utility verticals last month, although correlation has returned in February thus far.

Earnings season is not yet underway for the water utility industry, where each of the names we follow are set to report full fiscal year earnings in conjunction with calendar-Q4 results; this includes both our covered names and a smaller set of utilities we track for comparison purposes only. AWK will be our first report, after the market close on Tuesday, February 22; we expect the season to be complete by mid-March. Aqua America and American Water Works have already initiated guidance for 2017, and news flow over the winter has otherwise been sparse, in our view. The slight exception here may be finalization of the CWT general rate case; however, the only real news here was timing (it got done on schedule).

The relatively late earnings season has given us time early this year to evaluate potential impacts of the new Trump Administration policy priorities. Our core takeaway is that water investors can continue to deploy capital with a high level of comfort, based on several items. The companies we follow are strictly US-oriented firms, neither importing nor exporting goods and services...this effectively alleviates risk from what have been sharp moves in the FX market, and risk from 'border tax' adjustments or tariff wars. Similarly, due to the regulated model, where state-level commission set rates of return, we view the industry as insulated from tax upheaval, as gains/losses from a range of items would ultimately be passed through to customers (i.e. lower statutory rates, loss of interest deductibility). Finally, from a high level, we like our companies' status as US-job creators that fix US infrastructure and alleviate US safety concerns.

Our core long-term investment thesis for the water space is to target names with robust regulated infrastructure investment opportunities, while tangentially supporting acquisition activity. Much of the US water/wastewater infrastructure has surpassed its intended useful life, and we expect our companies can grow over a long-term time horizon by earning a return on their infrastructure investments. With guaranteed returns on equity, a primary focus of ours is determining what utilities have the best line of sight on deploying retained equity capital. We further look for rising earned-ROE scenarios (i.e. operational improvement) and/or special situations that may be misunderstood by the market.

We are sticking with our Underweight allocation recommendation to water stocks as we trade through February, but remind investors that we do see a couple of compelling opportunities in shares of AWK and ARTNA. Average valuation remains our primary concern, and a core factor in our preference to stay selective. By our calculation, the water industry is currently priced at 27.5x/25.3x/23.5x consensus 2016/2017/2018 EPS expectations, versus a 5-yr average trailing multiple of ~22x. We also see risk from continued rotation away from small-caps, but are not particularly concerned with what looks to be an increasing likelihood that the Fed hikes interest rates in March.

Our top pick in the water space remains Artesian Resources, which we upgraded to Long-term Buy in mid-January. The Delaware-based small cap holds the cheapest valuation we cover, and is our only name flirting with the 3% yield level. We like that the stock has been resilient around the \$30 level for several months now, and as importantly, we identify incremental fundamental improvement. ARTNA should see savings this year from a January debt refinancing, and we expect to see a general rate case filing within our investment time horizon. Separately, we view ARTNA as a reasonable addition for investors seeking a basket of utility stocks that could be acquired. Our 2-yr \$35 price target suggests total return of ~17%.

RECENT EVENTS -- Hilliard Lyons Coverage Universe (reverse chronological order)

For earnings announcements, quarterly results and rating actions, please consult our most recently published notes. Dividend announcements outside of raises and special items are omitted.

California Water Service Group (CWT - \$34.60, Neutral) 1/25/16—CWT hiked its dividend by 4.3%, raising the quarterly payout to \$0.72 from \$0.69 beginning with the 2/17 payment. It marks the company's 50th consecutive year of annual dividend increases.

Artesian Resources (ARTNA - \$31.60, Long-term Buy, \$35.00 TP) 1/18/16—Artesian completed a debt deal for \$40MM of 4.24% Notes due 2036, which substantially refinances \$35.4MM of debt at a blended rate of ~6% plus about \$4MM in prepayment costs.

Connecticut Water Service, Inc. (CTWS - \$53.79, Neutral) 1/19/17—CTWS' Maine Water subsidiary took down \$5MM in long-term debt, utilizing a standing term facility with CoBank. The borrowings will be due in 2026, and carry a fixed interest rate of 4.1%.

Aqua America, Inc. (WTR - \$30.10, Underperform, \$27.00 TP) 1/17/16—WTR released 2017 guidance, suggesting EPS for the year could fall into the range of \$1.34 to \$1.39. Consensus for 2017 EPS into the release was for \$1.39; total customer growth is expected to be in the 1.5% to 2.0% range.

American Water Works (AWK - \$73.44, LTB, \$84.00 TP) 12/29/16—AWK announced closing of the nearly \$200MM acquisition of the Scranton, PA, sewer system; timing was substantially delayed from initial projections, but met most recent guidance that the deal could close before year-end 2016.

York Water Company (YORW - \$34.85, Underperform, \$25.50 TP) 12/29/16—YORW announced approval from PA regulators for its planned purchase of the West York Borough wastewater system; the 1700 new customer connections are now posited to be added in Q1'17.

York Water Company (YORW - \$34.85, Underperform, \$25.50 TP) 12/16/16—York announced that CFO Kathleen Miller is scheduled to retire on December 31, 2017, just over a year from the announcement. Matthew Poff, CPA, is slated to succeed Ms. Miller; he has been Controller at YORW since 2009.

American Water Works (AWK - \$73.44, LTB, \$84.00 TP) 12/15/16—American Water Works hosted investors at the New York Stock Exchange for an annual investor conference. At the event, AWK initiated 2017 EPS guidance in the range of \$2.98-\$3.08.

California Water Service Group (CWT - \$34.60, Neutral) 12/15/16—The California Public Utilities Commission approved and adopted the proposed settlement to CWT's 2015 general rate case; new rates took effect on 1/1/2017, and Cal Water is approved to invest \$658.8MM in capital improvements over the years 2016-2018. CWT also received approval to recover \$2.9MM in drought-driven special expenses that were incurred over 2014 and 2015.

American Water Works (AWK - \$73.44, LTB, \$84.00 TP) 12/13/16—Illinois American Water completed its general rate case, receiving a base rate increase of \$35.2MM (annualized), or a net adjustment of about \$25MM. The decision took effect on 1/1/17.

Connecticut Water Service, Inc. (CTWS - \$53.79, Neutral) 12/5/16—CTWS announced that Judith Wallingford, President of The Maine Water Company will retire, effective 3/31/2017; she will be succeeded by Richard Knowlton, who has been with Maine Water since 1992.

PRECIPITATION DATA

With the water utility industry having not yet reported results for Q4'16, we reiterate comments that pertain to the upcoming cycle of earnings (**Exhibit 9**). Fourth quarter precipitation was lighter in 2016 versus the prior year for much of the Eastern and Central US, including the states of TX, MO and NC, which each posted record rain/snowfall in Q4'15. NJ and DE are a couple of other states where precipitation in Q4'16 is likely to be constructive to financial results versus the year-ago quarter. Continuing to climb back from severe drought, California turned in a fairly wet final quarter of 2016.

On the back of persistent rainfall out west, drought conditions have improved quite significantly over the past several months, and particularly over the last several weeks (**Exhibit 10**). Extreme conditions stretching across TN-AL-GA-MS have improved a bit in early-2017 as well, which leaves a patch of area covering Oklahoma as the hardest-hit US region at this juncture. The drought outlook has changed by a comparatively less amount month/month (**Exhibit 11**), but has mostly improved as well.

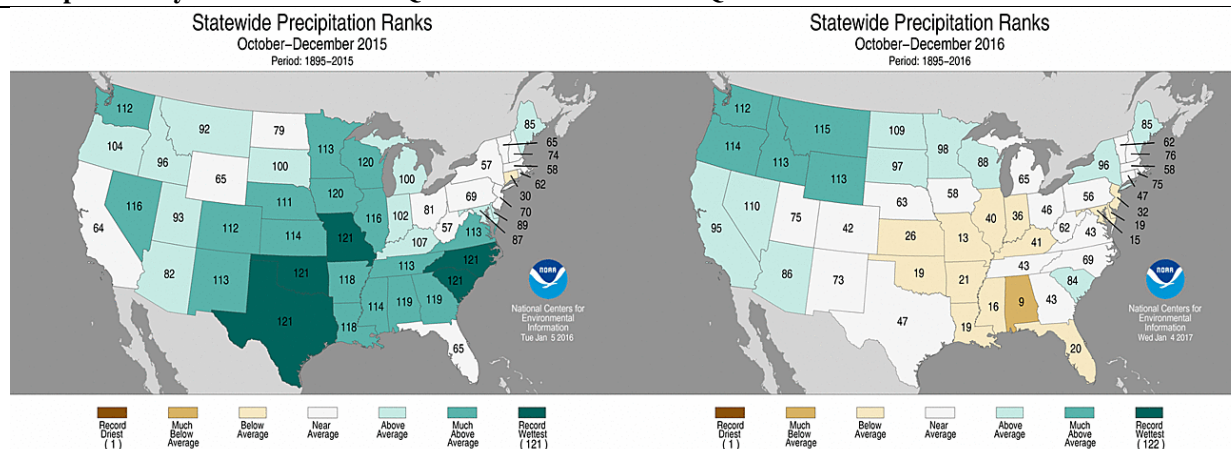
Revenue decoupling insulates CTWS and CWT (and the CA-subsiary of AWK) from weather impact, and we mostly view rainfall as less of a concern than in years past with investors acclimating to 'extremes' becoming the norm. Having said that, all of our water utilities are still somewhat sensitive to volatile maintenance spending due to oscillations in both rainfall and temperature. From a trading perspective, we like capitalizing on weather fears to identify attractive long-term entry points.

Per review of industry 2015 10-k filings, which should be updated in the next several weeks:

		Approx % of Water Rev from Important States												
		NJ	PA	IN	IL	WV	MO	TX	CA	OH	NC	ME	CT	DE
AWK		26%	22%	8%	10%	5%	10%		7%					
WTR			52%		7%			9%		12%	6%			
ARTNA														95%
YORW			100%											
CWT								94%						
CTWS												15%	85%	

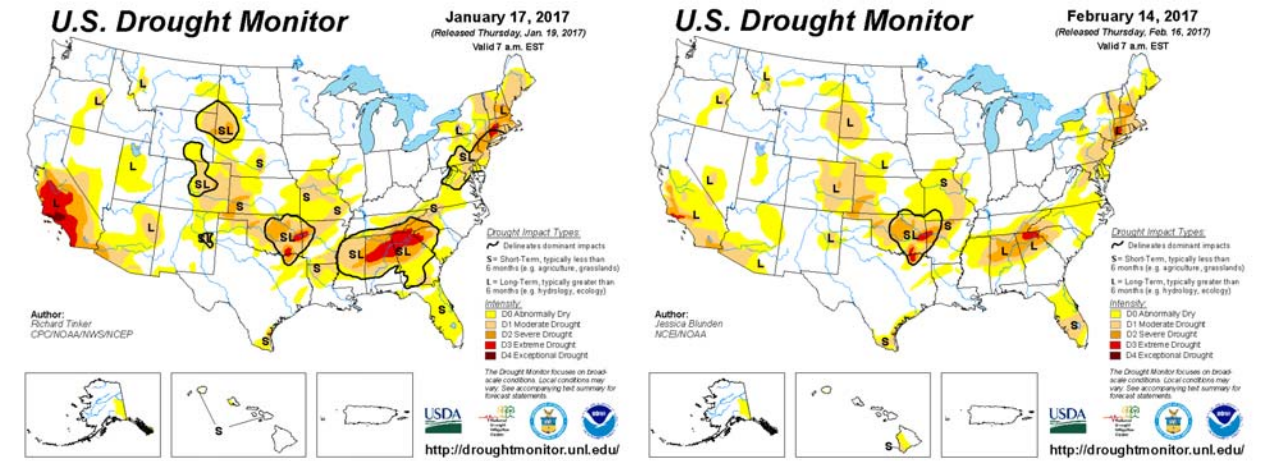
Source: Company filings and Hilliard Lyons estimates

**Exhibit 9
Precipitation by State—Months of Q4 2015 versus Months of Q4 2016**



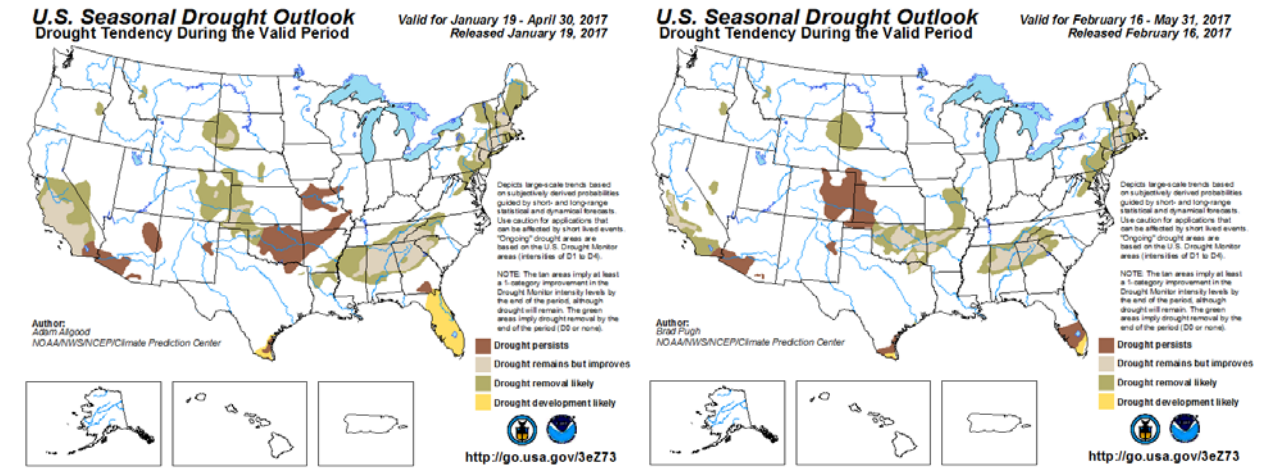
Source: National Climatic Data Center

Exhibit 10
US Drought Conditions—Most Recent versus ~1 Month Ago



Source: National Climatic Data Center

Exhibit 11
US Drought Outlook—Most Recent versus ~1 Months Prior



Source: National Weather Service—Climate Prediction Center

RAW PRECIPITATION TOTALS (SELECT LOCATIONS)

October (month #1 of Q4) 2014-2016

***Note:** Data is color coded by company affected: **AWK**, **WTR**, **AWK & WTR**, **CTWS**, **ARTNA**, and **YORW**. Data from NOAA Satellite and Info Svc.

				Oct '16									
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	11	3.06	8	67.5/45.7	2	3	2	1.03	0.64	1.67
AWK	PA	McKees (Pitgh)	McKeesport	16	7.37	14	67.8/44.9	4	3	3	3.07	1.04	4.11
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	6	2.03	2	75.2/55.5	1	0	0	0.07	0.00	0.07
AWK	WV	Charleston	WSFO	8	4.20	2	72.6/46.4	3	0	0	1.81	0.00	1.81
AWK/WTR	PA	Philadelphia	Philly Frank Inst	6	2.19	2	68.7/52.3	2	1	1	0.57	0.04	0.61
AWK/WTR	PA	Williamsport	Williamsport 2	13	4.86	9	64.7/47.2	2	3	1	1.04	0.69	1.73
AWK/WTR	IL	Kankakee	Kkee--WW	9	3.76	6	68.0/48.8	0	0	0	0.00	0.00	0.00
WTR	NC	Charlotte	Concord	3	3.10	3	77.8/50.0	1	1	1	1.30	1.76	3.06
WTR	NC	Raleigh	Raleigh St Univ	4	10.45	2	74.6/53.8	3	1	1	1.50	8.95	10.45
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	3	1.25	0	83.4/61.9	1	0	0	0.69	0.00	0.69
WTR	TX	Houston	NWSO	2	1.50	0	83.9/66.8	0	0	0	0.00	0.00	0.00
CTWS	ME	Newcastle	Newcastle	12	3.26	11	57.9/42.8	3	3	2	0.64	0.79	1.43
ARTNA	DE	Newark	Wilmington Port	8	2.11	6	65.8/48.5	3	3	2	0.36	1.25	1.61
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	10	4.18	9	72.3/52.8	3	2	2	0.48	3.35	3.83
YORW	PA	York	York Haven	7	1.25	4	-	2	2	1	0.38	0.55	0.93
				118	54.57	78		30	22	16	12.94	19.06	32.00
				Oct '15									
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	7	4.30	4	66.97/42.68	2	2	1	2.44	0.05	2.49
AWK	PA	McKees (Pitgh)	McKeesport	12	3.56	8	64.35/43.19	3	2	1	1.54	0.54	2.08
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	5	1.14	2	70.16/51.03	1	0	0	0.16	0.00	0.16
AWK	WV	Charleston	WSFO	9	2.34	5	68.16/43.58	2	2	0	0.93	0.54	1.47
AWK/WTR	PA	Philadelphia	Philly Frank Inst	6	4.07	5	66.71/49.9	2	0	0	2.15	0.00	2.15
AWK/WTR	PA	Williamsport	Williamsport 2	11	3.23	9	64.39/43.87	3	2	2	0.83	0.31	1.14
AWK/WTR	IL	Kankakee	Kkee--WW Metro	5	1.15	3	65/44.65	0	0	0	0.00	0.00	0.00
WTR	NC	Charlotte	Concord	12	7.70	12	72.81/47.42	2	2	2	3.28	1.24	4.52
WTR	NC	Raleigh	Raleigh St Univ	8	5.41	7	69.94/50.45	2	1	1	2.41	1.33	3.74
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	7	9.59	6	80.32/59.81	2	1	0	1.26	0.05	1.31
WTR	TX	Houston	NWSO	7	13.84	7	81.94/64.94	2	1	1	10.11	3.36	13.47
CTWS	ME	Newcastle	Newcastle	11	3.67	6	55.32/38.65	2	1	0	0.17	0.05	0.22
ARTNA	DE	Newark	Wilmington Port	7	4.20	5	65.26/47.35	1	1	0	0.20	0.10	0.30
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	10	4.62	9	68.9/48.32	2	1	1	0.91	0.22	1.13
YORW	PA	York	York Haven	9	5.31	6	-	2	2	1	1.09	0.17	1.26
				146	83.32	107		32	20	11	28.36	8.03	36.39
				Oct '14									
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	12	4.13	8	68.2/46.7	3	2	2	0.60	0.57	1.17
AWK	PA	McKees (Pitgh)	McKeesport	14	2.51	10	64.9/44.1	2	2	1	0.35	0.17	0.52
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	13	4.85	12	69.0/51.3	2	1	1	0.13	0.04	0.17
AWK	WV	Charleston	WSFO	16	5.13	14	65.8/44.2	2	3	2	0.72	0.10	0.82
AWK/WTR	PA	Philadelphia	Philly Frank Inst	9	3.57	5	68.4/53.8	1	2	1	0.40	0.52	0.92
AWK/WTR	PA	Williamsport	Williamsport 2	13	2.26	9	65.8/47.0	3	0	0	0.28	0.00	0.28
AWK/WTR	IL	Kankakee	Kkee--WW Metro	11	3.45	7	62.3/43.2	0	1	0	0.00	0.03	0.03
WTR	NC	Charlotte	Concord	4	0.90	4	77.6/44.5	0	1	0	0.00	0.03	0.03
WTR	NC	Raleigh	Raleigh St Univ	6	4.64	4	74.6/51.2	2	1	1	0.97	0.61	1.58
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	6	2.06	4	82.5/60.2	1	1	1	0.23	0.10	0.33
WTR	TX	Houston	NWSO	9	2.47	7	83.3/61.7	1	1	1	0.12	0.01	0.13
CTWS	ME	Newcastle	Newcastle	13	6.88	11	58.1/44.5	2	2	1	0.08	0.67	0.75
ARTNA	DE	Newark	Wilmington Port	7	2.24	3	64.7/50.0	2	0	0	1.14	0.00	1.14
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	13	3.43	13	71.6/50.2	2	2	2	0.71	0.04	0.75
YORW	PA	York	York Haven	16	4.04	13	n/a	2	3	2	2.34	0.22	2.56
				206	65.79	158		30	31	20	8.64	5.43	14.07

November (month #2 of Q4) 2014-2016

*Note: Data is color coded by company affected: **AWK**, **WTR**, **AWK & WTR**, **CTWS**, **ARTNA**, and **YORW**. Data from NOAA Satellite and Info Svc.

				Nov '16									
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	6	2.90	4	58.2/35.9	0	1	0	0.00	0.49	0.49
AWK	PA	McKees (Pitgh)	McKeesport	9	2.27	5	55.8/31.3	1	0	0	0.32	0.00	0.32
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	7	3.36	4	63.3/43.1	1	0	0	0.25	0.00	0.25
AWK	WV	Charleston	WSFO	8	2.03	4	60.3/33.8	0	1	0	0.00	0.44	0.44
AWK/WTR	PA	Philadelphia	Philly Frank Inst	2	0.64	0	59.1/42.6	0	0	0	0.00	0.00	0.00
AWK/WTR	PA	Williamsport	Williamsport 2	10	1.12	6	54.5/35.0	2	1	1	0.19	0.01	0.20
AWK/WTR	IL	Kankakee	Kkee--WW	7	2.92	4	58.1/37.3	1	0	0	0.22	0.00	0.22
WTR	NC	Charlotte	Concord	4	0.42	4	69.0/38.3	0	0	0	0.00	0.00	0.00
WTR	NC	Raleigh	Raleigh St Univ	3	0.39	0	65.0/41.4	0	0	0	0.00	0.00	0.00
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	7	2.11	4	71.2/53.2	1	1	1	0.02	0.15	0.17
WTR	TX	Houston	NWSO	6	2.49	3	76.6/58.1	0	1	0	0.00	0.01	0.01
CTWS	ME	Newcastle	Newcastle	11	4.50	11	48.0/33.4	1	2	1	0.08	0.34	0.42
CTWS	CT	Bakersville	Bakersville	11	3.39	7	51.6/30.0	0	2	0	0.00	0.91	0.91
CTWS	CT	Hampton	Hampton	8	2.98	5	53.4/32.1	0	2	0	0	0.37	0.37
ARTNA	DE	Newark	Wilmington Port	3	2.07	2	55.1/38.2	0	0	0	0.00	0.00	0.00
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	9	0.47	6	62.2/38.7	0	1	0	0.00	0.05	0.05
YORW	PA	York	York Haven	6	1.44	4	-	0	1	0	0	0.25	0.25
				Nov '15									
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	7	1.59	4	60.63/39.63	1	1	0	0.03	0.04	0.07
AWK	PA	McKees (Pitgh)	McKeesport	12	1.83	10	59.2/35.8	2	2	1	0.30	0.10	0.40
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	10	6.27	7	59.3/41.81	2	1	1	1.19	0.03	1.22
AWK	IN	Indianapolis	Indy SESide		data not available								
AWK	WV	Charleston	WSFO	7	1.69	2	62.87/36.37	1	1	0	0.11	0.40	0.51
AWK/WTR	PA	Philadelphia	Philly Frank Inst	7	2.76	4	60.7/45.97	0	1	0	0.00	0.07	0.07
AWK/WTR	PA	Williamsport	Williamsport 2	7	1.96	5	57.83/37.97	1	0	0	0.09	0.00	0.09
AWK/WTR	IL	Kankakee	Kkee--WW Metro	8	7.54	3	54.2/35.23	0	0	0	0.00	0.00	0.00
WTR	OH	Cleveland	Chippewa Lake		data not available								
WTR	NC	Charlotte	Concord	12	9.12	10	65.17/42.9	1	2	1	0.85	0.17	1.02
WTR	NC	Raleigh	Raleigh St Univ	10	8.08	9	62.9/44.4	0	1	0	0.00	0.39	0.39
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	12	10.51	10	66.37/48.47	2	2	1	0.96	1.49	2.45
WTR	TX	Houston	NWSO	7	5.45	2	72.4/57.03	3	1	1	1.28	0.05	1.33
CTWS	ME	Newcastle	Newcastle	8	3.01	5	48.6/34.27	1	1	0	0.12	0.11	0.23
CTWS	CT	Bakersville	Bakersville	7	2.36	4	54.43/31.8	1	2	0	0.02	0.22	0.24
CTWS	CT	Hampton	Hampton	4	2.19	0	55.7/34.3	1	1	0	0.31	0.27	0.58
ARTNA	DE	Newark	Wilmington Port	7	2.69	5	59.4/43.7	2	1	1	0.06	0.14	0.20
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	14	3.85	14	63.45/43.47	2	3	2	0.17	0.25	0.42
YORW	PA	York	York Haven	7	0.97	4	-	0	1	0	0	0.02	0.02
				Nov '14									
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	11	5.09	9	51.4/32.4	1	1	1	0.33	0.45	0.78
AWK	PA	McKees (Pitgh)	McKeesport	14	2.66	12	47.7/30.7	2	4	2	0.26	0.58	0.84
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	8	3.15	7	48.3/33.2	1	2	1	0.03	0.26	0.29
AWK	IN	Indianapolis	Indy SESide		data not available								
AWK	WV	Charleston	WSFO	14	3.48	11	49.8/27.2	2	1	1	0.33	0.14	0.47
AWK/WTR	PA	Philadelphia	Philly Frank Inst	12	5.04	8	51.4/37	2	1	1	0.47	0.45	0.92
AWK/WTR	PA	Williamsport	Williamsport 2	11	7.04	9	47.4/30.9	3	2	2	0.15	0.07	0.22
AWK/WTR	IL	Kankakee	Kkee--WW Metro	9	2.53	8	41.9/24.1	0	0	0	0.00	0.00	0.00
WTR	OH	Cleveland	Chippewa Lake	13	4.06	9	41.9/26.0	1	3	1	0.31	0.20	0.51
WTR	NC	Charlotte	Concord	9	4.03	6	59.1/32.8	1	2	1	0.85	0.13	0.98
WTR	NC	Raleigh	Raleigh St Univ	6	3.69	2	56.6/35.9	0	0	0	0.00	0.00	0.00
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	4	3.03	2	63.0/41.4	1	1	0	1.13	0.23	1.36
WTR	TX	Houston	NWSO	11	4.56	11	67.3/48.6	2	2	2	1.64	1.44	3.08
CTWS	ME	Newcastle	Newcastle	12	32.45	9	43.5/29.2	1	2	1	0.15	11.61	11.76
CTWS	CT	Bakersville	Bakersville	11	14.10	10	46.6/26.9	2	1	1	0.05	0.23	0.28
CTWS	CT	Hampton	Hampton	10	7.30	6	47.7/27.2	0	1	0	0.00	0.48	0.48
ARTNA	DE	Newark	Wilmington Port	6	4.37	2	49.9/33.9	1	0	0	0.77	0.00	0.77
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	13	3.85	11	58.0/36.7	1	1	0	0.01	0.01	0.02
YORW	PA	York	York Haven	8	4.96	4	n/a	1	0	0	0.11	0.00	0.11

December (month #3 of Q4) 2014-2016

*Note: Data is color coded by company affected: **AWK**, **WTR**, **AWK & WTR**, **CTWS**, **ARTNA**, and **YORW**. Data from NOAA Satellite and Info Svc.

				Dec '16										
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.	
AWK/WTR	NJ	New Brunswick	3 SE	9	6.17	4	45.8/28.0	2	2	2	2.57	0.59	3.16	
AWK	PA	McKees (Pitgh)	McKeesport	12	7.62	7	40.2/25.5	2	4	1	1.65	1.36	3.01	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	9	1.41	7	41.4/27.0	2	2	1	0.07	0.36	0.43	
AWK	WV	Charleston	WSFO	15	6.82	14	45.8/28.2	3	2	2	0.64	1.49	2.13	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	10	6.58	2	46.7/33.9	2	1	1	1.32	0.66	1.98	
AWK/WTR	PA	Williamsport	Williamsport 2	14	11.86	12	39.3/26.6	2	2	1	0.63	2.03	2.66	
AWK/WTR	IL	Kankakee	Kkee--WW	6	8.62	2	34.1/20.2	0	0	0	0.00	0.00	0.00	
WTR	NC	Charlotte	Concord	9	2.76	4	54.9/32.9	0	1	0	0.00	0.03	0.03	
WTR	NC	Raleigh	Raleigh St Univ	5	1.78	2	54.2/35.6	0	1	0	0.00	0.12	0.12	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	6	0.54	6	58.3/39.0	2	1	1	0.38	0.02	0.40	
WTR	TX	Houston	NWSO	13	8.93	12	67.2/52.1	3	1	1	7.16	0.68	7.84	
CTWS	ME	Newcastle	Newcastle	14	23.23	7	33.6/19.5	2	1	1	4.10	0.57	4.67	
CTWS	CT	Bakersville	Bakersville	14	19.76	11	38.9/20.2	2	2	1	2.89	6.35	9.24	
CTWS	CT	Hampton	Hampton	13	10.21	9	40.8/22.6	1	2	1	1.95	4.08	6.03	
ARTNA	DE	Newark	Wilmington Port	9	3.98	5	43.2/28.9	2	1	1	.76+-.40	0.04	0.04	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	14	3.13	11	50.0/31.6	2	2	2	0.78	0.05	0.83	
YORW	PA	York	York Haven	11	4.17	5	-	2	1	1	1.03	0.04	1.07	
				Dec '15										
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.	
AWK/WTR	NJ	New Brunswick	3 SE	13	4.67	11	56.65/40.52	1	1	1	0.10	0.05	0.15	
AWK	PA	McKees (Pitgh)	McKeesport	16	5.60	13	53.19/35.32	1	1	1	0.22	0.72	0.94	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	10	10.25	6	51.31/37.58	1	2	1	0.50	4.03	4.53	
AWK	WV	Charleston	WSFO	17	5.62	13	58.48/37	2	1	1	1.75	0.07	1.82	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	12	5.78	10	56.87/44.9	0	1	0	0.00	1.50	1.50	
AWK/WTR	PA	Williamsport	Williamsport 2	15	3.38	12	49.87/38.94	2	1	1	0.09	0.22	0.31	
AWK/WTR	IL	Kankakee	Kkee--WW Metro	12	5.76	11	46.9/33.29	0	0	0	0.00	0.00	0.00	
WTR	NC	Charlotte	Concord	16	9.08	15	64.97/44.13	1	1	1	0.01	0.01	0.02	
WTR	NC	Raleigh	Raleigh St Univ	8	6.97	4	64.23/46.61	0	0	0	0.00	0.00	0.00	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	4	4.33	3	63.74/41.45	1	2	1	0.72	3.07	3.79	
WTR	TX	Houston	NWSO	11	2.69	7	68.65/51.84	2	2	2	0.02	2.09	2.11	
CTWS	ME	Newcastle	Newcastle	15	9.65	14	41.81/29.61	0	1	0	0.00	0.49	0.49	
CTWS	CT	Bakersville	Bakersville	14	5.86	12	48.87/32.29	0	1	0	0.00	0.18	0.18	
CTWS	CT	Hampton	Hampton	19	5.53	19	51.39/33.87	2	1	1	0.03	0.14	0.17	
ARTNA	DE	Newark	Wilmington Port	12	5.11	11	57.61/42.68	0	0	0	0.00	0.00	0.00	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	16	5.22	14	62.27/44.61	1	1	0	0.03	0.01	0.04	
YORW	PA	York	York Haven	15	4.57	12	-	1	1	0	0.02	0.1	0.12	
				Dec '14										
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.	
AWK/WTR	NJ	New Brunswick	3 SE	14	5.36	10	46.55/31.81	1	2	1	0.43	1.07	1.50	
AWK	PA	McKees (Pitgh)	McKeesport	15	4.32	10	43.68/30.16	1	3	1	0.79	1.97	2.76	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	9	3.18	7	45/33.17	2	1	1	0.94	0.24	1.18	
AWK	WV	Charleston	WSFO	17	3.34	15	47.52/31.84	1	3	1	0.45	0.87	1.32	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	10	3.25	6	47.4/35.2	0	1	0	0.00	0.64	0.64	
AWK/WTR	PA	Williamsport	Williamsport 2	13	6.76	11	41.68/30.06	1	1	0	0.70	0.02	0.72	
AWK/WTR	IL	Kankakee	Kkee--WW Metro	9	1.80	4	38.1/27.03	0	0	0	0.00	0.00	0.00	
WTR	OH	Cleveland	Chippewa Lake	14	3.12	10	38.19/26.03	2	2	1	0.94	0.35	1.29	
WTR	NC	Charlotte	Concord	13	2.91	11	56.1/35/1	1	2	1	0.10	0.10	0.20	
WTR	NC	Raleigh	Raleigh St Univ	9	4.48	5	54.16/36.68	0	2	0	0.00	0.30	0.30	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	9	1.37	5	56.94/43.03	1	1	0	0.06	0.09	0.15	
WTR	TX	Houston	NWSO	15	4.46	13	64.1/49.03	3	2	2	0.24	0.52	0.76	
CTWS	ME	Newcastle	Newcastle	15	10.61	13	36.55/25.71	2	2	1	0.76	0.67	1.43	
CTWS	CT	Bakersville	Bakersville	16	8.18	13	39.71/26.16	1	3	1	0.49	1.35	1.84	
CTWS	CT	Hampton	Hampton	16	4.82	16	42.45/27.29	2	1	1	0.14	1.21	1.35	
ARTNA	DE	Newark	Wilmington Port	13	3.07	11	45.77/32.06	1	2	1	0.07	0.77	0.84	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	18	4.05	17	53.42/34.55	2	1	1	0.21	0.50	0.71	
YORW	PA	York	York Haven	11	2.75	9	n/a	0	1	0	0.00	0.38	0.38	

HILLIARD LYONS WATER UTILITY COVERAGE COMPARABLES

		Actual // Estimate																		
Company	Ticker	Price 16-Feb-17	Target Price	Rating	Revenue TTM (\$MM's)	Mkt Cap (\$MM)	Price/ Book	LTD/ Cap. (%)	EPS						5-Yr Avg P/E	3-Yr Avg EPS Growth	Curr EV/ EBITDA	Div. Yld.	Div. Payout (%)	30-day Avg. Vol.
									FY16E	FY17E	FY18E	FY16E	FY17E	FY18E						
American Water Works	AWK	\$ 73.44	\$ 84	LT Buy	3,336.3	13,072.5	2.5x	53.0	\$2.84	\$3.07	\$3.20	25.9x	23.9x	23.0x	21.1x	7%	12.1x	2.0%	53	885,881
Aqua America	WTR	\$ 30.10	\$ 27	Underprf	837.6	5,338.5	2.9x	49.0	\$1.34	\$1.37	\$1.41	22.5x	22.0x	21.3x	23.0x	4%	16.5x	2.5%	57	546,009
Artesian Resources	ARTNA	\$ 31.60	\$ 35	LT Buy	79.0	244.6	2.1x	43.0	\$1.37	\$1.46	\$1.61	23.0x	21.7x	19.7x	21.7x	15%	10.4x	2.9%	68	17,852
California Water Svc Grp	CWT	\$ 34.60	--	Neutral	604.4	1,659.7	2.6x	46.0	\$0.94	\$1.43	\$1.56	36.8x	24.2x	22.2x	24.1x	-3%	14.1x	2.1%	79	143,164
CT Water Service Inc.	CTWS	\$ 53.79	--	Neutral	99.4	604.6	2.5x	46.0	\$2.10	\$2.27		25.6x	23.7x		20.4x	9%	18.1x	2.1%	51	20,029
York Water Company	YORW	\$ 34.85	\$ 25.50	Underprf	47.8	447.5	4.1x	43.0	\$0.95	\$1.03	\$1.13	36.7x	33.8x	30.8x	27.1x	11%	18.5x	1.8%	66	26,012
Averages:							2.8x	46.7				28.4x	24.9x	23.5x	22.9x	7.2%	15.0x	2.2%	62	

Source: Company reports, Baseline, and Hilliard Lyons estimates

WATER UTILITY INDUSTRY COMPARABLES

		Actual // Estimate																		
Company	Ticker	Price 16-Feb-17	Revenue TTM (\$MM)	Mkt Cap (\$MM)	Price/ Book	LTD/ Cap. (%)	Consensus EPS						5-Yr Avg P/E	3-Yr Avg EPS Growth	TTM Share EBITDA	Curr EV/ EBITDA	Div. Yld.	Div. Payout (%)	30-day Avg. Vol.	
							FY16E	FY17E	FY18E	FY16E	FY17E	FY18E								
American States	AWR	\$ 43.81	439.4	1,602.1	3.3x	40.0	\$1.62	\$1.71	\$1.85	27.0x	25.6x	23.7x	21.3x	2%	\$4.33	12.6x	2.2%	57	106,003	
American Water Works	AWK	\$ 73.44	3,283.0	13,072.5	2.5x	53.0	\$2.85	\$3.04	\$3.26	25.8x	24.2x	22.5x	21.1x	7%	\$9.15	12.1x	2.0%	53	885,881	
Aqua America	WTR	\$ 30.10	820.1	5,338.5	2.9x	49.0	\$1.32	\$1.38	\$1.45	22.8x	21.8x	20.8x	23.0x	4%	\$2.45	16.5x	2.5%	57	546,009	
Artesian Resources	ARTNA	\$ 31.60	78.4	244.6	2.1x	43.0	\$1.37	\$1.46	\$1.61	23.1x	21.6x	19.6x	21.7x	15%	\$4.20	10.4x	2.9%	68	17,852	
California Water Svc Grp	CWT	\$ 34.60	596.9	1,659.7	2.6x	46.0	\$0.93	\$1.31	\$1.41	37.2x	26.4x	24.5x	24.1x	-3%	\$3.33	14.1x	2.1%	79	143,164	
Connecticut Water Service	CTWS	\$ 53.79	106.6	604.6	2.5x	46.0	\$2.15	\$2.25	\$2.31	25.0x	23.9x	23.3x	20.4x	9%	\$4.08	18.1x	2.1%	51	20,029	
Consolidated Water	CWCO	\$ 10.85	57.2	160.8	1.1x	-	\$0.55	\$0.65	\$0.70	19.7x	16.7x	15.5x	22.7x	6%	\$0.89	9.4x	2.8%	62	61,259	
Middlesex Water	MSEX	\$ 36.20	132.0	589.7	2.7x	37.0	\$1.30	\$1.37	\$1.47	27.8x	26.4x	24.6x	22.2x	12%	\$3.37	13.5x	2.3%	56	40,053	
SIW Corp	SJW	\$ 49.16	348.0	1,005.6	2.5x	47.0	\$2.27	\$2.07	\$2.21	21.7x	23.7x	22.2x	20.8x	18%	\$7.41	9.4x	1.8%	32	75,531	
York Water	YORW	\$ 34.85	47.3	447.5	4.1x	43.0	\$0.95	\$1.03	\$1.16	36.7x	33.8x	30.0x	27.1x	11%	\$2.21	18.5x	1.8%	66	26,012	
Averages:						2.8x	44.9			27.5x	25.3x	23.5x	22.4x	8.3%	13.9x	2.2%	57.7			

Source: Company reports and Baseline *All Averages Ex-CWCO

GLOSSARY

allowed rate of return- the rate of return a regulatory commission allows on rate base in establishing reasonable rates for a utility; it is usually based on a blended cost of financing rate base via debt and equity

decoupling- breaks the link between earnings and revenues, allowing utilities to encourage conservation without being penalized from lower usage; also see 'WRAM'

DSIC- Distribution System Improvement Charge, revenue surcharge allowed in some states (incl. DE, IN, NJ, NY, & PA) that allows a portion of investment costs to be included in customer rates until a final award is agreed upon during the general rate case process

Bcf- one billion cubic feet

Dekatherm- (Dth) unit of heating value equivalent to 10 therms or 1,000,000 Btu's

desalination- removes salt and particulates from seawater, making it potable

heating degree day- based on extent to which the daily mean temperature falls below a reference temperature, usually 65°F

IISM- Infrastructure Investment Surcharge Mechanism, similar to DSIC in CA

LDC- local distribution company

MCBA- Modified Cost Balancing Account, tracks cost changes such as those for supply mix variations for later recovery or refund in rates and includes all wholesale costs, making balancing accounts more equitable in regards to changes in prices for purchased water, pump taxes, and mix for supply sources in California

Mcf- one thousand cubic feet

MMcf- one million cubic feet

peak-shaving- using sources of energy such as natural gas from storage to supplement the normal amounts delivered to customers during peak-use periods; using these supplemental sources prevents pipelines from having to expand their delivery facilities just to accommodate short periods of extremely high demand

QIPS- Qualifying Infrastructure Plant Surcharge, similar to DSIC in IL

rate base- the value established by a regulatory authority upon which a utility is permitted to earn a specified rate of return, generally representing the amount of property used in public service. Investment comprising rate base may be based on fair value, replacement cost or original cost; the rate base may provide for the inclusion of certain working capital items/allowances (i.e. gas in storage)

therm- unit of heating equivalent to 100,000 Btu's

WNA- weather normalization adjustment, the rate adjustment approved by certain regulatory commissions that allow a company to increase the base rate portion of customers' bills when weather is warmer than normal and decrease the base rate when weather is colder than normal

WRAM- Water Revenue Adjustment Mechanism, decouples water sales from revenues in CA and CT

RECENTLY PUBLISHED RESEARCH (listed reverse chronologically)

WGL Holdings, Inc. (WGL - \$82.73, Neutral) 2/9/17: Q1'17 Results from WGL; Reiterating Neutral.

Atmos Energy Corp. (ATO - \$75.90, Neutral) 2/8/17: Fiscal Q1'17 Results from ATO; Reiterating Neutral Rating.

New Jersey Resources Corp. (NJR - \$37.85, Neutral) 2/8/17: Timing Drives Lower Q1'17 for NJR; Full Year Expectations Intact. Maintaining Neutral Rating.

Spire Inc. (SR - \$64.50, Long-term Buy, \$77 TP) 2/1/17: Flat Fiscal Q1'17 from SR; Maintaining LTB Rating and \$77 Price Target.

WGL Holdings, Inc. (WGL - \$82.73, Neutral) 1/26/17: Company Agrees to be Acquired.

American Water Works (AWK - \$73.44, Long-term Buy, \$84) 1/17/16: Upgrading Rating to Long-term Buy.

ONE Gas, Inc. (OGS - \$64.01, Neutral) 1/18/17: Good Guidance for 2017; Reiterating Neutral Rating.

Aqua America, Inc. (WTR - \$30.10, Underperform, \$27 TP) 1/17/17: 2017 Guidance; Reiterating Underperform Rating.

Artesian Resources Corp. (ARTNA - \$31.60, Long-term Buy, \$35) 1/17/17: Upgrading ARTNA to Long-term Buy; Initiating 2018 Financial Estimates.

American Water Works (AWK - \$73.44, Long-term Buy, \$84) 12/16/16: Analyst Day Recap.

California Water Service Group (CWT - \$34.60, Neutral) 11/23/16: Downgrading to Neutral on Price Appreciation; Altered Risk/Reward.

Northwest Natural Gas Company (NWN - \$59.05, Underperform, \$49 TP) 11/11/16: Reiterating Underperform Rating on Unexpected Equity Secondary; Cutting Price Target to \$49.

Connecticut Water Service, Inc. (CTWS - \$53.79, Neutral) 11/8/16: Q3'16 Results from CTWS.

Chesapeake Utilities Corp. (CPK - \$65.80, Long-term Buy, \$75 TP) 11/4/16: Conference Call Update: Q3'16 from CPK. Reiterating LTB Rating and \$75 Price Target.

South Jersey Industries (SJI - \$33.36, Neutral) 11/4/16: Good Q3'16 Results from SJI; Reiterating Neutral.

Northwest Natural Gas Company (NWN - \$59.05, Underperform, \$49 TP) 11/2/16: Q3'16 Results for NWN; Reiterating Underperform Rating and \$51 Price Target.

York Water Company (YORW - \$34.85, Underperform, \$25.50 TP) 11/3/16: In Line Q3'16 Results.

Additional information is available upon request.

Prices and all price sensitive data as of Thursday, February 16, 2017, close

Analyst Certification

I, Spencer E. Joyce, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Hilliard Lyons customers owned at least 5% of the outstanding common stock of Delta Natural Gas as of February 16, 2017.

Hilliard Lyons has received investment banking compensation from Chesapeake Utilities Corp. within the past 12 months.

Hilliard Lyons has acted as a manager or co-manager of an offering of securities of Chesapeake Utilities Corp. within the past 12 months.

Definitions of Ratings: **Buy** - We believe the stock has significant total return potential in the coming 12 months. **Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years. **Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise. **Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

Definitions of Suitabilities: **1** - A large cap, core holding with a solid history. **2** - A historically secure company that could be cyclical, have a shorter history than a "1" or is subject to event driven setbacks. **3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage. **4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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