



# Utilities Monthly

## Natural Gas and Water

July 2017

\*\*We recommend this report be viewed/printed in color\*\*

Analyst: Spencer E. Joyce, CFA  
502.588.8402 // [sjoyce@hilliard.com](mailto:sjoyce@hilliard.com)

Institutional Sales Desk: George Moorin  
502.588.9141 // [gmoorin@hilliard.com](mailto:gmoorin@hilliard.com)

J.J.B. Hilliard, W.L. Lyons, LLC  
July 21, 2017

To obtain important disclosure information regarding Hilliard Lyons' rating system, valuation methods, risk factors and potential conflicts of interest with respect to the companies covered in this report, please call (800) 444-1854 ext. 8820, send a request via e-mail to [RsLib@hilliard.com](mailto:RsLib@hilliard.com), or go online to <http://hilliard.com/site/market-info/research-disclosures.html>. Requests should include the name and date of this report and a list of companies for which the disclosure information is requested.

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

**Table of Contents**

Natural Gas Utilities	
Price Performance.....	3
Commentary and Outlook.....	5
Natural Gas News & Prices .....	6
Recent Events .....	7
Temperature Discussion .....	8
Hilliard Lyons Gas Utility Coverage Comp Table .....	9
Gas Utility Industry Comp Table.....	9
Water Utilities	
Price Performance.....	10
Commentary and Outlook.....	12
Recent Events .....	13
Precipitation Data .....	14
Raw Precipitation Totals (Select Locations).....	16
Hilliard Lyons Water Utility Coverage Comp Table.....	19
Water Utility Industry Comp Table .....	19
Glossary .....	20
Recent Published Research .....	21
Disclosures.....	22

## Natural Gas Utilities

### PRICE PERFORMANCE

Natural gas utilities lagged the broader market in June, with the group declining for the first time since September 2016. Our covered companies fell an average of 1.89% last month; the S&P 500 rallied 0.48% (**Exhibit 1**). Chesapeake Utilities Corp. (CPK) was our strongest last month; South Jersey Industries (SJI) fell about 6% to be our weakest name for a second consecutive month.

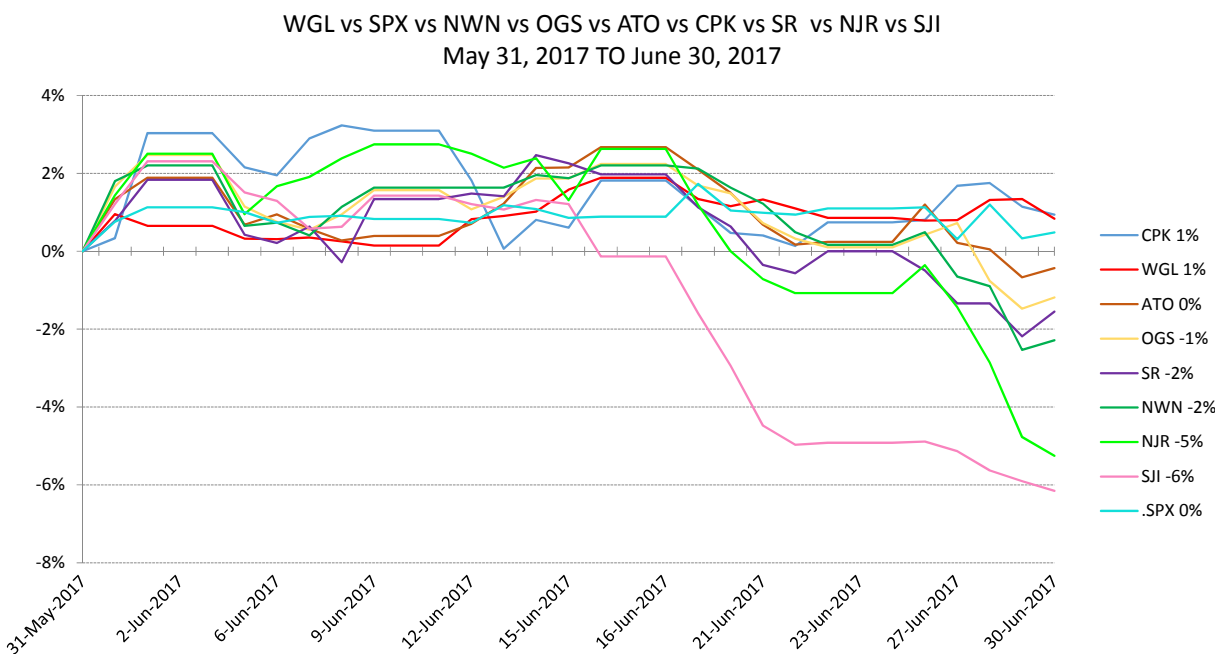
Through six months of 2017, we are content with YTD performance from our gas utilities. Despite sagging a bit to end the second quarter, the group has been mostly consistent and resilient through the first half of this year. Only Northwest Natural (NWN) and South Jersey Industries (SJI) have materially lagged the S&P 500 through June, with the balance of our coverage higher by at least 8% (**Exhibit 2**).

Trailing 52-week returns for our coverage group reflect a mixed period of returns, highlighted by a takeover offer for WGL Holdings (WGL) that surfaced in January of this year (**Exhibit 3**).

Past performance is no guarantee of future results.

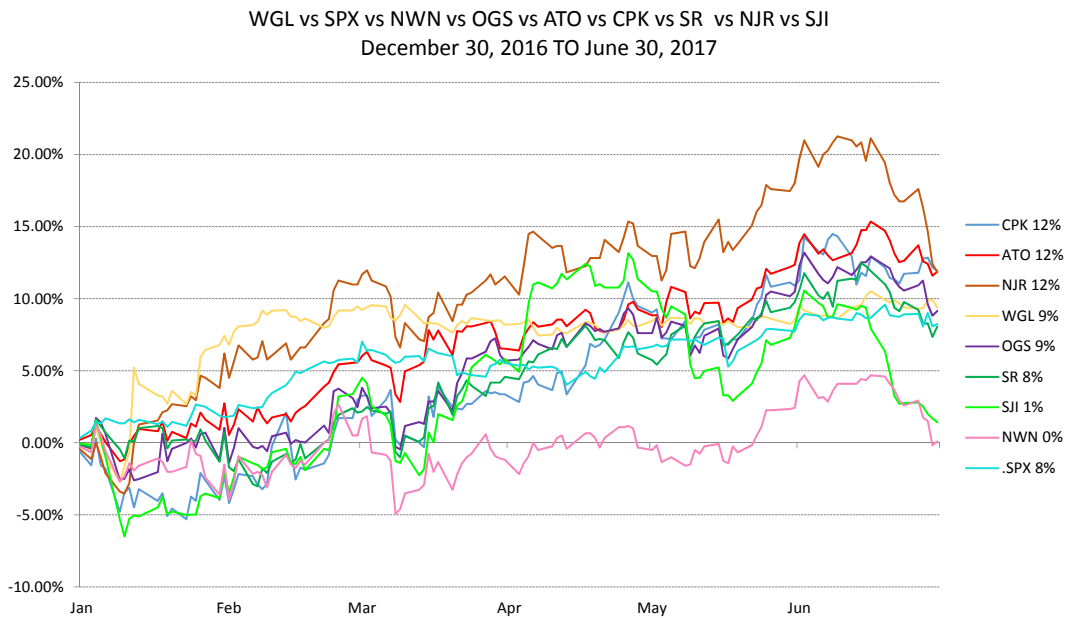
Since our prior *Utilities Monthly* we have not published on our gas utility coverage, although we expect to be very active over the next several weeks as we progress through earnings season. We continue to rate SJI, SR and CPK as Long-term Buy. We assign shares of ATO, NJR, and OGS a Neutral rating, while NWN and WGL are rated Underperform.

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



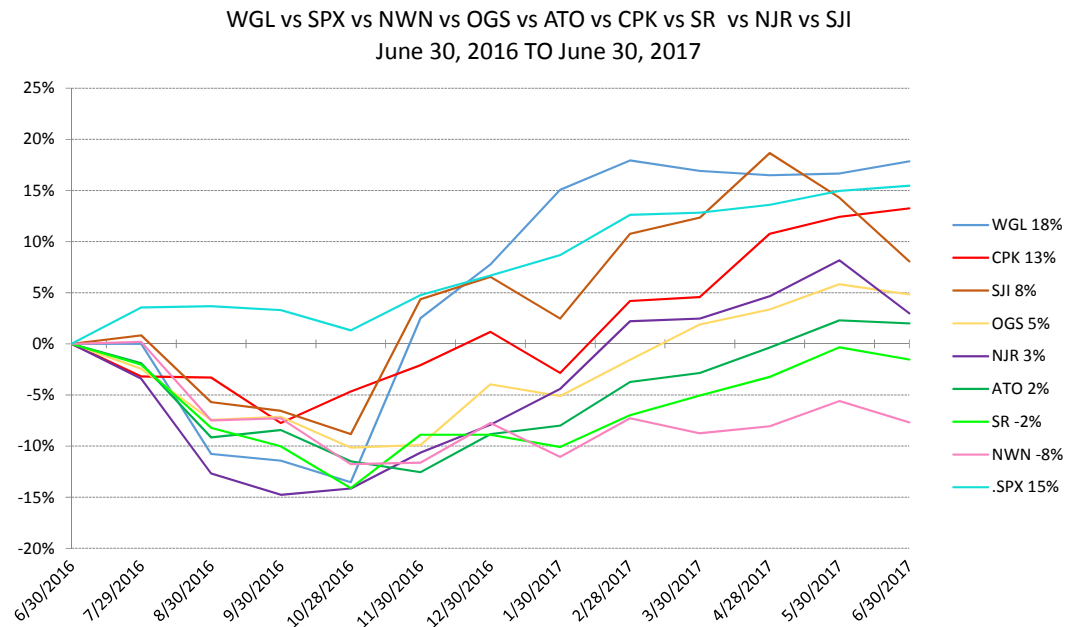
**Source: Thomson Reuters** SPX-S&P 500 Index; ATO-Atmos; CPK-Chesapeake Utils; SR-Spire Inc; NJR-New Jersey Resc; NWN-Northwest Ntrl; OGS-ONE Gas; PNY-Piedmont Nat Gas; SJI- South Jersey Indust; WGL-WGL Hldgs \*Note: It is not possible to invest directly in an index\*

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



**Source: Thomson Reuters 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: Thomson Reuters 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 industry slumped in June to punctuate what was otherwise a strong first half of the year. Declines last month broke a string of eight consecutive months of gains; a 1.89% slide, on average, for our coverage group trailed an S&P 500 rally of 1.16% in June. Thus far in July the group has percolated a bit, but is still trailing what has been a very robust broader market. We expect profit taking and/or sector rotation weighed on gas utilities a bit in late-June through early-July; the Utilities sector was not one of the top couple of sectors in 1H, although we expect performance combined with another Fed hike and an increasingly visible weakening dollar were enough to cool sentiment.

June 30 marked quarter-end for each of our eight covered gas utilities, although quarters are split between fiscal Q2s (CPK, NWN, OGS and SJI) and fiscal Q3s (ATO, NJR, SR and WGL). Given seasonality and the fact that each of our names still have time before finalizing full year results and/or guidance for 2018, June quarters are typically of low consequence on a relative basis. Having said that, there are a fair number of regulatory items in process at this point for which we hope to receive updates, including: base rate cases for Spire, Atmos and South Jersey Industries; the approval process for WGL's sale to a Canadian competitor; and a FERC update on PennEast Pipeline (minority stake for NJR and SJI).

The calendar-Q2 reporting cycle should be underway very late in July, with OGS likely positioned to be our first company to report when they release results after the market close on Monday, July 31. With none of our coverage reporting a Q4, the earnings season should be fairly compact, and concluded by mid-August. We do not have a strong sense either way whether this will be a 'strong' or 'weak' cycle of reports with weather less of a unifying factor over the summer, although through earnings we are inclined to like stocks that have been laggards.

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 with simple, strong non-regulated business lines, 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 and relaxation of regulatory burdens. We continue to support major mid-stream investments by our local distribution utilities, with the caveat that these projects may be more susceptible to delays and/or political risks, as has likely played out this summer with SJI and NJR.

We are reiterating our Marketweight allocation recommendation for the gas utility industry as we trade through July. We like seeing the industry's first 'down' month since September of last year, although valuations remain somewhat stretched, in our view. Support from further M&A still brings some positive headline risk, in our view, though we are increasingly less enamored with this thesis point. More broadly however, we still believe investors are too bearish on the Utilities sector and the longer we go with negligible legislative progress at the Federal level, the more we like the resilient growth profile of the industry.

An acute pullback in shares of South Jersey Industries makes SJI our current top pick in the space as we move into 2H'17, supplanting SR, which has been relatively stable and consistent for us this year. The stock held up well in the aftermath of a disappointing guide for 2017 (in May), but has succumbed to pressure (along with NJR), due in part, in our view, to a delay for the PennEast pipeline driven by a vacancy at FERC. Though frustrating, we believe the current stock price presents a compelling risk/reward setup over our investment timeframe. Our 2-yr price target is \$40, which implies total return potential of ~24%.

### NATURAL GAS NEWS & PRICES

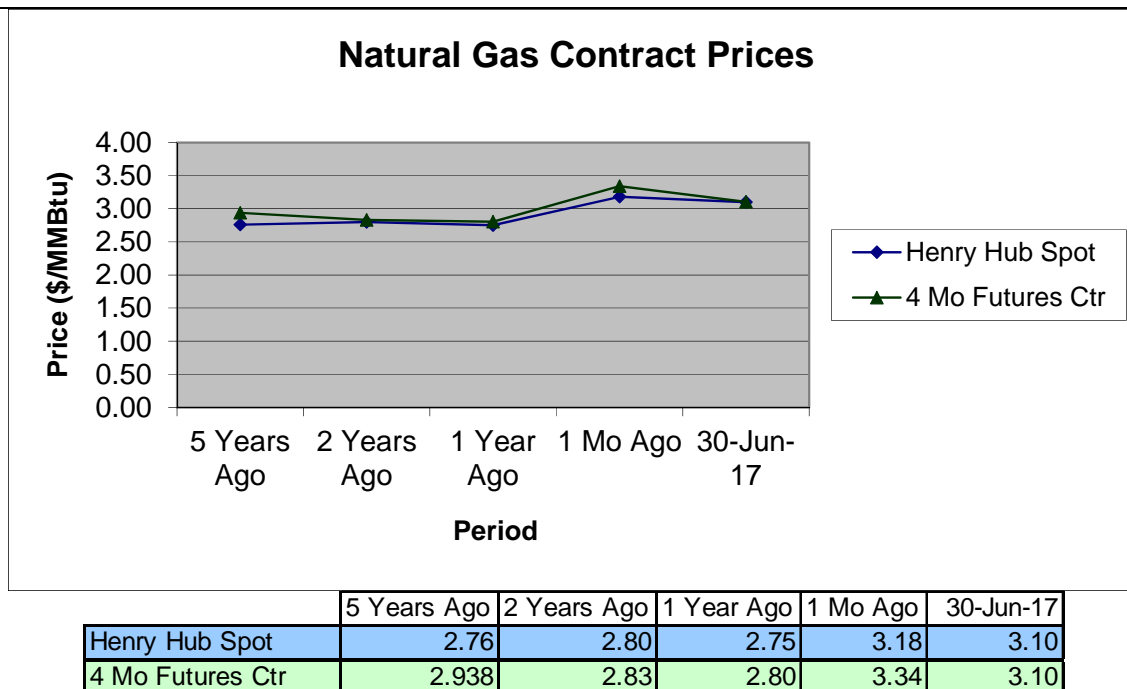
The spot price of natural gas ended the last week of May at \$3.10/Mcf, a slide of 2.5% that gave back a bit of gains from April-May. We believe weather was a benign driver through shoulder-season, and has remained an unexciting conversation as we wind into the peak of summer usage. Almost two months old at this point, conversations surrounding the Atlantic hurricane season (June 1 – November 1) have been almost non-existent from our vantage point, with spot gas almost dutifully exhibiting low volatility. Much more noteworthy for energy investors, in our view, have been swings in the crude market.

On a year-to-date basis, spot gas is down substantially from the spike towards \$3.75/Mcf in late-December, likely keying off record warm weather in January-February across much of the Eastern US, but further supported by the aforementioned weather conditions. We further expect sluggish oil prices and the sharp rally in US land-based drilling rigs have helped keep a lid on gas prices as well moving through mid-year. Spot gas is ~\$3.04/Mcf at press time.

The US rig count (oil + gas) averaged 931 in June, up 38 from the May average, but higher by more than 500 over April 2016 (+123.4%), in what has been a sharp snapback in US onshore activity. Taking a snapshot at the end of last month, the US natural gas rig count marked 184, which was -1 from the last week in May and +95 on a yr/yr basis.

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; this rise in demand is often driven by cost concerns. We believe prices generally at or below \$5/Mcf are sufficient to keep our demand growth thesis intact, even allowing for significant volatility below our ‘bogey’ price. Noteworthy, in our view, from **Exhibit 4** below is just how long at this point that natural prices have been able to hold below ~\$5/Mcf.

**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.\*

**New Jersey Resources (NJR - \$40.80, Neutral)** 7/17/17—NJR announced the election of Maureen A. Borkowski to the board of directors effective September 11, 2017; prior to election she served as chairman and president of Ameren Transmission Company (AEE—\$56.14, Neutral).

**Chesapeake Utilities Corp. (CPK - \$76.20, Long-term Buy, \$81 TP)** 7/10/17—The Southeastern Electric Exchange, Inc. recognized CPK's Eight Flags CHP plant as a 2017 Industry Excellence award winner in the production category. The Amelia Island, FL, facility commenced operations in June 2016.

**WGL Holdings, Inc. (WGL - \$84.31, Underperform)** 7/7/17—WGL announced via 8-K filing that Gautam Chandra, SVP—Strategy, Business Development and Non-Utility Ops resigned his posts with WGL on June 29. A very short statement outlined that Mr. Chandra would stay with the company through September 30, 2017, to assist with merger-related transition activities, although no specific reason for departure was stated.

**Chesapeake Utilities Corp. (CPK - \$76.20, Long-term Buy, \$81 TP)** 6/29/17—CPK announced several executive appointments, including: Lou Anatrella joined the company as Chief Human Resources Officer; Aleida Socarras was promoted to VP of Chesapeake Utilities; and Tom Mahn was promoted to VP of Chesapeake Utilities Corporation and will continue to serve as head of the finance department.

**New Jersey Resources (NJR - \$40.80, Neutral)** 6/20/17—NJR's clean energy subsidiary announced construction of a new ground mount solar project that will provide power to the Stony Brook Regional Sewage Authority for an agreed-to period of 15 years. The 3MW system represents a ~1% increase in total solar and wind power produced by NJR, and is expected to be in service late this summer.

**Chesapeake Utilities Corp. (CPK - \$76.20, Long-term Buy, \$81 TP)** 6/14/17—CPK's Florida Public Utilities subsidiary received a Safety Achievement Award at an American Gas Association Operations conference.

**Gas Utilities Industry** 5/21-23/17—The 2017 American Gas Association Financial Forum was held in Orlando, Florida.

**WGL Holdings, Inc. (WGL - \$84.31, Underperform)** 5/11/17—Shareholders of WGL voted to approve a merger agreement that would see the company sold for \$88.25/share. Parties to the transaction still need approval for the deal from public service commissions in MD, D.C. and VA, where filings were submitted on April 24.

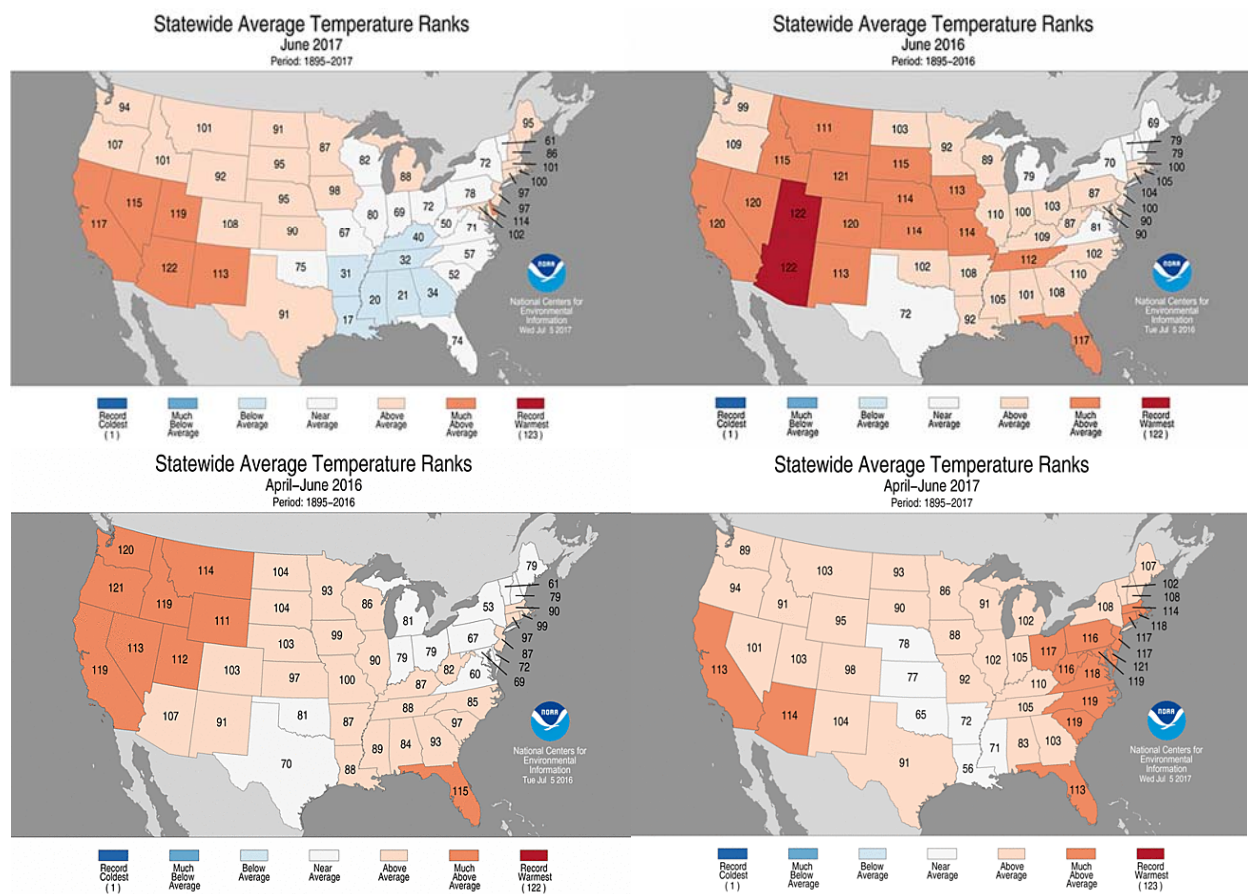
**South Jersey Industries (SJI - \$34.11, Long-term Buy, \$40 TP)** 5/8/17—SJI initiated FY 2017 Economic EPS guidance in the range of \$1.14 to \$1.20. By our calculation, the company earned adjusted EEPS of \$1.33 in 2016, but this figures slides to \$1.21 if excluding Investment Tax Credits (ITCs) [note: SJI has guided to zero ITC from 2017-forward.]

**TEMPERATURE DATA**

June was warmer than average across most of the United States, in trends that were largely indicative of the full second quarter (**Exhibit 5**). May was likely the most average month of the quarter, with each April and June a bit warmer than average; in our view, this is probably neutral for the gas utility space, with a bit higher demand for cooling in June offset by an abrupt fall off in heating demand in April. As important moving into earnings season, temperatures in Q2'17 were fairly similar to the year-ago periods.

From a broad investment standpoint, we remind investors that we look to capitalize on dislocations that might be weather influenced, but also remain of the opinion that this type of trade is less prevalent than in years past as investors increasingly focus on multi-year growth stories at most of our utilities.

**Exhibit 5**  
**Temperatures by State—Months of Q2 2016 versus Q2 2017**



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



## HILLIARD LYONS NATURAL GAS UTILITY COVERAGE COMPARABLES

Actual // Estimate

Company	Ticker	Price 20-Jul-17	Target Price	Rating	Mkt Cap (\$MM)	LTD/ Price/ Cap. (%)	EPS			5-Yr Avg P/E	3-Yr Avg EPS Growth	Curr EV/ EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.				
							FY16	FY17E	FY18E								FY16	FY17E	FY18E	
Atmos Energy	ATO	\$ 85.53	--	Neutral	9,005.3	2.3x	33%	\$3.44	<u>\$3.66</u>	<u>\$3.87</u>	24.9x	23.4x	22.1x	18.8x	10.0%	11.9x	2.1%	48%	0.8%	398,558
Chesapeake Utilities	CPK	\$ 76.20	\$ 81	LT Buy	1,244.7	2.7x	17%	\$2.86	<u>\$2.92</u>	<u>\$3.57</u>	26.6x	26.1x	21.3x	18.2x	8.2%	13.7x	1.7%	44%	1.2%	59,861
Spire Inc.	SR	\$ 71.45	\$ 77	LT Buy	3,448.1	2.7x	43%	\$3.42	<u>\$3.53</u>	<u>\$3.75</u>	20.9x	20.3x	19.1x	16.8x	6.0%	13.4x	2.9%	0.6x	1.2%	172,213
New Jersey Resources	NJR	\$ 40.80	--	Neutral	3,526.7	2.7x	44%	\$1.57	<u>\$1.76</u>	<u>\$1.83</u>	25.9x	23.2x	22.3x	17.9x	5.8%	17.4x	2.5%	54%	3.6%	335,712
Northwest Natural	NWN	\$ 62.00	\$ 50	Underprf	1,775.9	2.0x	42%	\$2.19	<u>\$2.20</u>	<u>\$2.23</u>	28.4x	28.2x	27.8x	21.5x	-0.7%	8.7x	3.0%	85%	4.0%	117,308
ONE Gas	OGS	\$ 70.94	--	Neutral	3,719.8	1.9x	37%	\$2.64	<u>\$3.00</u>	<u>\$3.16</u>	26.8x	23.6x	22.4x	23.0x	N/A	11.7x	2.4%	51%	2.6%	195,164
South Jersey Industries	SJI	\$ 34.11	\$ 40	LT Buy	2,713.4	2.1x	31%	\$1.33	<u>\$1.25</u>	<u>\$1.33</u>	25.7x	27.3x	25.6x	19.2x	-4.0%	17.0x	3.2%	96%	3.0%	294,362
WGL Holdings	WGL	\$ 84.31	--	Underprf	4,318.3	2.8x	45%	\$3.29	<u>\$3.37</u>	<u>\$3.71</u>	25.7x	25.0x	22.7x	18.7x	12.3%	14.0x	2.4%	57%	2.0%	234,800
						2.4x	36%				25.6x	24.6x	22.9x	19.3x	5.4%	13.5x	2.5%	62%	2.3%	

Source: Company reports, Thomson Reuters, and Hilliard Lyons estimates

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

## NATURAL GAS UTILITY INDUSTRY COMPARABLES

Actual // Estimate

Company	Tkr	Price 20-Jul-17	Mkt Cap (\$MM)	Price/ Book	LTD/ Cap. (%)	Consensus EPS			5-Yr Avg P/E	3-Yr Avg EPS Growth	TTM EBITDA/ Share	Current EV/ EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.			
						FY16	FY17E	FY18E									FY16	FY17E	FY18E
Atmos Energy	ATO	\$ 85.53	9,005.3	2.3x	33%	\$3.37	<u>\$3.60</u>	<u>\$3.81</u>	25.4x	23.8x	22.4x	18.8x	10.0%	\$ 9.70	11.9x	2.1%	48.1%	0.8%	398,558
Chesapeake Utilities	CPK	\$ 76.20	1,244.7	2.7x	17%	\$2.86	<u>\$2.99</u>	<u>\$3.49</u>	26.6x	25.5x	21.8x	18.2x	8.2%	\$ 7.08	13.7x	1.7%	44.3%	1.2%	59,861
Delta Natural Gas	DGAS	\$ 30.56	217.8	2.7x	39%	\$0.78	<u>\$0.88</u>	<u>\$0.92</u>	39.2x	34.7x	33.2x	18.7x	N/A	\$ 2.65	13.3x	2.7%	94.0%	1.9%	10,032
Gas Natural	EGAS	\$ 12.85	135.2	1.4x	32%	\$0.30	<u>\$0.30</u>	<u>\$0.30</u>	42.8x			23.8x	N/A	\$ 1.04	17.3x	2.3%		0.8%	27,850
National Fuel Gas	NFG	\$ 58.21	4,972.1	3.0x	58%	\$3.09	<u>\$3.26</u>	<u>\$3.16</u>	18.8x	17.8x	18.4x	19.3x	-0.5%	\$ 9.51	8.4x	2.9%	61.2%	7.8%	525,741
New Jersey Resources	NJR	\$ 40.80	3,526.7	2.7x	44%	\$1.61	<u>\$1.73</u>	<u>\$1.86</u>	25.3x	23.6x	21.9x	17.9x	5.8%	\$ 3.16	17.4x	2.5%	54.1%	3.6%	335,712
Northwest Natural Gas	NWN	\$ 62.00	1,775.9	2.0x	42%	\$2.29	<u>\$2.17</u>	<u>\$2.29</u>	27.1x	28.6x	27.1x	21.5x	-0.7%	\$ 9.86	8.7x	3.0%	85.4%	4.0%	117,308
ONE Gas	OGS	\$ 70.94	3,719.8	1.9x	37%	\$2.65	<u>\$2.97</u>	<u>\$3.11</u>	26.8x	23.9x	22.8x	23.0x	N/A	\$ 8.09	11.7x	2.4%	50.8%	2.6%	195,164
South Jersey Industries	SJI	\$ 34.11	2,713.4	2.1x	31%	\$1.34	<u>\$1.19</u>	<u>\$1.47</u>	25.5x	28.6x	23.1x	19.2x	-4.0%	\$ 2.98	17.0x	3.2%	95.7%	3.0%	294,362
Spire Inc.	SR	\$ 71.45	3,448.1	1.7x	43%	\$3.42	<u>\$3.53</u>	<u>\$3.66</u>	20.9x	20.3x	19.5x	16.8x	6.0%	\$ 9.18	13.4x	2.9%	61.9%	1.2%	172,213
Southwest Gas	SWX	\$ 80.37	3,822.4	2.2x	47%	\$3.18	<u>\$3.38</u>	<u>\$3.62</u>	25.3x	23.8x	22.2x	19.6x	3.8%	\$ 11.93	9.5x	2.5%	58.6%	0.6%	336,587
UGI Corp.	UGI	\$ 50.15	8,682.1	2.7x	49%	\$2.05	<u>\$2.31</u>	<u>\$2.50</u>	24.5x	21.7x	20.1x	18.0x	7.9%	\$ 8.26	9.1x	2.0%	34.9%	0.8%	680,074
WGL	WGL	\$ 84.31	4,318.3	2.8x	45%	\$3.27	<u>\$3.25</u>	<u>\$3.65</u>	25.8x	26.0x	23.1x	18.7x	12.3%	\$ 8.85	14.0x	2.4%	57.3%	2.0%	234,800
Averages:				2.3x	40%				27.2x	24.8x	23.0x	19.5x	4.9%		12.7x	2.5%	62.2%	2.3%	

Source: Company reports and Thomson Reuters

## Water Utilities

### PRICE PERFORMANCE

Our covered water utilities advanced an average of 4.14% during June, continuing a year of volatile performance; the S&P 500 rallied 0.48% last month (**Exhibit 6**). American Water Works (AWK) fell fractionally to be our weakest name, while the month’s top performer in Artesian Resources (ARTNA) gained about 7%.

2017 returns for the water group thus far are mixed, which does not surprise us given average valuation after the group rallied ~30% last year. Despite a wide dispersion of returns, four of our six water stocks were at or above the S&P 500 on a YTD performance basis through June 30 (**Exhibit 7**), and include both of our large-cap and more widely held names.

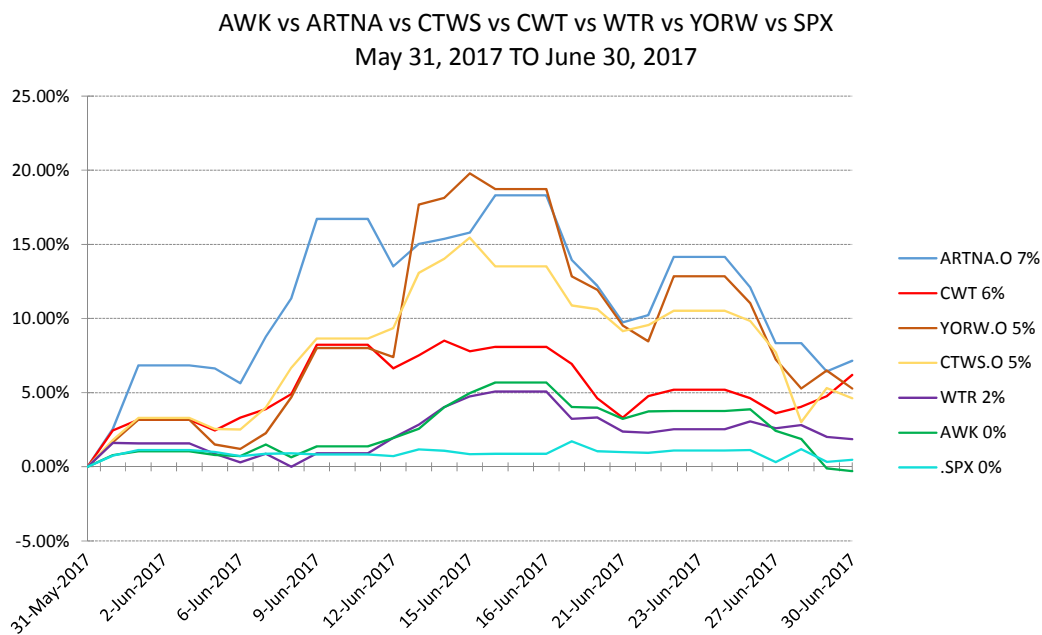
Trailing 52-week performance reflects substantial volatility and not particularly inspiring returns for most of our names (**Exhibit 8**); however, we note that mid-year 2016 marks a particularly difficult comparison point to draw from for the industry. Our water stocks gained an average of ~2% over the past twelve months.

Past performance is no guarantee of future results.

We published a note on CTWS earlier this month the company closed on its acquisition of AVON water, but have otherwise left our outlooks unchanged since our prior *Utilities Monthly*. We currently rate AWK as Long-term Buy with a \$105 price target, while ARTNA, CTWS and CWT are rated at Neutral; YORW and WTR carry Underperform ratings, primarily based on relative valuation.

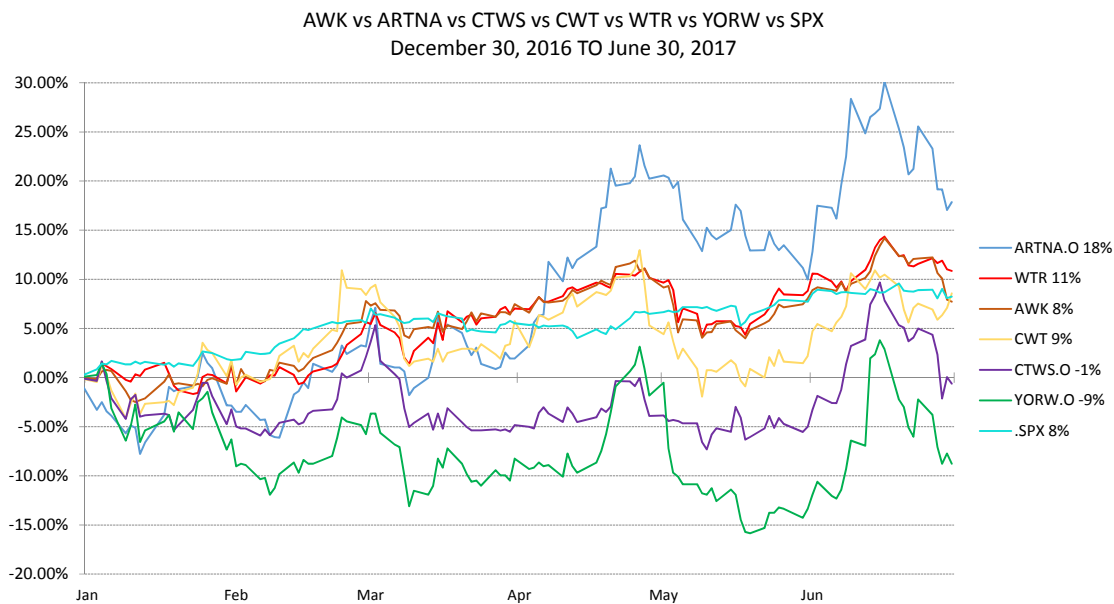
#### Exhibit 6

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



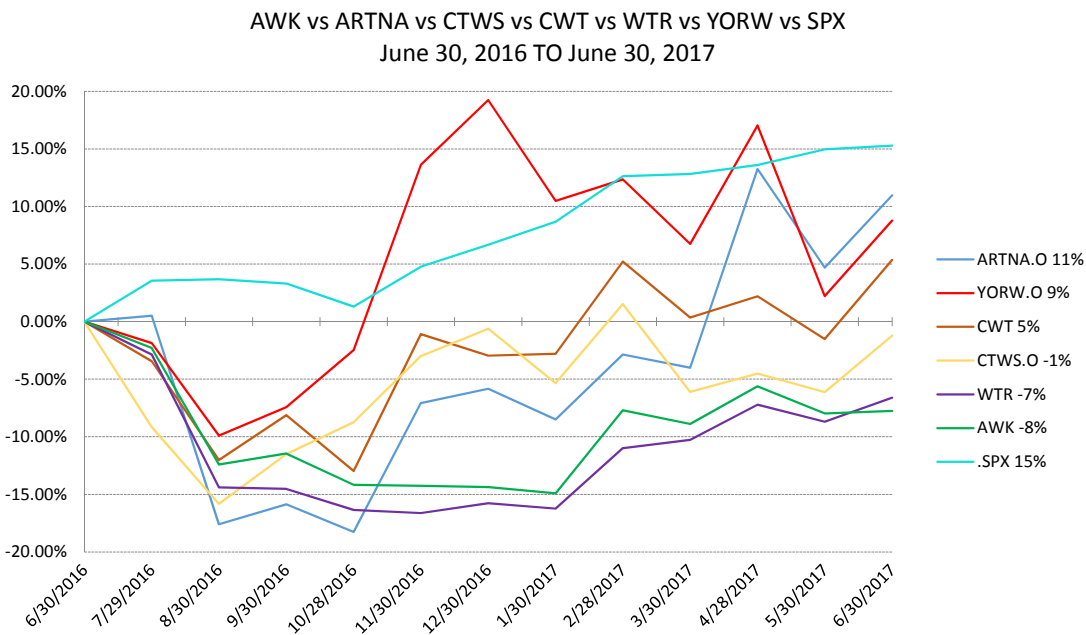
**Source: Thomson Reuters** SPX-S&P 500 Index; ARTNA-Artesian Resources; AWK-American Water Works; CTWS-CT Water Svc; CWT-California Water Svc Group; WTR-Aqua America; YORW-The York Water Company \*\*Note: It is not possible to invest directly in an index\*\*

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



**Source: Thomson Reuters** 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: Thomson Reuters** 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

Snapping back from their worst month of 2017 (May), water utilities posted a robust month to close out the first half of the year. Our 6-company coverage group advanced an average of 4.14% last month versus a 0.48% rise for the S&P 500, with strength from our four SMID-cap names skewing the average higher. Thus far in July, strength from the water group has more/less persisted, with the industry nearly keeping pace with a broader market rally of about 2%.

Through half of the year, we are still a bit unsure what has been driving water stocks up and down this year (five of six months have seen moves of  $> +/- 2\%$ ), but do believe the industry has seen less fundamental change than stock prices might imply. We do not believe the Fed is of much specific consequence to the group, but do see significant sensitivity to small-cap money flows. Likely exacerbating volatility, we note that valuations have been high by historical standards for most of this year, due in large part to a 30.5% average rally for our covered water stocks in 2016. Past performance is no guarantee of future results.

June 30 marked quarter-end for all six of our covered water utilities, and we expect each company to report Q2 results over the late-July to mid-August timeframe. CWT will likely be our first name to report, on Thursday, July 27; the conclusion of our water cycle is less certain, with ARTNA, CTWS and YORW each electing to not pre-announce their respective earnings releases. In our view, investors have become quite adept at looking past weather impacts, although Q2 invariably drives a material portion of full year profitability, which is a lasting point of emphasis. Almost an anomaly at this point, we believe weather has been fairly close to ‘average’ across April to June, and we do not expect too many surprises operationally. Of greater interest, in our view, will likely be updates on a multitude of recent M&A.

Our core long-term investment thesis for the water space is to target names with robust regulated infrastructure investment opportunities, while tangentially supporting roll up acquisition activity. Much of the US water/wastewater infrastructure has surpassed its intended useful life, and we expect our companies can grow over a multi-decade 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. Federal policy shifts delivered by the Trump Administration have yet to materially shift our investment framework, although we remain acutely aware of the water industry’s positioning as a US-centric infrastructure play.

We are reiterating our Underweight allocation recommendation to water stocks as we trade through July, a view that has been intact for the entirety of this year. Our stance has not been an easy one given volatility across the industry in 2017, but the stance has proved prudent thus far and our emphasis points are unchanged. Valuation remains our primary concern, and we are increasingly comfortable focusing on our best ideas in what has been a difficult stock picking backdrop with seemingly increased non-fundamental buying/selling activity in some of the smaller names. By our calculation, the water industry is currently priced at 27.6x 2017 EPS expectations, down 0.2x from the prior month. Despite our persistent skepticism of water stocks over the past several quarters, we believe the long-term outlook for, and current health of, our coverage group is strong.

Our current top pick in the space is Long-term Buy-rated American Water Works, a long-favored core holding and the most geographically diverse investor-owned US water utility. Although AWK shares are up ~12% on the year, the name is still below all-time highs made last summer. After churning a bit over the past several weeks into earnings season, we believe AWK could be setting up for a 2H’17 rally. We further note that AWK was recently selected by the Hilliard Lyons Research Department for inclusion in the most recent Dividend Income Trust UIT product (FTERAX—\$9.98, Not Rated), which is issued annually. Our 2 to 3-year \$105 price target suggests total return of ~34%.

**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.\*

**American Water Works (AWK - \$81.00, LTB, \$105.00 TP)** 7/19/17—AWK announced the closing of California American Water's acquisition of Oxbow Marina Mutual Water Company in Sacramento, CA, a deal that was announced back in October of 2014. The marina contains 423 boat slips and 95 homes.

**American Water Works (AWK - \$81.00, LTB, \$105.00 TP)** 7/14/17—AWK announced that Illinois American Water acquired the Forest Homes-Maple Park Public Water District. The purchase adds about 500 customers to AWK's Alton District for a price of ~\$900,000, which was derived under Illinois legislation allowing for 'fair market cost' purchases of municipal water assets.

**American Water Works (AWK - \$81.00, LTB, \$105.00 TP)** 7/6/17—Illinois American Water's Granite City water treatment plant received an award from the Partnership for Safe Water. Nationally, AWK accounts for 20% of all plants in the EPA's Partnership for Safe Water program.

**Connecticut Water Service, Inc. (CTWS - \$57.15, Neutral)** 7/5/17—CTWS announced completion of its ~\$40MM (enterprise value) acquisition of The Avon Water Company. The 4,800 customer system provides water system to the communities of Avon, Farmington, and Simsbury, Connecticut.

**Aqua America, Inc. (WTR - \$33.30, Underperform, \$27 TP)** 7/3/17—Daniel J. Hilferty has been added to the Board of Directors at Aqua America; Mr. Hilferty is the CEO of a Philly-based health insurer, with about \$17B in assets.

**American Water Works (AWK - \$81.00, LTB, \$105.00 TP)** 6/30/17—AWK announced the filing of a water/sewer general rate case in the state of Missouri. Missouri American Water is seeking an annualized total revenue increase of \$69MM (net of ~\$5MM in current surcharges); the filings seek a return of and on nearly half a billion of new invested capital (infrastructure spending) since the subsidiary's last filing.

**California Water Service Group (CWT - \$38.80, Neutral)** 6/29/17—We hosted institutional investor meetings with management from CWT in Kansas City and Minneapolis, with attendees including CEO Marty Kropelnicki and CFO Tom Smegal.

**Artesian Resources (ARTNA - \$38.34, Neutral)** 6/30/17—ARTNA's principal subsidiary in Delaware acquired the water assets of the Cantwell Water Company of Odessa. The purchase adds 40 new customers and leverages the newly integrated system in New Castle County.

**Artesian Resources (ARTNA - \$38.34, Neutral)** 6/27/17—Artesian Resource Corporation announced it has achieved full regionalization of drinking water throughout southern New Castle County (Delaware). Artesian's teams completed several service connections via new water assets acquired in the Town of Odessa to integrate into Artesian's existing water mains.

**Connecticut Water Service, Inc. (CTWS - \$57.15, Neutral)** 6/26/17—The Bay Area News Group named CWT one of the top workplaces in the Bay Area for 2017. The award is based on input from local employees and marks the 6th consecutive year the company has received the honor.

**PRECIPITATION DATA**

June was a mixed bag precipitation wise in the US, particularly for the eastern third of the country where most of our coverage operates franchises. Very wet conditions in the Gulf region and New England flow in contrast to dry conditions across the mid-Atlantic and mid-South (**Exhibit 9**). Particularly noteworthy, in our view, are less favorable yr/yr comps in PA and NJ, which (see table below), are likely our two most important states of operation.

With full Q2 weather in hand, we are not particularly optimistic heading into earnings season; however, outside of PA/NJ, we note that comps are not that bad for several of our other key states in June.

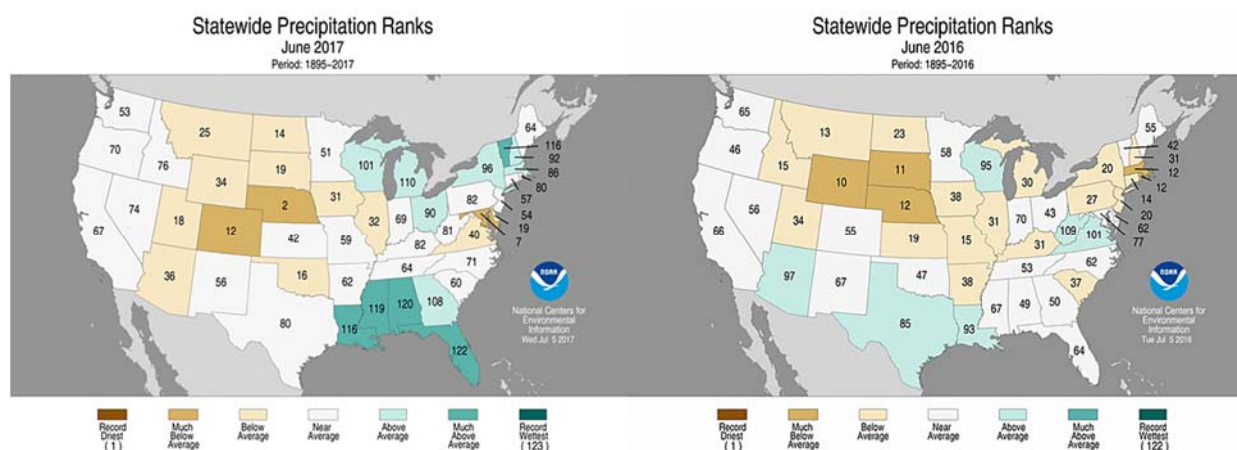
Our drought monitor (**Exhibit 10**) details worsened conditions across the Dakotas and into Montana, but few other areas of severe conditions across the country. The most recent drought outlook published on July 20, indicates the drought in the noted region could continue, but warns of development in very few other locales (**Exhibit 11**).

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 levered to weather conditions to some extent, even if it is more from a cost perspective. From the standpoint of trading water stocks, we like capitalizing on weather fears and/or surprises to identify attractive long-term entry points.

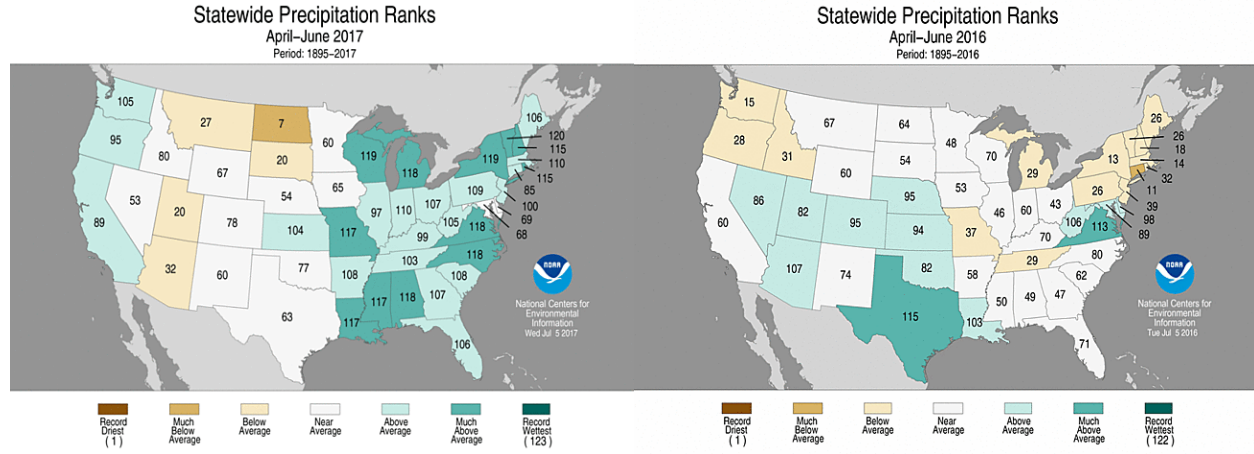
Approx % of Water Rev from Important States													
	NJ	PA	IN	IL	WV	MO	TX	CA	OH	NC	ME	CT	DE
AWK	25%	22%	7%	10%	5%	10%		7%					
WTR		52%		8%			9%		13%	7%			
ARTNA													97%
YORW		100%											
CWT								94%					
CTWS											15%	85%	

Source: Company filings and Hilliard Lyons estimates

**Exhibit 9**  
**Precipitation by State—Months of Q1 2016 versus Months of Q1 2017**

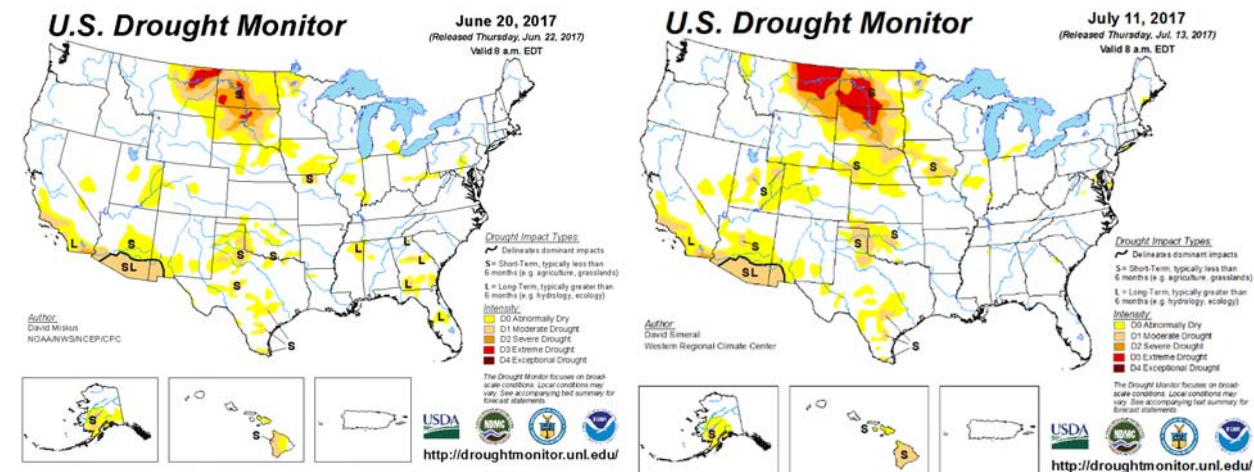






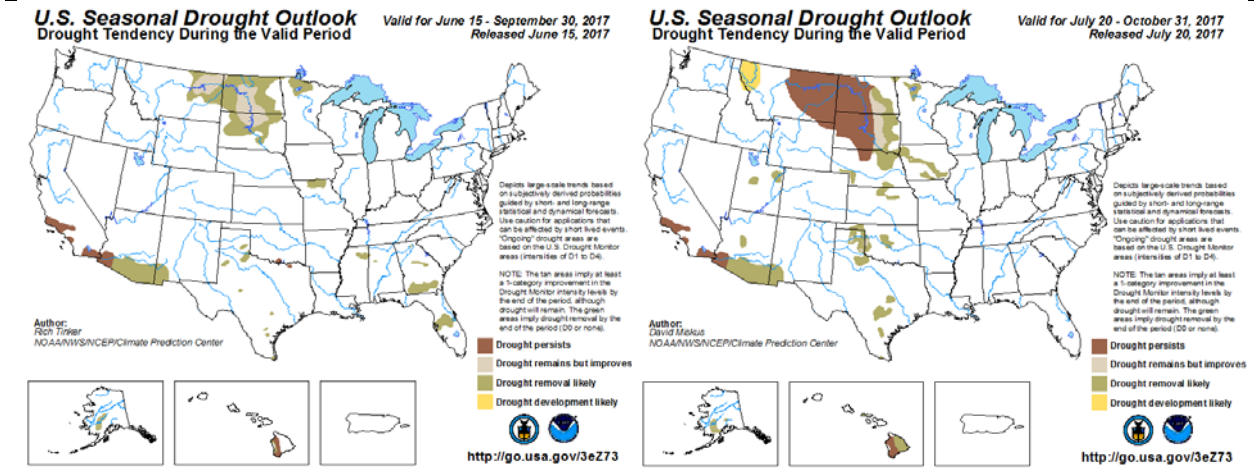
Source: National Climatic Data Center

**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)**

**April (month #1 of Q2) 2015-2017**

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

				Apr '17										
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	6.29	11	66.6/45.7	3	1	1	2.56	0.80	3.36	
AWK	PA	McKees (Pitbgh)	McKeesport	16	4.57	11	67.7/43.0	3	2	1	1.73	0.23	1.96	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	16	10.02	15	72.3/52.1	3	3	3	2.23	3.66	5.89	
AWK	WV	Charleston	WSFO	19	3.47	18	71.8/47	4	2	1	0.81	0.38	1.19	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	13	4.81	9	69.2/51.3	2	2	1	1.45	0.21	1.66	
AWK/WTR	PA	Williamsport	Williamsport 2	17	3.47	14	69.4/46.1	3	1	0	0.42	0.46	0.88	
AWK/WTR	IL	Kankakee	Kkee--WW	8	2.84	3	65.2/42.9	0	0	0	0.00	0.00	0.00	
WTR	NC	Charlotte	Concord	8	6.49	4	76.8/52.8	1	1	1	0.02	0.35	0.37	
WTR	NC	Raleigh	Raleigh St Univ	9	10.32	6	77.6/54.3	1	0	0	0.78	0.00	0.78	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	7	3.93	4	77.5/57.3	1	2	1	0.01	2.35	2.36	
WTR	TX	Houston	NWSO	6	7.73	5	80.6/62.8	0	1	0	0.00	0.02	0.02	
CTWS	ME	Newcastle	Newcastle	17	10.11	16	56.4/37.2	3	2	1	5.29	1.11	6.40	
CTWS	CT	Bakersville	Bakersville	18	5.77	17	61.9/38.1	3	3	2	1.26	0.06	1.32	
CTWS	CT	Hampton	Hampton	17	6.16	17	60.5/38.7	3	3	2	1.73	0.62	2.35	
ARTNA	DE	Newark	Wilmington Port	11	3.55	9	67.0/47.2	2	0	0	0.22	0.00	0.22	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	11	2.60	9	73.8/51.7	2	1	1	0.42	0.20	0.62	
YORW	PA	York	York Haven	12	4.20	9	n/a	3	2	2	1.21	0.10	1.31	

				Apr '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	1.30	8	64.2/39.9	3	2	1	0.23	0.42	0.65	
AWK	PA	McKees (Pitbgh)	McKeesport	14	3.44	11	63.83/37.33	3	1	1	1.3	0.17	1.47	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	9	3.16	9	69.21/49.68	0	0	0	0.00	0.00	0.00	
AWK	WV	Charleston	WSFO	13	5.35	11	70.17/41.13	2	2	1	1.14	0.68	1.82	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	12	1.80	8	64.03/44.3	2	2	2	0.15	0.63	0.78	
AWK/WTR	PA	Williamsport	Williamsport 2	16	3.38	15	62.07/37.3	3	2	2	2.04	0.04	2.08	
AWK/WTR	IL	Kankakee	Kkee--WW	8	2.44	2	59.9/38.7	0	0	0	0.00	0.00	0.00	
WTR	NC	Charlotte	Concord	8	1.80	7	74.8/47.9	2	1	1	0.86	0.09	0.95	
WTR	NC	Raleigh	Raleigh St Univ	7	3.89	4	71.53/45.87	1	1	0	2.03	0.14	2.17	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	10	6.63	7	76.23/56.84	1	1	0	0.19	2.36	2.55	
WTR	TX	Houston	NWSO	14	10.96	11	78.62/17	2	2	1	0.12	0.45	0.57	
CTWS	ME	Newcastle	Newcastle	9	7.18	4	52.23/32.3	2	0	0	0.29	0.00	0.29	
CTWS	CT	Bakersville	Bakersville	13	8.09	11	58.3/30.77	4	1	1	0.54	1.61	2.15	
CTWS	CT	Hampton	Hampton	14	9.60	12	57.6/33.23	2	2	2	0.25	2.48	2.73	
ARTNA	DE	Newark	Wilmington Port	10	6.05	4	58.72/42.28	3	0	0	1.17	0.00	1.17	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	14	4.10	13	69.36/42.14	3	2	2	1.25	0.28	1.53	
YORW	PA	York	York Haven	15	3.03	14	n/a	4	3	3	0.83	0.51	1.34	

				Apr '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	12	2.23	8	64.1/40.3	1	0	0	0.08	0.00	0.08	
AWK	PA	McKees (Pitbgh)	McKeesport	13	8.59	9	64.4/39.9	1	1	0	0.53	0.10	0.63	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	9	4.09	7	68.7/50.1	1	2	0	0.05	0.23	0.28	
AWK	WV	Charleston	WSFO	16	6.61	15	68.3/41.8	3	1	1	2.47	0.59	3.06	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	11	4.20	7	64.7/45.0	1	0	0	0.12	0.00	0.12	
AWK/WTR	PA	Williamsport	Williamsport 2	13	3.97	12	63.2/40.1	1	0	0	0.08	0.00	0.08	
AWK/WTR	IL	Kankakee	Kkee--WW Metro	11	2.52	8	63.4/40.9	0	0	0	0.00	0.00	0.00	
WTR	NC	Charlotte	Concord	13	4.02	12	72.8/48.9	1	2	1	0.03	0.55	0.58	
WTR	NC	Raleigh	Raleigh St Univ	8	4.92	6	71.0/51.6	0	1	0	0.00	0.31	0.31	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	13	5.77	10	74.9/57.3	1	3	0	0.43	1.92	2.35	
WTR	TX	Houston	NWSO	15	6.66	13	79.3/65.5	3	4	3	1.92	1.43	3.35	
CTWS	ME	Newcastle	Newcastle	16	9.29	13	51.7/34.2	2	1	0	0.36	0.21	0.57	
CTWS	CT	Bakersville	Bakersville	15	3.66	11	57.3/31.7	2	0	0	0.36	0.00	0.36	
CTWS	CT	Hampton	Hampton	11	4.26	9	56.9/34.1	2	0	0	0.38	0.00	0.38	
ARTNA	DE	Newark	Wilmington Port	9	4.16	6	63.2/44.0	0	0	0	0.00	0.00	0.00	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	14	3.90	9	70.3/43.9	3	1	0	0.34	0.40	0.74	
YORW	PA	York	York Haven	12	2.04	8	na	3	0	0	0.16	0.00	0.16	



May (month #2 of Q2) 2015-2017

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

				May '17										
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	7.32	14	69.6/51.3	2	2	1	2.09	1.92	4.01	
AWK	PA	McKees (Pitgh)	McKeesport	17	5.55	13	71.6/47.8	3	3	2	0.89	0.59	1.48	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	9	5.64	8	77.0/58.8	1	0	0	1.24	0.00	1.24	
AWK	WV	Charleston	WSFO	16	7.67	13	73.9/53.7	3	2	1	2.51	0.30	2.81	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	15	7.56	12	71.3/54.9	3	1	1	2.52	0.90	3.42	
AWK/WTR	PA	Williamsport	Williamsport 2	17	6.04	14	70.0/50.9	3	3	2	1.12	0.62	1.74	
AWK/WTR	IL	Kankakee	Kkee--WW	13	4.78	10	69.4/49.2	1	0	0	0.02	0.00	0.02	
WTR	NC	Charlotte	Concord	15	8.51	12	81.9/56.7	2	1	0	0.18	0.02	0.20	
WTR	NC	Raleigh	Raleigh St Univ	9	4.21	4	79.0/58.3	1	0	0	0.31	0.00	0.31	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	11	1.03	8	84.1/62.9	1	2	1	0.06	0.34	0.40	
WTR	TX	Houston	NWSO	7	4.52	5	84.3/67.2	0	2	0	0.00	0.77	0.77	
CTWS	ME	Newcastle	Newcastle	19	6.13	16	61.1/44.5	2	2	1	0.63	1.19	1.82	
CTWS	CT	Bakersville	Bakersville	17	5.53	16	65.0/44.2	2	2	1	1.87	1.63	3.50	
CTWS	CT	Hampton	Hampton	16	5.65	14	64.4/45.2	2	2	1.00	1.91	1.41	3.32	
ARTNA	DE	Newark	Wilmington Port	8	5.14	4	68.3/50.6	1	0	0	1.09	0.00	1.09	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	18	6.43	16	74.4/55.2	3	3	2	1.24	0.08	1.32	
YORW	PA	York	York Haven	15	3.97	14		2	2	2	1.74	0.27	2.01	

				May '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	17	4.56	15	71.1/50.9	2	4	2	0.69	0.50	1.19	
AWK	PA	McKees (Pitgh)	McKeesport	17	3.23	15	71.1/49.1	2	1	1	0.57	0.47	1.04	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	19	5.36	17	74.37/56.43	2	1	0	0.33	0.03	0.36	
AWK	WV	Charleston	WSFO	18	5.42	14	71.97/50.23	1	4	1	0.58	2.05	2.63	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	15	7.23	14	70.97/54.87	2	3	1	0.68	1.88	2.56	
AWK/WTR	PA	Williamsport	Williamsport 2	12	2.33	11	72.68/51.29	3	4	3	0.30	0.96	1.26	
AWK/WTR	IL	Kankakee	Kkee--WW	10	3.42	5	70.67/50.03	0	0	0	0.00	0.00	0.00	
WTR	NC	Charlotte	Concord	14	7.16	12	79.19/56.42	1	2	1	1.50	1.96	3.46	
WTR	NC	Raleigh	Raleigh St Univ	11	7.43	9	77.42/58.03	1	2	1	0.48	0.73	1.21	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	16	6.01	13	80.13/62.29	1	2	0	0.01	0.66	0.67	
WTR	TX	Houston	NWSO	13	5.27	10	82.06/68.71	1	3	1	0.59	0.44	1.03	
CTWS	ME	Newcastle	Newcastle	12	1.79	6	66.23/45.52	1	1	0	0.19	0.26	0.45	
CTWS	CT	Bakersville	Bakersville	16	3.20	14	69.19/44.58	2	3	2	0.43	0.37	0.80	
CTWS	CT	Hampton	Hampton	14	3.57	12	67.94/45.48	2	2	2	0.48	0.23	0.71	
ARTNA	DE	Newark	Wilmington Port	16	7.27	13	70.26/53.48	3	2	1	1.50	0.57	2.07	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	16	7.27	13	70.26/53.48	3	3	1	1.50	1.06	2.56	
YORW	PA	York	York Haven	20	5.30	19	n/a	3	4	3	1.22	1.21	2.43	

				May '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	8	1.44	7	78.6/53.5	1	2	1	0.02	0.28	0.30	
AWK	PA	McKees (Pitgh)	McKeesport	13	1.95	7	77.55/52.29	0	2	0	0.00	0.37	0.37	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	12	4.15	11	78.54/61.35	3	3	3	1.15	1.05	2.20	
AWK	WV	Charleston	WSFO	11	3.34	9	80.7/53.5	1	1	0	0.80	0.22	1.02	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	6	0.44	4	80.5/60.8	0	1	0	0.00	0.20	0.20	
AWK/WTR	PA	Williamsport	Williamsport 2	11	2.35	8	79.74/55.58	2	1	1	0.38	0.78	1.16	
AWK/WTR	IL	Kankakee	Kkee--WW Metro	11	3.39	7	74.0/54.0	0	0	0	0.00	0.00	0.00	
WTR	NC	Charlotte	Concord	4	0.81	2	84.9/58.4	0	1	0	0.00	0.14	0.14	
WTR	NC	Raleigh	Raleigh St Univ	7	3.37	6	82.0/60.1	1	1	0	0.47	0.17	0.64	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	20	14.94	19	79.81/63.74	4	3	3	1.66	3.99	5.65	
WTR	TX	Houston	NWSO	16	10.86	14	83.94/70.23	1	2	0	0.14	1.04	1.18	
CTWS	ME	Newcastle	Newcastle	8	1.36	2	69.5/47.4	0	2	0	0.00	0.36	0.36	
CTWS	CT	Bakersville	Bakersville	5	1.25	4	76.1/47.77	1	0	0	0.08	0.00	0.08	
CTWS	CT	Hampton	Hampton	6	0.45	6	73.84/46.81	0	1	0	0.00	0.02	0.02	
ARTNA	DE	Newark	Wilmington Port	5	0.84	2	79.3/55.6	1	0	0	0.40	0.00	0.40	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	9	2.04	9	81.0/57.29	1	1	0	0.01	0.25	0.26	
YORW	PA	York	York Haven	8	4.56	5	n/a	0	1	0	0.00	1.04	1.04	

June (month #3 of Q2) 2015-2017

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

				Jun '17										
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	8	3.41	5	82.4/60.7	1	2	1	0.05	0.92	0.97	
AWK	PA	McKees (Pitgh)	McKeesport											
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	6	3.39	2	86.5/67.5	1	0	0	0.02	0.00	0.02	
AWK	WV	Charleston	WSFO	12	4.73	11	81.7/58.6	2	0	0	2.45	0.00	2.45	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	10	3.16	5	84.2/65.9	3	0	0	1.24	0.00	1.24	
AWK/WTR	PA	Williamsport	Williamsport 2											
AWK/WTR	IL	Kankakee	Kkee--WW	9	4.35	6	84.0/60.4	0	0	0	0.00	0.00	0.00	
WTR	NC	Charlotte	Concord	16	6.95	14	87.3/64.3	2	3	2	0.41	0.41	0.82	
WTR	NC	Raleigh	Raleigh St Univ											
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	9	10.04	6	88.5/72.0	2	1	1	4.49	0.62	5.11	
WTR	TX	Houston	NWSO	14	6.61	13	88.3/74.7	1	2	1	0.79	1.18	1.97	
CTWS	ME	Newcastle	Newcastle	13	2.64	7	72.97/54.17	3	0	0	0.43	0.00	0.43	
CTWS	CT	Bakersville	Bakersville											
CTWS	CT	Hampton	Hampton											
ARTNA	DE	Newark	Wilmington Port	7	3.17	2	81.1/62.0	2	0	0	1.52	0.00	1.52	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N											
YORW	PA	York	York Haven											

				Jun '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	7	2.35	4	82.7/59.4	1	0	0	0.04	0.00	0.04	
AWK	PA	McKees (Pitgh)	McKeesport	10	3.29	9	82.5/60.0	1	2	1	0.77	0.16	0.93	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	7	2.61	2	90.3/71.2	1	1	0	0.90	0.20	1.10	
AWK	WV	Charleston	WSFO	13	7.06	12	83.9/60.9	1	1	0	0.07	0.83	0.90	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	7	2.36	2	85.2/65.8	0	1	0	0.00	0.05	0.05	
AWK/WTR	PA	Williamsport	Williamsport 2	11	3.02	7	82.8/60.1	1	1	1	0.70	1.08	1.78	
AWK/WTR	IL	Kankakee	Kkee--WW	8	4.46	6	83.2/61.9	0	0	0	0.00	0.00	0.00	
WTR	NC	Charlotte	Concord	11	4.00	5	91.4/65.9	1	1	0	0.01	0.52	0.53	
WTR	NC	Raleigh	Raleigh St Univ	10	6.01	10	87.6/65.4	0	0	0	0.00	0.00	0.00	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	7	2.76	6	91.6/73.3	1	1	1	0.01	0.49	0.50	
WTR	TX	Houston	NWSO	14	9.10	13	88.4/75.7	4	3	3	2.37	2.36	4.73	
CTWS	ME	Newcastle	Newcastle	14	2.46	14	72.0/52.6	2	2	2	0.04	0.04	0.08	
CTWS	CT	Bakersville	Bakersville	9	2.70	6	78.2/52.4	1	2	1	0.16	0.42	0.58	
CTWS	CT	Hampton	Hampton	8	1.89	5	76.5/53.6	1	2	1	0.03	0.32	0.35	
ARTNA	DE	Newark	Wilmington Port	7	2.94	2	81.7/61.7	0	1	0	0.00	0.55	0.55	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	9	7.26	6	83	0	1	0	0.00	0.48	0.48	
YORW	PA	York	York Haven	11	5.10	11	n/a	2	1	1	0.39	0.33	0.72	

				Jun '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	15	6.13	13	80.4/60.2	2	2	1	0.24	1.97	2.21	
AWK	PA	McKees (Pitgh)	McKeesport	21	11.50	18	80.63/59.97	4	3	3	1.50	1.88	3.38	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	16	12.07	12	84.33/68.73	2	2	1	3.41	1.14	4.55	
AWK	WV	Charleston	WSFO	14	6.03	9	83.97/62.4	2	3	2	0.43	2.64	3.07	
AWK/WTR	PA	Philadelphia	Philly Frank Inst	14	8.12	8	83.0/66.37	1	3	1	0.32	3.11	3.43	
AWK/WTR	PA	Williamsport	Williamsport 2	17	11.33	15	80.48/64.55	2	3	2	2.80	1.08	3.88	
AWK/WTR	IL	Kankakee	Kkee--WW Metro	15	17.22	13	78.53/60.47	0	0	0	0.00	0.00	0.00	
WTR	NC	Charlotte	Concord	10	3.33	6	92.6/68.07	2	2	1	0.05	0.42	0.47	
WTR	NC	Raleigh	Raleigh St Univ	10	5.92	9	91.47/69.53	1	1	1	0.21	0.33	0.54	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	5	4.32	4	91.7/73.23	1	1	0	0.42	0.07	0.49	
WTR	TX	Houston	NWSO	11	9.28	7	88.53/74.73	1	2	1	5.45	0.33	5.78	
CTWS	ME	Newcastle	Newcastle	16	5.75	12	68.4/51.5	2	2	0	0.27	2.67	2.94	
CTWS	CT	Bakersville	Bakersville	16	8.22	13	74.17/52.23	2	3	1	0.04	1.67	1.71	
CTWS	CT	Hampton	Hampton	12	7.11	7	72.8/53.5	0	2	0	0.00	1.48	1.48	
ARTNA	DE	Newark	Wilmington Port	17	11.33	15	80.48/64.55	2	3	2	2.80	1.08	3.88	
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	17	8.99	16	83.6/66.1	3	2	2	0.69	2.56	3.25	
YORW	PA	York	York Haven	16	9.97	12	n/a	2	3	1	0.03	3.76	3.79	

## HILLIARD LYONS WATER UTILITY COVERAGE COMPARABLES

		Actual // Estimate																		
Company	Ticker	Price 20-Jul-17	Target Price	Rating	Revenue TTM (\$MM's)	Mkt Cap (\$MM)	Price/ Book	LTD/ Cap. (%)	EPS			5-Yr			3-Yr		Curr EV/ EBITDA	Div. Yld.	Div. Payout (%)	30-day Avg. Vol.
									FY16	FY17E	FY18E	FY16	FY17E	FY18E	P/E	Growth				
American Water Works	AWK	\$ 81.00	\$ 105	LT Buy	3,315.0	14,433.5	2.7x	46%	\$2.85	<u>\$3.03</u>	<u>\$3.31</u>	28.4x	26.7x	24.5x	21.8x	8.9%	13.9x	2.0%	56%	753,981
Aqua America	WTR	\$ 33.30	\$ 27	Underprf	815.1	5,914.1	3.2x	46%	\$1.32	<u>\$1.34</u>	<u>\$1.39</u>	25.3x	24.9x	24.0x	22.9x	4.4%	17.2x	2.3%	43%	595,742
Artesian Resources	ARTNA	\$ 38.34	--	Neutral	79.8	316.9	2.5x	41%	\$1.41	<u>\$1.49</u>	<u>\$1.59</u>	27.1x	25.7x	24.1x	21.7x	14.5%	12.6x	2.4%	63%	24,121
California Water Svc Grp	CWT	\$ 38.80	--	Neutral	609.7	1,863.2	2.9x	40%	\$0.97	<u>\$1.37</u>	<u>\$1.49</u>	40.1x	28.3x	26.0x	24.9x	-0.3%	14.9x	1.9%	66%	148,112
CT Water Service Inc.	CTWS	\$ 57.15	--	Neutral	99.6	647.6	2.6x	42%	\$2.08	<u>\$2.24</u>	<u>\$2.20</u>	27.5x	25.5x	26.0x	20.5x	7.8%	19.0x	2.1%	51%	46,549
York Water Company	YORW	\$ 35.75	\$ 27	Underprf	47.6	459.2	4.0x	43%	\$0.92	<u>\$0.96</u>	<u>\$0.99</u>	38.8x	37.3x	36.1x	28.0x	7.0%	18.7x	1.8%	67%	53,909
Averages:								3.0x	43%			31.2x	28.1x	26.8x	23.3x	7.0%	16.0x	2.1%	58%	

Source: Company reports, Thomson Reuters, and Hilliard Lyons estimates

## WATER UTILITY INDUSTRY COMPARABLES

		Actual // Estimate																			
Company	Ticker	Price 20-Jul-17	Revenue TTM (\$MM)	Mkt Cap (\$MM)	Price/ Book	LTD/ Cap. (%)	Consensus EPS			5-Yr		3-Yr		TTM EBITDA Share	Curr EV/ EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.		
							FY16	FY17E	FY18E	FY16	FY17E	FY18E	P/E							Growth	
American States	AWR	\$ 48.94	441.4	1,792.0	3.6x	35%	\$1.62	<u>\$1.69</u>	<u>\$1.79</u>	30.2x	29.0x	27.4x	22.4x	0.2%	\$ 4.30	14.0x	2.0%	55.0%	1.9%	117,014	
American Water Works	AWK	\$ 81.00	3,315.0	14,433.5	2.7x	46%	\$2.84	<u>\$3.03</u>	<u>\$3.29</u>	28.5x	26.8x	24.6x	21.8x	8.9%	\$ 8.77	13.9x	2.0%	55.7%	2.2%	753,981	
Aqua America	WTR	\$ 33.30	815.1	5,914.1	3.2x	46%	\$1.32	<u>\$1.36</u>	<u>\$1.44</u>	25.2x	24.4x	23.1x	22.9x	4.4%	\$ 2.58	17.2x	2.3%	42.9%	4.0%	595,742	
Artesian Resources	ARTNA	\$ 38.34	79.8	316.9	2.5x	41%	\$1.41	<u>\$1.49</u>	<u>\$1.59</u>	27.2x	25.7x	24.1x	21.7x	14.5%	\$ 4.43	12.6x	2.4%	62.5%	1.2%	24,121	
California Water Svc Grp	CWT	\$ 38.80	609.7	1,863.2	2.9x	40%	\$1.01	<u>\$1.29</u>	<u>\$1.39</u>	38.4x	30.2x	27.9x	24.9x	-0.3%	\$ 3.55	14.9x	1.9%	66.1%	1.5%	148,112	
Connecticut Water Service	CTWS	\$ 57.15	99.6	647.6	2.6x	42%	\$2.08	<u>\$2.22</u>	<u>\$2.29</u>	27.5x	25.7x	25.0x	20.5x	7.8%	\$ 4.15	19.0x	2.1%	51.4%	2.3%	46,549	
Consolidated Water	CWCO	\$ 12.80	59.5	190.6	1.3x	0%	\$0.79	<u>\$0.67</u>	<u>\$0.72</u>	16.2x	19.1x	17.8x	22.1x	10.8%	\$ 0.90	12.2x	2.3%	98.4%	1.6%	50,700	
Middlesex Water	MSEX	\$ 39.79	132.5	648.7	2.9x	36%	\$1.38	<u>\$1.54</u>	<u>\$1.63</u>	28.8x	25.8x	24.4x	20.5x	10.2%	\$ 3.29	14.9x	2.1%	60.0%	1.4%	62,841	
SIW Corp	SJW	\$ 50.80	347.6	1,041.3	2.5x	50%	\$2.57	<u>\$2.14</u>	<u>\$2.29</u>	19.8x	23.7x	22.2x	20.1x	31.9%	\$ 6.86	10.4x	1.7%	31.6%	0.7%	60,967	
York Water	YORW	\$ 35.75	47.6	459.2	4.0x	43%	\$0.92	<u>\$0.96</u>	<u>\$0.99</u>	38.9x	37.2x	36.1x	28.0x	7.0%	\$ 2.26	18.7x	1.8%	67.5%	1.7%	53,909	
Averages:								3.0x	42%			29.4x	27.6x	26.1x	22.6x	9.4%		15.1x	2.0%	54.7%	1.9%

Source: Company reports and Thomson Reuters

\*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)

*Connecticut Water Service, Inc.* (CTWS - \$57.15, Neutral) 7/12/17: CTWS Closes on AVON Acquisition; Initiating 2019 Estimates and Reiterating Neutral Rating.

*AGA Financial Forum* 5/26/17: Comments from 2017 AGA Financial Forum

*South Jersey Industries* (SJI - \$34.11, Long-term Buy, \$40 TP) 5/9/17: Fine Q1'17 from SJI, but Soft FY Guide. Reiterating Long-term Buy with '2020 Plan' Still Intact.

*Connecticut Water Service, Inc.* (CTWS - \$57.15, Neutral) 5/9/17: Q1'17 Results for CTWS; Reiterating Neutral Rating.

*Northwest Natural Gas Company* (NWN - \$62.00, Underperform, \$50 TP) 5/8/17: Q1'17 Results from NWN; Reiterating Underperform Rating and \$50 Price Target.

*New Jersey Resources Corp.* (NJR - \$40.80, Neutral) 5/5/17: Strong Q2'17 Results for NJR.

*WGL Holdings, Inc.* (WGL - \$84.31, Underperform) 5/5/17: Q2'17 Results from WGL; Reiterating Underperform.

*American Water Works* (AWK - \$81.00, Long-term Buy, \$105) 5/4/17: Q1'17 Results from AWK. Reiterating LTB Rating.

*Aqua America, Inc.* (WTR - \$33.30, Underperform, \$27 TP) 5/4/17: Down Q1 at WTR; Reiterating Underperform Rating.

*Atmos Energy Corp.* (ATO - \$85.53, Neutral) 5/4/17: Strong Fiscal Q2'17 Results from ATO; Reiterating Neutral Rating. Awaiting an Entry Point.

*Artesian Resources Corp.* (ARTNA - \$38.34, Neutral) 5/4/17: Q1'17 Results, Downgrading to Neutral.

*Chesapeake Utilities Corp.* (CPK - \$76.20, Long-term Buy, \$81 TP) 5/4/17: Miss to Q1'17 at CPK, but Margin Gains Robust.

*Spire Inc.* (SR - \$71.45, Long-term Buy, \$77 TP) 5/3/17: Return to Marginal Growth as Transitional Year Continues; Reiterating LTB Rating and \$77 Target.

*ONE Gas, Inc.* (OGS - \$70.94, Neutral) 5/2/17: Strong Q1'17 Results from OGS, Boosted a bit By Taxes; Reiterating Neutral Rating.

*York Water Company* (YORW - \$35.75, Underperform, \$27 TP) 5/2/17: Q1'17 Results for YORW; Reiterating Underperform.

*California Water Service Group* (CWT - \$38.80, Neutral) 4/27/17: Positive Start to 2017 in Q1; Reiterating Neutral Rating.

*Additional information is available upon request.*

*Prices and all price sensitive data as of Thursday, July 20, 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 July 20, 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
<b>Rating</b>				
<b>Buy</b>	36	29%	14%	86%
<b>Hold/Neutral</b>	79	63%	5%	95%
<b>Sell</b>	10	8%	0%	100%

*As of 7 July 2017*

### Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.