



# Utilities Monthly

## Natural Gas and Water

May 2017

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<p><b>Note Important Disclosures on page 22</b> <b>Note Analyst Certifications on page 22</b></p>
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## Natural Gas Utilities

### PRICE PERFORMANCE

Natural gas utilities outpaced the broader market in April, with the group posting its seventh consecutive month of gains. Our covered companies gained an average of 2.47% last month; the S&P 500 rallied 0.91% (**Exhibit 1**). Chesapeake Utilities (CPK) was our strongest name to open Q2; WGL Holdings, Inc. (WGL) fell 0.08% to be our weakest name.

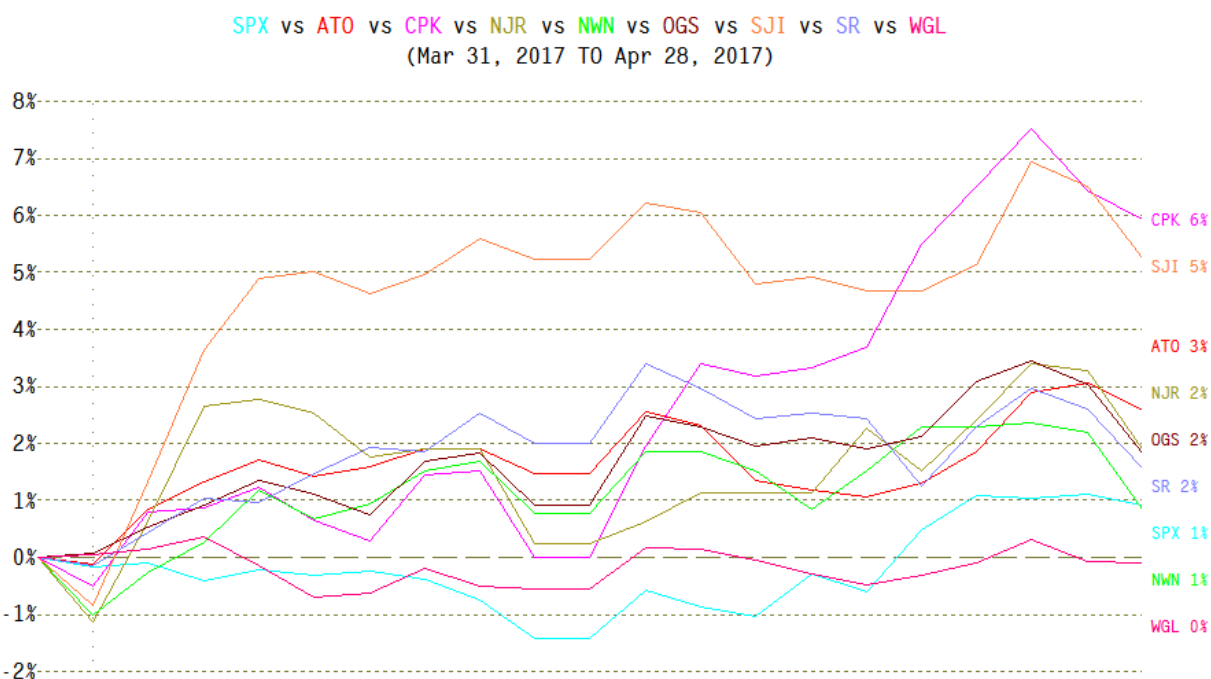
Now a third of the way through the year, we remain pleased with YTD performance for our gas utilities, with the group showing both consistency and resiliency coming off a third consecutive year of outperformance in 2016. Only Northwest Natural (NWN) materially lagged the S&P 500 through April, with the balance of our coverage higher by at least 6% (**Exhibit 2**).

Trailing 52-week returns for our coverage group reflect a generally strong period of returns, save for a relatively broad pullback that played out during Q3' 16 (**Exhibit 3**).

Past performance is no guarantee of future results.

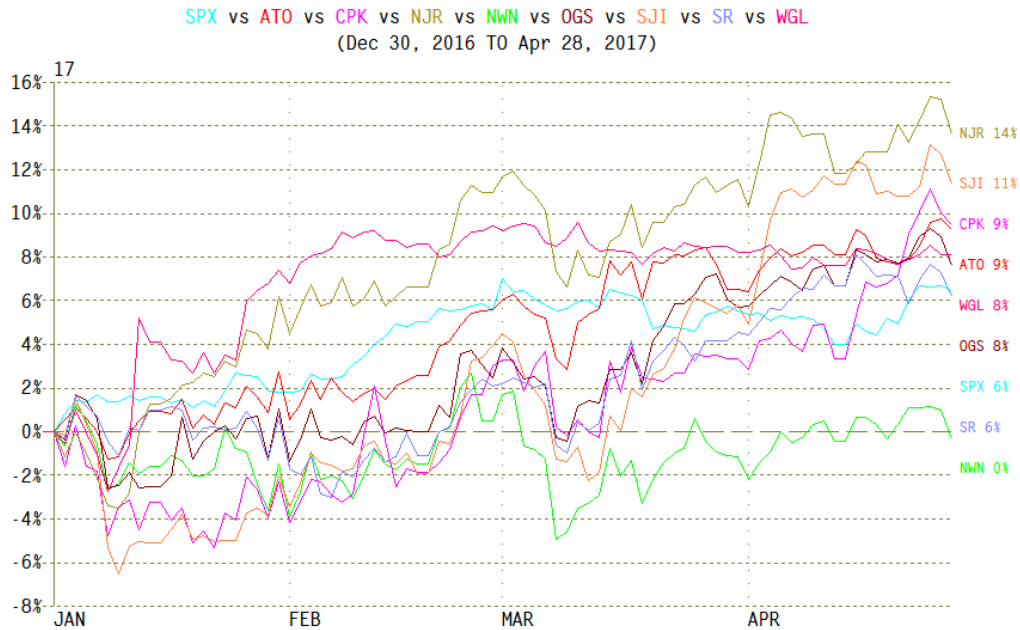
Since our prior *Utilities Monthly*, we have published reports on all of our covered companies, having progress through calendar-Q1 earnings season. Despite a hectic few weeks, our ratings and price targets were unchanged. We continue to rate SJI, SR and CPK as Long-term Buy. We assign shares of ATO, 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**



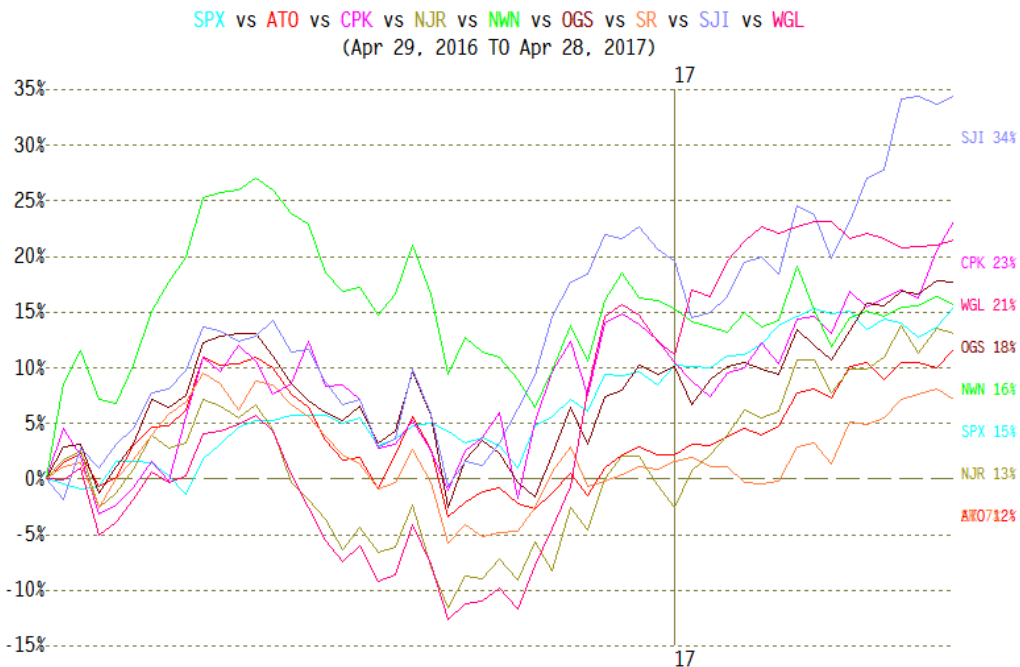
**Source: Baseline** SPX-S&P 500 Index; ATO-Atmos; CPK-Chesapeake Utils; SR-Spire Inc; NJR-New Jersey Resc; NWN-Northwest Ntrl; OGS-ONE Gas; PNY-Piedmont Nat Gas; SJI- South Jersey Indust; WGL-WGL Hldgs \*Note: It is not possible to invest directly in an index\*

**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

Levitating alongside much of the Utility sector, the gas industry was positive in April for a seventh consecutive month. A 2.47% rise, on average, for our coverage group outpaced an S&P 500 rally of 0.91% last month. Thus far in May, momentum has waned, with our gas stocks down fractionally versus a positive broader market; however, we are not necessarily surprised to see some element of profit taking. Past performance is no guarantee of future results. On and off over the past couple of years we have tabbed M&A as a unique differentiator/catalyst for the gas utility industry, but expect the theme has had little impact over the past several weeks across earnings season.

Despite what was indeed a difficult weather quarter for the gas utility industry, calendar-Q1 results held a fair number of positive surprises. Through our cycle of 8 reports, the final beat/meet/miss tally for EPS versus consensus expectations was 4/1/3, although the season was shaping up to be a bit more robust before our final two companies (SJI and NWN) both delivered ‘miss’ quarters. The best January-March quarter may have been delivered by long-favored core holding but Neutral-rated Atmos Energy. ATO grew EPS by 10.1%, on margin growth of ~9% that marked a rate about 1.5x our expectations.

The American Gas Association (AGA), a trade organization for gas industry companies and vendors, is scheduled to host its annual Financial Forum over the course of May 20-23. The AGA Financial Forum is the group’s premier event tailored for the investment community, and we look forward to one-on-one meetings with each of our covered gas utilities. In addition to traditional deep-dives into some of our company specific concerns, the annual conference gives us a change to gauge consensus amongst bankers/investors, and network with a wide range of gas industry professionals, some of which are not typically involved with investor relations. Likely on May 25 or May 26, we will publish a standalone report with recaps of each of our meetings, and some general takeaways from the event.

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) and companies 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. From a business risk/reward/return standpoint, we strongly support major mid-stream investments by our local distribution utilities, although we remain somewhat wary of delays (and potential delays), despite what should arguably be a more constructive political climate.

We are reiterating our Marketweight allocation recommendation for the gas utility industry as we trade through May. The industry is working on (potentially) its first ‘down’ month since September of last year, although valuations remain somewhat stretched, in our view. Having said that, we still believe investors are too bearish on the Utilities sector and like taking a slightly contrarian stance, and the longer we go with negligible legislative progress at the Federal level, the more we like the resilient growth profile of the industry. We further reiterate a position that consolidation activity could continue, which brings an element of positive headline risk and argues for holding a broad basket of names.

We stick with SR as our current top pick in the space as we move through May. Ahead of the AGA forum next week, we like Spire as one of the few names where we believe sentiment has room to materially improve. Furthermore, we like SR against the backdrop of softening stock performance for the broader industry as we work into the first few weeks of summer given relative valuation. Our 2-yr price target is \$77, which implies total return potential of ~17%.

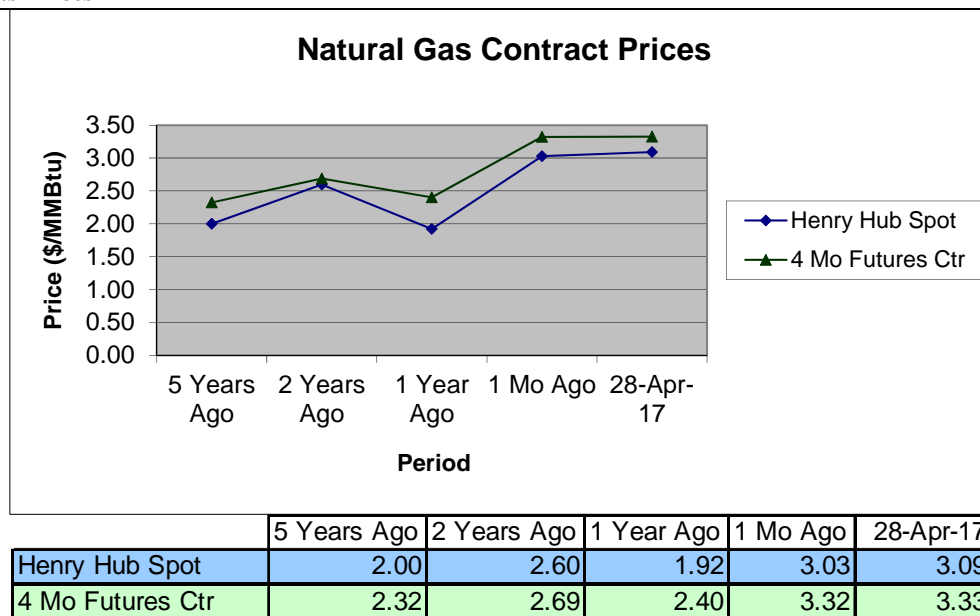
**NATURAL GAS NEWS & PRICES**

The spot price of natural gas ended the last week of April at \$3.09/Mcf, a rise of just 2.0% that more/less simply held gains from a bounce back in March. From our vantage point, the shoulder-season month of April flew mostly under the radar from a weather headline perspective, helping spot gas to post one of its least volatile months of the past few years. On a year-to-date basis, spot gas is down substantially from the spike towards \$3.75 in late-December, likely keying off record warm in January-February across much of the Eastern US, before a return to more normal (colder) conditions across the mid-Atlantic and New England helped support the spot market last month. Spot gas is ~\$3.31/Mcf at press time, having levitated a bit further this month.

The US rig count (oil + gas) averaged 853 in April, up 64 from the March average and higher by more than 400 over April 2016. Taking a snapshot at the end of last month, the US natural gas rig count marked 171, up 11 from the prior month and a rise of 30% on a sequential basis over the YTD period since 12/31/16.

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.

**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 - \$82.52, Underperform)** 5/10/17—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 - \$34.80, 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.]

**WGL Holdings, Inc. (WGL - \$82.52, Underperform)** 5/4/17—WGL management reduced the mid-point of fiscal 2017 (October 2016 – September 2017) by \$0.30 to a new range of \$3.10-\$3.30.

**Chesapeake Utilities Corp. (CPK - \$71.55, Long-term Buy, \$81 TP)** 5/3/17—In conjunction with Q1'17 results, CPK announced a \$36MM natural gas expansion project in North Florida, which is expected to generate about \$5MM in annualized gross margin once complete.

**Spire Inc. (SR - \$68.90, Long-term Buy, \$77 TP)** 4/20/17—Two Laclede Gas employees were murdered while on a jobsite in St. Louis. Following the incident, peer utilities in the region pulled employees from the service area.

**Spire Inc. (SR - \$68.90, Long-term Buy, \$77 TP)** 4/11/17—SR's Laclede Gas subsidiary filed a general rate case in Missouri, as statutorily required due to usages of the state's surcharge mechanism. A net revenue increase of \$29MM has been requested; however, customer bills are still suggested to be lower than ~10 years ago due to continuing low raw costs of gas.

**South Jersey Industries (SJI - \$34.80, Long-term Buy, \$40 TP) & New Jersey Resources (NJR - \$40.20, Neutral)** 4/4/17—The Wall Street Journal reported that NJR and SJI were holding merger talks. Stocks of both companies reacted positively. News first broke intraday on Tuesday, April 4th, although we can find no subsequent information regarding the potential tie-up.

**WGL Holdings, Inc. (WGL - \$82.52, Underperform)** 4/3/17—WGL began mailing proxy materials announcing a special meeting, set for May 10, detailing the proposed merger transaction that would see WGL acquired at \$88.25/share. Holders of record as of March 29 are entitled to vote; the merger must be approved by a 2/3 majority.

**Spire Inc. (SR - \$68.90, Long-term Buy, \$77 TP)** 4/3/17—SR completed the issuance of ~2.5MM shares, effectively completing the funding of the Alagasco purchase. This transaction represents the conversion of equity units tied to a mandatory convertible offering that was issued in early-2014; cash proceeds to the company measured about \$140MM.

**New Jersey Resources (NJR - \$40.20, Neutral)** 3/31/17—NJR announced a filing to recover costs associated with its NJ RISE and SAFE II investments; each program was approved by regulators to facilitate investment in safety-related projects. If the request is accepted 'as-is', a base rate increase of \$4.3MM would take effect on 10/1/17, which coincides with the beginning of NJR's fiscal 2018.

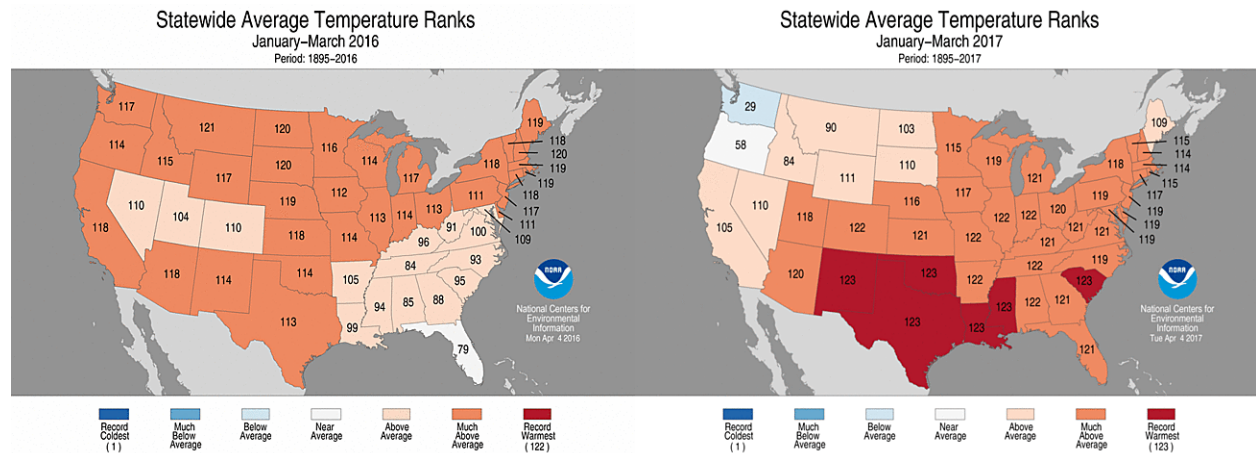
**TEMPERATURE DATA**

*Note:* Due to issues with our data service provider, updated temperature data charts for April are not yet available. An updated recap will return with our June *Utilities Monthly*.

In the interim, we leave charts from the full Q1 for investors to review, in order to give context to the recently completed calendar-Q1 earnings season. A very warm start to the year, including 16 states reporting their hottest February on record, more/less dominated the weather comps and conversations for the quarter (**Exhibit 5**). Though winter made a bit of late comeback (March) in New England and portions of the mid-Atlantic, we look forward to constructive/easy comps for the year-ahead calendar Q1'18 quarter.

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 Q1 2016 versus Q1 2017**



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



## HILLIARD LYONS NATURAL GAS UTILITY COVERAGE COMPARABLES

Company	Ticker	Price 16-May-17	Target Price	Rating	Rev TTM (\$MM's)	Mkt Cap (\$MM)	Price/ 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'16	FY'17E	FY'18E							FY'16	FY'17E	FY'18E
									FY'16	FY'17E	FY'18E												
Atmos Energy	ATO	\$ 80.33	--	Neutral	3,080	8,448.7	2.3x	38.0	\$3.44	<u>\$3.66</u>	<u>\$3.87</u>	23.3x	22.0x	20.8x	18.8x	8%	11.8x	2.2%	48	321,591			
Chesapeake Utilities	CPK	\$ 71.55	\$ 81	LT Buy	538	1,168.8	2.7x	23.0	\$2.86	<u>\$2.92</u>	<u>\$3.57</u>	25.0x	24.5x	20.0x	18.2x	11%	13.2x	1.8%	46	47,851			
Spire Inc.	SR	\$ 68.90	\$ 77	LT Buy	-	-	-	-	\$3.42	<u>\$3.53</u>	<u>\$3.75</u>	20.1x	19.5x	18.4x	-	-	-	3.1%	61	-			
New Jersey Resources	NJR	\$ 40.20	--	Neutral	2,137	3,469.8	2.7x	46.0	\$1.57	<u>\$1.76</u>	<u>\$1.83</u>	25.6x	22.8x	21.9x	16.6x	-14%	16.7x	2.5%	56	483,546			
Northwest Natural	NWN	\$ 59.05	\$ 50	Underprf	718	1,690.6	2.0x	44.0	\$2.19	<u>\$2.20</u>	<u>\$2.23</u>	27.0x	26.9x	26.5x	21.1x	5%	10.8x	3.2%	86	106,984			
ONE Gas	OGS	\$ 67.83	--	Neutral	1,469	3,543.5	1.8x	39.0	\$2.64	<u>\$3.00</u>	<u>\$3.16</u>	25.7x	22.6x	21.5x	23.1x	-	11.6x	2.5%	56	186,259			
South Jersey Industries	SJI	\$ 34.80	\$ 40	LT Buy	1,129	2,765.8	2.3x	39.0	\$1.33	<u>\$1.25</u>	<u>\$1.33</u>	26.2x	27.9x	26.2x	19.6x	-7%	14.0x	3.1%	83	361,323			
WGL Holdings	WGL	\$ 82.52	--	Underprf	2,352	4,226.6	2.8x	49.0	\$3.29	<u>\$3.37</u>	<u>\$3.71</u>	25.1x	24.5x	22.3x	18.7x	15%	13.5x	2.5%	58	205,171			
Averages:							2.4x	39.7				24.8x	23.8x	22.2x	19.4x	3.0%	13.1x	2.6%	62				

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-May-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'16	FY'17E	FY'18E
						FY'16	FY'17E	FY'18E												
Atmos Energy	ATO	\$ 80.33	8,448.7	2.3x	38.0	\$3.41	<u>\$3.59</u>	<u>\$3.80</u>	23.6x	22.4x	21.1x	18.8x	8%	11.8x	2.2%	48	321,591			
Chesapeake Utilities	CPK	\$ 71.55	1,168.8	2.7x	23.0	\$3.14	<u>\$2.99</u>	<u>\$3.49</u>	22.8x	23.9x	20.5x	18.2x	11%	13.2x	1.8%	46	47,851			
Delta Natural Gas	DGAS	\$ 30.15	214.9	2.7x	39.0	\$0.70	<u>\$0.88</u>	<u>\$0.92</u>	43.1x	34.3x	32.8x	24.0x	-21%	15.0x	2.8%	118	10,011			
Gas Natural	EGAS	\$ 12.65	133.1	1.4x	36.0	\$0.30	<u>\$0.51</u>	<u>\$0.51</u>	42.2x	24.8x	24.8x	22.1x	-53%	-	2.4%	75	20,423			
Spire Inc.	SR	\$ 68.90	-	-	-	\$3.42	<u>\$3.53</u>	<u>\$3.66</u>	20.1x	19.5x	18.8x	-	-	-	3.0%	61	-			
National Fuel Gas	NFG	\$ 55.91	4,770.9	2.9x	57.0	\$3.09	<u>\$3.23</u>	<u>\$3.21</u>	18.1x	17.3x	17.4x	19.3x	-7%	4.9x	2.9%	47	756,848			
New Jersey Resources	NJR	\$ 40.20	3,469.8	2.7x	46.0	\$1.64	<u>\$1.73</u>	<u>\$1.85</u>	24.5x	23.2x	21.7x	16.6x	-14%	16.7x	2.5%	56	483,546			
Northwest Natural Gas	NWN	\$ 59.05	1,690.6	2.0x	44.0	\$2.29	<u>\$2.17</u>	<u>\$2.29</u>	25.8x	27.2x	25.8x	21.1x	5%	10.8x	3.2%	86	106,984			
ONE Gas	OGS	\$ 67.83	3,543.5	1.8x	39.0	\$2.64	<u>\$2.97</u>	<u>\$3.10</u>	25.7x	22.8x	21.9x	23.1x	-	11.6x	2.5%	56	186,259			
South Jersey Industries	SJI	\$ 34.80	2,765.8	2.3x	39.0	\$1.39	<u>\$1.20</u>	<u>\$1.48</u>	25.0x	29.0x	23.5x	19.6x	-7%	14.0x	3.1%	83	361,323			
Southwest Gas	SWX	\$ 78.06	3,711.5	2.2x	49.0	\$3.25	<u>\$3.41</u>	<u>\$3.62</u>	24.0x	22.9x	21.6x	18.6x	1%	9.3x	2.5%	62	254,722			
UGI Corp.	UGI	\$ 48.34	8,359.5	2.7x	57.0	\$2.06	<u>\$2.34</u>	<u>\$2.48</u>	23.5x	20.7x	19.5x	18.2x	3%	9.8x	2.1%	40	744,917			
WGL	WGL	\$ 82.52	4,226.6	2.8x	49.0	\$3.28	<u>\$3.26</u>	<u>\$3.65</u>	25.2x	25.3x	22.6x	18.7x	15%	13.5x	2.5%	58	205,171			
Averages:					2.4x	43.0						26.4x	24.1x	22.5x	19.9x	-5.4%	11.9x	2.6%	64.3	

## Water Utilities

### PRICE PERFORMANCE

Our covered water utilities advanced an average of 5.17% during April; the S&P 500 rallied just 0.91% last month (**Exhibit 6**). Artesian Resources (ARTNA) gained just under 18% to pace the industry to the upside to begin Q2, while California Water Service Group (CWT) was our weakest name, slipping fractionally in April.

Early 2017 returns for the water group remain mixed, which does not surprise us given average valuation after the group rallied ~30% last year. Despite a wide dispersion of returns, our water stocks, on average, were about in line with the S&P 500 on a YTD basis through April 28 (**Exhibit 7**). Likely most encouraging for investors, large-cap AWK and WTR are each up about 10% this year.

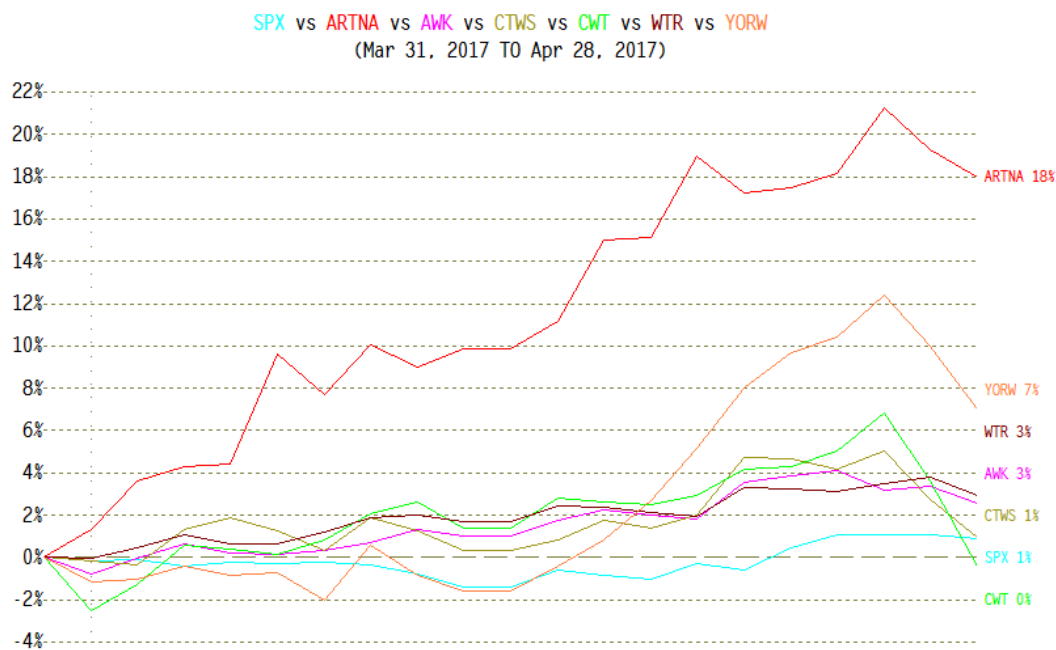
Trailing 52-week performance reflects a volatile couple of cycles for most of our names (**Exhibit 8**), with a summer swoon mostly reversing post-election, particularly for our small-caps. Our water stocks advanced an average of ~21% over the past twelve months, about 600bps ahead of the S&P 500.

Past performance is no guarantee of future results.

We published reports on each of our water utility stocks within the past several weeks, commenting primarily on calendar-Q1 earnings season. Our most noteworthy move may be a downgrade of ARTNA back to Neutral, on several tweaks to our near-term outlook. We currently rate AWK as Long-term Buy, while ARTNA, CTWS and CWT are rated at Neutral; YORW and WTR carry Underperform ratings.

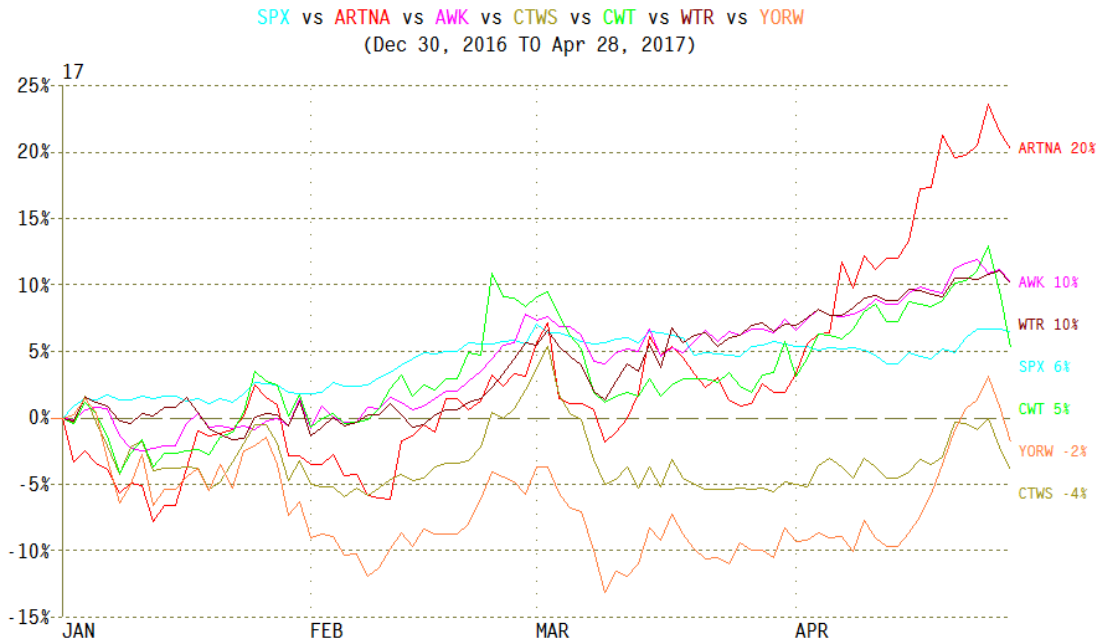
#### Exhibit 6

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



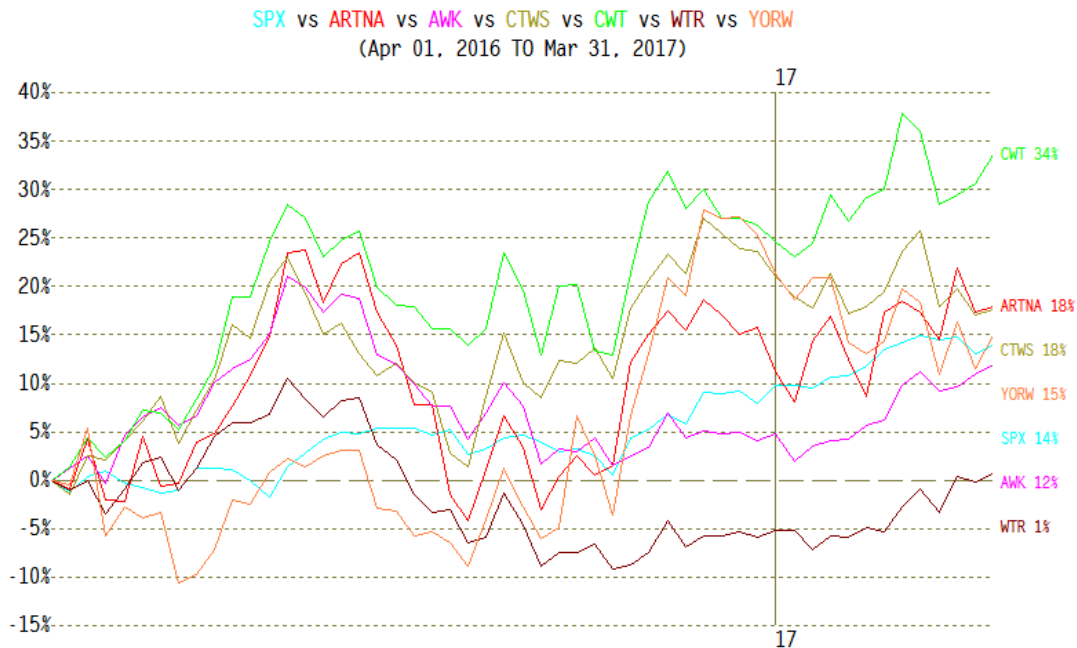
**Source: Baseline** SPX-S&P 500 Index; ARTNA-Artesian Resources; AWK-American Water Works; CTWS-CT Water Svc; CWT-California Water Svc Group; WTR-Aqua America; YORW-The York Water Company \*\*Note: It is not possible to invest directly in an index\*\*

**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 posted their best month of the year thus far in April, which was strong enough to be the industry's 4<sup>th</sup> best month out of the past 30. Our 6-company coverage group advanced an average of 5.17% last month versus a 0.91% rise for the S&P 500, with a relatively wide range of performance skewed a bit to the upside by Artesian Resources (Neutral-rated since May 4). Thus far in May, water has given back much of April's gains in the aftermath of a weak earnings season, skewed lower by York Water Company.

Earnings season for our water utility coverage spanned a 12-day stretch across (mostly) early-May, concluding with Connecticut Water Service just over a week ago; each water company we cover was reporting Q1'17 results. Through the cycle of reports, our beat/meet/miss tally for consensus EPS expectations versus consensus came in at 1/1/4. This was disappointing for us given benign temperatures for much of the US in January and February; however, we do take some solace in the idea that Q1s are seasonally less important from a full year profits standpoint. The lone 'meet' quarter was delivered by bellwether-AWK, although we were pleased with their report that detailed EPS growth of 13.4%.

Qualitatively, we are comfortable with most of our conversation points we suggested ahead of first quarter results. CWT missed profit expectations, but directionally on a yr/yr basis, trends improved (as expected) with new base rates in California. CTWS noted that its recent acquisition of Heritage Village is already being accretive, which is mostly a surprise from the standpoint of gaining better color than we might have expected at this early point in the integration process.

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 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 May, keeping intact a stance we have held for the entirety of this year in what has been a volatile (but lucrative) positioning. 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 25.8x 2017 EPS expectations, which is down a full turn from April, but still three turns above the forward multiple at this point last year. Despite our persistent skepticism of water stocks over the past several quarters, we do note for investors we believe the long-term outlook for, and current health of, our coverage group is very 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. AWK shares have pulled back by 5% to 6% since making highs for the year in late-April, presenting what we view as a quite compelling entry point. We are a bit perplexed at weakness post-earnings, but still believe a slice of under-positioned active managers are likely to support the stock near current levels. Though somewhat of a timing coincidence, we also note that the company's annual dividend raise this month (+10.7%) occurred in close proximity to the aforementioned pullback, netting an indicated yield of ~2.2%. Our 2 to 3-year \$105 price target suggests total return of ~44%.

**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.\*

**Connecticut Water Service, Inc. (CTWS - \$54.18, Neutral)** 5/11/17—CTWS announced a 5.3% hike to its quarterly dividend. The \$0.06 raise (annualized) matches the company's biggest hike in its history, and moves the indicated annualized dividend to \$1.19/share. The first increased \$0.2975/share payment to investors is scheduled to be made on June 15.

**American Water Works (AWK - \$75.85, LTB, \$105.00 TP)** 5/3/17—American Water reiterated FY 2017 EPS guidance in the range of \$2.98 to \$3.08; the company earned an adjusted \$2.85 in 2016.

**Aqua America, Inc. (WTR - \$31.62, Underperform, \$27 TP)** 5/3/17—Aqua reiterated FY 2017 EPS guidance in the range of \$1.34 to \$1.39; the company earned \$1.32 in 2016.

**American Water Works (AWK - \$75.85, LTB, \$105.00 TP)** 4/28/17—Pennsylvania American Water filed its first general rate case since acquiring the sewer system of Scranton and Dunmore in December of last year. The combined water/sewer filing requests a net revenue increase of \$107.9MM, seeking a return of and on >\$1.25B of deployed capital since the company's last general filing in 2013. New rates should be in effect by early-2018.

**American Water Works (AWK - \$75.85, LTB, \$105.00 TP)** 4/27/17—California American Water has agreed to acquire the water assets of Fruitridge Vista Water Company. If approved by the California Public Utilities Commission, AWK will add ~4,800 customers to its Sacramento district at a purchase price of ~\$20.75MM. This is the same region as the Meadowbrook purchase; Fruitridge is a family-owned system.

**Connecticut Water Service, Inc. (CTWS - \$54.18, Neutral)** 4/12/17—CTWS gained approval from regulators in Connecticut for its \$36MM planned purchase of AVON water. The deal is suggested to close by the third quarter.

**American Water Works (AWK - \$75.85, LTB, \$105.00 TP)** 4/21/17—AWK hiked its dividend by 10.7%, moving the quarterly payment from \$0.375/share to \$0.415/share; the increased amount is payable June 1 to holders of record at May 5.

**American Water Works (AWK - \$75.85, LTB, \$105.00 TP)** 4/12/17—New Jersey American Water broke ground on a \$65MM flood protection project at its Raritan-Millstone treatment plant in central Jersey. The to-be-fortified facility provides potable water for about one million people, and is American's largest treatment plant in the Garden State. The entire project is slated to be completed by December 2018.

**American Water Works (AWK - \$75.85, LTB, \$105.00 TP)** 4/11-12/17—Hilliard Lyons hosted institutional meetings in Minneapolis and Chicago with AWK, including SVP and President of Mid-West Operations Bill Varley.

**American Water Works (AWK - \$75.85, LTB, \$105.00 TP)** 4/1/17—AWK completed its purchase of Shorelands Water Company, an 11,000 customer privately-owned system in NJ. The transaction was first announced in August of last year, and was indicated to close in the first half of this year.

**American Water Works (AWK - \$75.85, LTB, \$105.00 TP)** 4/1/17—California American acquired the Meadowbrook Water Company, a 1700 customer family-owned system, for ~\$4MM.

**PRECIPITATION DATA**

*Note:* Due to issues with our data service provider, updated precipitation data charts for April are not yet available. An updated recap will return with our June *Utilities Monthly*.

In the interim, we leave charts from the full Q1 for investors to review, in order to give context to the recently completed calendar-Q1 earnings season. Snowfall totals and temperature-driven delta to maintenance expenses lower the predictive value of precipitation charts in the first quarter (**Exhibit 9**), as perhaps evidenced by fairly benign conditions in our most important states taken alongside our view towards a disappointing first quarter earnings season.

Continuing a trend that has held for most of this spring, drought conditions are stable-to-improved over the past several weeks for most of the country, outside of pockets in Georgia and Florida (**Exhibit 10**). Though mostly unchanged recently, we believe improved and more stable conditions in California remain a noteworthy theme. The drought outlook remains non-worrisome, on average and in our view, though the stretch of AL-GA-SC is indicated to remain under pressure.

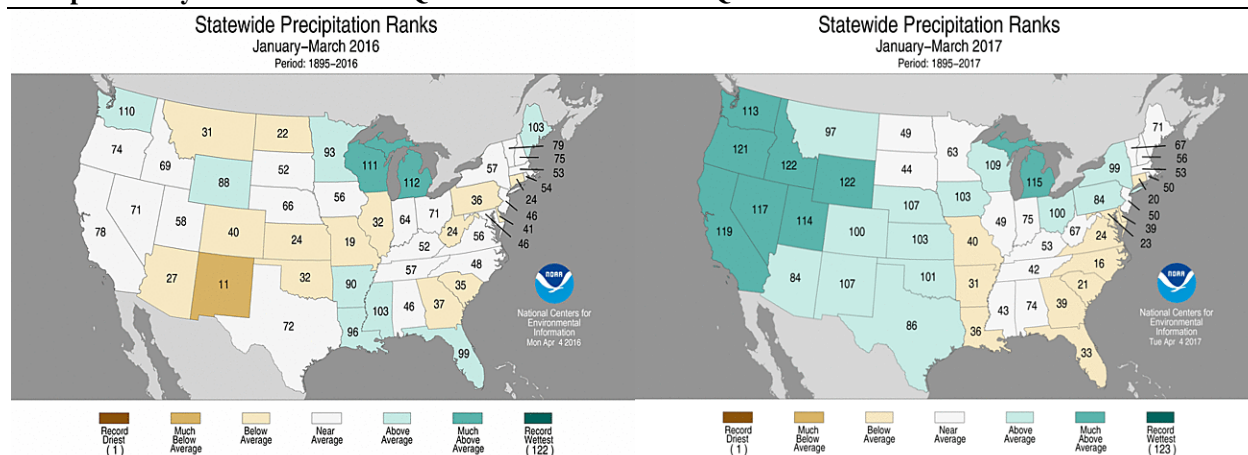
Revenue decoupling insulates CTWS and CWT (and the CA-subsiary of AWK) from weather impact, and we mostly view rainfall as less of a concern than in years past with investors acclimating to ‘extremes’ becoming the norm. Having said that, all of our water utilities are still somewhat sensitive to volatile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

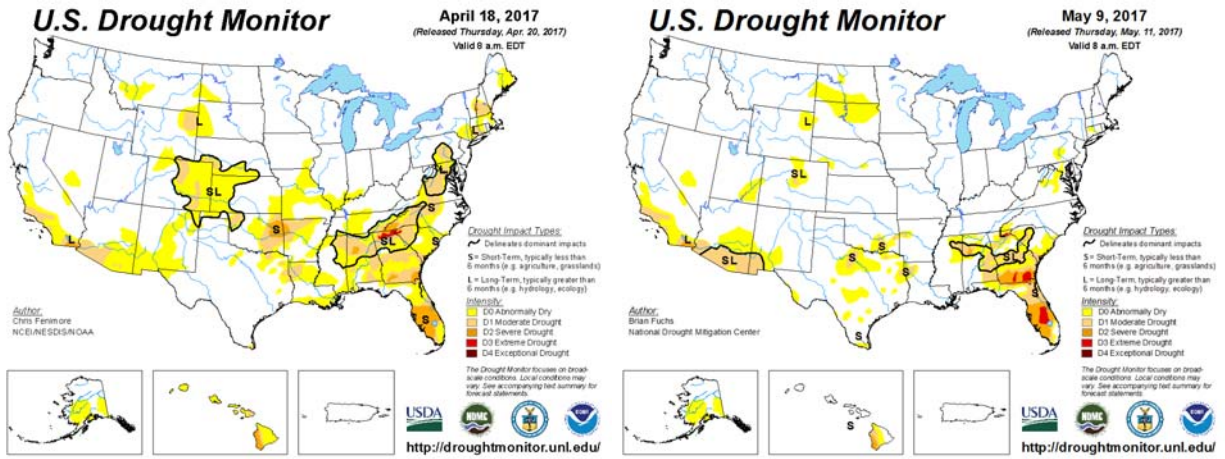
**Exhibit 9**

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



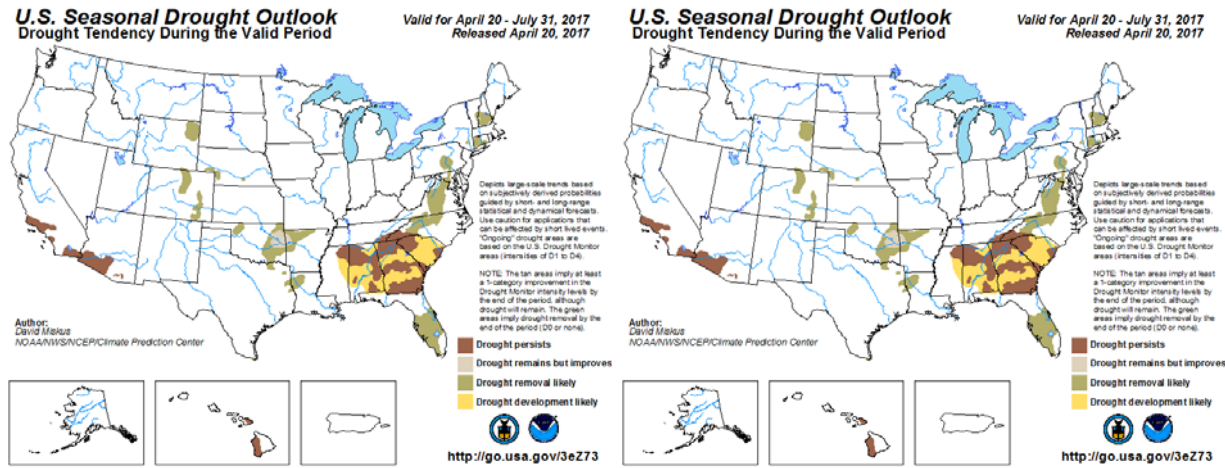
Source: National Climatic Data Center

**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										
AWK	PA	McKees (Pitbgh)	McKeesport										
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										
AWK/WTR	PA	Philadelphia	Philly Frank Inst										
AWK/WTR	PA	Williamsport	Williamsport 2										
AWK/WTR	IL	Kankakee	Kkee--WW										
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										
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO										
WTR	TX	Houston	NWSO										
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										
CTWS	CT	Hampton	Hampton										
ARTNA	DE	Newark	Wilmington Port										
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N										
YORW	PA	York	York Haven										

				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	17	4.56	15	71.06/50.9	2	4	2	0.69	0.50	1.19
AWK	PA	McKees (Pitgh)	McKeesport	17	3.23	15	71.06/49.05	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 '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	71.06/50.9	2	4	2	0.69	0.50	1.19
AWK	PA	McKees (Pitgh)	McKeesport	17	3.23	15	71.06/49.05	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	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 '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	16	9.97	12	n/a	2	3	1	0.03	3.76	3.79
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 16-May-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.
									FY'16	FY'17E	FY'18E	FY'16	FY'17E	FY'18E	P/E	Growth				
American Water Works	AWK	\$ 75.85	\$ 105	LT Buy	3,302.0	13,517.6	2.5x	52.0	\$2.85	<u>\$3.03</u>	<u>\$3.31</u>	26.6x	25.0x	22.9x	21.5x	7%	12.2x	2.2%	53	958,847
Aqua America	WTR	\$ 31.62	\$ 27	Underprf	819.9	5,610.8	3.0x	48.0	\$1.32	<u>\$1.34</u>	<u>\$1.39</u>	24.0x	23.6x	22.8x	23.0x	3%	16.1x	2.4%	59	713,045
Artesian Resources	ARTNA	\$ 37.56	--	Neutral	79.1	290.7	2.5x	42.0	\$1.41	<u>\$1.49</u>	<u>\$1.59</u>	26.6x	25.2x	23.6x	21.7x	15%	11.2x	2.5%	63	28,862
California Water Svc Grp	CWT	\$ 34.35	--	Neutral	609.4	1,647.9	2.5x	45.0	\$0.97	<u>\$1.37</u>	<u>\$1.49</u>	35.5x	25.0x	23.0x	24.7x	-5%	11.8x	2.1%	67	158,594
CT Water Service Inc.	CTWS	\$ 54.18	--	Neutral	100.2	614.0	2.6x	45.0	\$2.08	<u>\$2.17</u>	<u>\$2.22</u>	26.0x	25.0x	24.4x	20.6x	6%	17.7x	2.2%	53	27,085
York Water Company	YORW	\$ 33.65	\$ 27	Underprf	47.6	432.2	3.8x	43.0	\$0.92	<u>\$0.96</u>	<u>\$0.99</u>	36.5x	35.1x	34.0x	27.8x	9%	17.8x	1.9%	68	29,500
Averages:							2.8x	45.8				29.2x	26.5x	25.1x	23.2x	5.8%	14.5x	2.2%	61	

Source: Company reports, Baseline, and Hilliard Lyons estimates

## WATER UTILITY INDUSTRY COMPARABLES

		Actual // Estimate																		
Company	Ticker	Price 16-May-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 (%)	30-day Avg. Vol.		
							FY'16	FY'17E	FY'18E	FY'16	FY'17E	FY'18E	P/E						Growth	Avg EPS
American States	AWR	\$ 44.76	441.4	1,637.6	3.3x	39.0	\$1.62	<u>\$1.69</u>	<u>\$1.80</u>	27.6x	26.5x	24.9x	21.8x	2%	\$4.33	12.9x	2.2%	57	128,539	
American Water Works	AWK	\$ 75.85	3,315.0	13,517.6	2.5x	52.0	\$2.85	<u>\$3.03</u>	<u>\$3.29</u>	26.6x	25.0x	23.1x	21.5x	7%	\$9.51	12.2x	2.2%	53	958,847	
Aqua America	WTR	\$ 31.62	815.1	5,610.8	3.0x	48.0	\$1.31	<u>\$1.36</u>	<u>\$1.44</u>	24.1x	23.3x	22.0x	23.0x	3%	\$2.62	16.1x	2.4%	59	713,045	
Artesian Resources	ARTNA	\$ 37.56	79.8	290.7	2.5x	42.0	\$1.42	<u>\$1.49</u>	<u>\$1.59</u>	26.5x	25.2x	23.6x	21.7x	15%	\$4.43	11.2x	2.5%	63	28,862	
California Water Svc Grp	CWT	\$ 34.35	609.7	1,647.9	2.5x	45.0	\$1.01	<u>\$1.30</u>	<u>\$1.39</u>	34.0x	26.4x	24.7x	24.7x	-5%	\$4.04	11.8x	2.1%	67	158,594	
Connecticut Water Service	CTWS	\$ 54.18	99.6	614.0	2.6x	45.0	\$2.08	<u>\$2.19</u>	<u>\$2.29</u>	26.0x	24.7x	23.7x	20.6x	6%	\$4.24	17.7x	2.2%	53	27,085	
Consolidated Water	CWCO	\$ 11.75	59.5	175.0	1.1x	-	\$0.73	<u>\$0.67</u>	<u>\$0.72</u>	16.1x	17.5x	16.3x	22.4x	17%	\$1.21	7.5x	2.6%	37	55,645	
Middlesex Water	MSEX	\$ 34.49	132.5	562.3	2.6x	38.0	\$1.38	<u>\$1.50</u>	<u>\$1.63</u>	25.0x	23.0x	21.2x	22.5x	12%	\$3.22	13.6x	2.4%	61	38,154	
SIW Corp	SJW	\$ 49.14	347.6	1,007.3	2.4x	51.0	\$2.47	<u>\$2.14</u>	<u>\$2.29</u>	19.9x	23.0x	21.5x	20.5x	7%	\$7.39	9.6x	1.8%	34	64,528	
York Water	YORW	\$ 33.65	47.6	432.2	3.8x	43.0	\$0.92	<u>\$0.96</u>	<u>\$0.99</u>	36.6x	35.1x	34.0x	27.8x	9%	\$2.25	17.8x	1.9%	68	29,500	
Averages:						2.8x	44.8				27.4x	25.8x	24.3x	22.7x	6.2%	13.7x	2.2%	57.2		

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)

*South Jersey Industries* (SJI - \$34.80, 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 - \$54.18, Neutral) 5/9/17: Q1'17 Results for CTWS; Reiterating Neutral Rating.

*Northwest Natural Gas Company* (NWN - \$59.05, Underperform, \$50 TP) 5/8/17: Q1'17 Results from NWN; Reiterating Underperform Rating and \$50 Price Target.

*New Jersey Resources Corp.* (NJR - \$40.20, Neutral) 5/5/17: Strong Q2'17 Results for NJR.

*WGL Holdings, Inc.* (WGL - \$82.52, Underperform) 5/5/17: Q2'17 Results from WGL; Reiterating Underperform.

*American Water Works* (AWK - \$75.85, Long-term Buy, \$105) 5/4/17: Q1'17 Results from AWK. Reiterating LTB Rating.

*Aqua America, Inc.* (WTR - \$31.62, Underperform, \$27 TP) 5/4/17: Down Q1 at WTR; Reiterating Underperform Rating.

*Atmos Energy Corp.* (ATO - \$80.33, Neutral) 5/4/17: Strong Fiscal Q2'17 Results from ATO; Reiterating Neutral Rating. Awaiting an Entry Point.

*Artesian Resources Corp.* (ARTNA - \$37.56, Neutral) 5/4/17: Q1'17 Results, Downgrading to Neutral.

*Chesapeake Utilities Corp.* (CPK - \$71.55, Long-term Buy, \$81 TP) 5/4/17: Miss to Q1'17 at CPK, but Margin Gains Robust.

*Spire Inc.* (SR - \$68.90, 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 - \$67.83, Neutral) 5/2/17: Strong Q1'17 Results from OGS, Boosted a bit By Taxes; Reiterating Neutral Rating.

*York Water Company* (YORW - \$33.65, Underperform, \$27 TP) 5/2/17: Q1'17 Results for YORW; Reiterating Underperform.

*California Water Service Group* (CWT - \$34.35, Neutral) 4/27/17: Positive Start to 2017 in Q1; Reiterating Neutral Rating.

*American Water Works* (AWK - \$75.85, Long-term Buy, \$105) 4/26/17: Raising Price Target to \$105 on Rollout of 2019 Estimates and Revised Valuation Methodology.

*American Water Works* (AWK - \$75.85, Long-term Buy, \$105) 4/13/17: Key Takeaways from April Non-Deal Roadshow.

*Additional information is available upon request.*

*Prices and all price sensitive data as of Tuesday, May 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 May 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
<b>Rating</b>				
<b>Buy</b>	32	26%	13%	88%
<b>Hold/Neutral</b>	79	64%	8%	92%
<b>Sell</b>	12	10%	0%	100%

*As of 8 May 2017*

### Other Disclosures

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