

**COMPANY UPDATE / TARGET CHANGE
ESTIMATE CHANGE**
Key Metrics

ARTNA - NASDAQ - as of 4/21/17	\$38.18
Price Target	\$41.00
52-Week Range	\$26.02 - \$38.74
Shares Outstanding (mm)	9.2
Market Cap. (\$mm)	\$349.5
1-Mo. Average Daily Volume	21,925
Institutional Ownership	43.5%
LT Debt/Total Capital	Q4'16 42.4%
ROE	TTM 9.6%
Book Value / Share	Q4'16 \$15.13
Price / Book Value	2.5x
Dividend Yield	2.4%
EBITDA Margin	FY'16 45.9%

EPS FY 12/31

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$0.31	\$0.32	\$0.35	--
2Q	\$0.33	\$0.38	\$0.41	--
3Q	\$0.48	\$0.44	\$0.45	--
4Q	\$0.30	\$0.35	\$0.35	--
Year	\$1.41	\$1.49	\$1.55	\$1.65
P/E	27.1x	24.6x		22.5x

Revenue (\$mm)

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$18.4	\$18.9	\$19.3	--
2Q	\$19.4	\$20.4	\$20.8	--
3Q	\$21.8	\$21.9	\$22.0	--
4Q	\$19.4	\$20.2	\$20.3	--
Year	\$79.1	\$81.4	\$82.3	\$85.3
				\$86.2

Company Description: *Artesian Resources Corp., through its wholly owned subsidiary, Artesian Water Company, provides water service to approximately 85,000 metered customers, and has a customer base of ~275,000 residents in DE, MD, and PA. It sells water to residential, commercial, industrial, governmental, municipal, and utility customers, and also provides wastewater treatment services.*

Water Utilities

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April 24, 2017

Artesian Resources Corp.

ARTNA — NASDAQ — Long-term Buy-3

Revising Estimates Higher on Review of 10-K; Raising Price Target to \$41 and Reiterating Long-term Buy.

Investment Highlights

- We are raising our 2017E EPS by ~4% to \$1.55; our 2018E EPS rises ~3% to \$1.70. At this time, Hilliard Lyons' is the only published estimate.
- As a reminder, Artesian reported FY 2016 EPS of \$1.41 in mid-March. This marked yr/yr growth of 12.5%, a third consecutive year of double digit gains.
- A higher revenue outlook based on in-place DSIC charges mostly falls to the bottom line for us in making our adjustments at this juncture. We acknowledge some timing risk in our model over the next couple of years tied to any (potential) general rate case.
- Customer growth came in at 1.6% in 2016, the quickest rate since 2011 and a tick above what we suggested at the time of Q4'16's release. We believe accelerating customer counts bode well for continued growth over our investment horizon.
- Optimism regarding M&A could explain some of the recent strength in the ARTNA share price, although if present, we view this as somewhat justified. In any case, we do not see much reason any potential optimism should fade over the near-term.
- We are raising our 2-year price target by \$4 to \$41, at which ARTNA would fetch ~24x our 2018 EPS estimate. At \$41, Artesian would trade 8%-9% above its own 5-yr average trailing P/E multiple, but still 8%-9% below the current water industry average.
- This represents a slight escalation versus our prior valuing of the shares in line with ARNTA's own average trailing multiple; however, while ARTNA shares seem to be re-rating higher, we make a judgement call that the theme can continue.
- We expect ARTNA to report Q1'17 results on or about Tuesday, May 2. We will further refine our outlook and again update investors at that time.

**Note Important Disclosures on Pages 5-6
Note Analyst Certifications on Page 5**

SUITABILITY

We assign ARTNA a suitability rating of '3.' A complete description of our suitability scale is on page 5. Artesian's small-cap status, relatively low trading volume and a lack of regional diversification versus most Utility sector peers keep ARTNA below our '2' suitability rating. Industry-appropriate leverage, tenured monopoly franchises and a seemingly amicable regulatory environment keep ARTNA well above our most aggressive '4' rating.

CONSIDERATIONS AND RISKS

We view all companies in the Water Utilities industry as being subject to significant regulatory and political risk. Utility operations are heavily regulated; negative rate-making climates and/or new environmental restrictions may affect the company's ability to earn a sufficient return on invested capital. Weather, natural disaster, and availability of water supplies could negatively impact sources of water, demand for water services, and a utility's ability to supply water to customers. Risks associated with the collection, treatment, and disposal of wastewater could also impose significant costs.

Significant capital expenditures are required to maintain infrastructure and expand rate base. Should the company suffer from a lack of ability to secure appropriate funding to make investments, or if delays are incurred in completing projects, operating results could be negatively affected. Contamination of water could result in service interruptions or cause enforcement actions. Water assets can be subject to condemnation through eminent domain.

Artesian operates with limited geographical diversity. As such, the company's operating results may be more sensitive to negative events that directly affect its regions of operations. Additionally, the company is subject to all other risks that result from operating as a publicly traded company.

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Artesian Resources Corp.

Income Statements (000's)	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Operating Revenues													
Water Sales	\$64,667	\$68,932	\$16,436	\$17,323	\$19,680	\$17,147	\$70,587	\$17,200	\$18,650	\$19,770	\$17,970	\$73,590	\$77,240
Other Utility Op Rev	3,648	3,694	865	912	976	1,064	3,816	900	950	1,020	1,110	3,980	4,200
Non-Utility Op Rev	4,150	4,398	1,148	1,160	1,172	1,206	4,686	1,160	1,170	1,180	1,220	4,730	4,780
Total Op Revenue	72,465	77,024	18,449	19,395	21,828	19,417	79,089	19,260	20,770	21,970	20,300	82,300	86,220
Operating Expenses													
Utility Op Expense	34,893	36,148	8,546	8,766	9,292	9,055	35,658	8,760	8,990	9,520	9,280	36,550	37,650
Non-Utility Op Expense	2,193	2,305	635	590	698	678	2,602	640	640	650	670	2,600	2,630
D & A	8,673	8,837	2,315	2,249	2,270	2,353	9,188	2,430	2,360	2,380	2,460	9,630	10,040
Taxes													
State and Federal Income	6,375	7,784	1,952	2,023	2,498	1,859	8,331	2,050	2,400	2,700	2,050	9,200	10,350
Property & Other	4,285	4,368	1,148	1,098	1,125	1,120	4,491	1,170	1,120	1,150	1,140	4,580	4,660
Total Op Expenses	56,419	59,442	14,596	14,726	15,883	15,065	60,270	15,050	15,510	16,400	15,600	62,560	65,330
Operating Income	16,046	17,582	3,853	4,669	5,945	4,352	18,819	4,210	5,260	5,570	4,700	19,740	20,890
%	22.1%	22.8%	20.9%	24.1%	27.2%	22.4%	23.8%	21.9%	25.3%	25.4%	23.2%	24.0%	24.2%
Other Income / (Expense)	853	721	680	18	61	19	779	680	49	61	19	809	809
Income Before Interest	16,899	18,303	4,533	4,687	6,006	4,371	19,598	4,890	5,309	5,631	4,719	20,549	21,699
Interest	7,393	6,998	1,703	1,646	1,646	\$1,648	6,644	1,700	1,500	1,500	1,510	6,210	5,820
Net Income	\$9,506	\$11,305	\$2,830	\$3,041	\$4,360	\$2,723	\$12,954	\$3,190	\$3,809	\$4,131	\$3,209	\$14,339	\$15,879
EPS (FD)	\$1.06	\$1.26	\$0.31	\$0.33	\$0.48	\$0.30	\$1.41	\$0.35	\$0.41	\$0.45	\$0.35	\$1.55	\$1.70
Diluted Avg Shares	8,926	9,005	9,130	9,155	9,177	9,187	9,098	9,215	9,242	9,270	9,298	9,256	9,367
Cash div. per share of com. stk.	\$0.8477	\$0.8733	\$0.2216	\$0.2249	\$0.2249	\$0.2283	\$0.8997	\$0.2283	\$0.232	\$0.232	\$0.235	\$0.927	\$0.955
Rate of Change Analysis:	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Revenues	4.9%	6.3%	2.7%	-0.7%	5.1%	3.6%	2.7%	4.4%	7.1%	0.7%	4.5%	4.1%	4.8%
Utility Op Ex	1.1%	3.6%	-1.3%	3.1%	2.8%	-9.0%	-1.4%	2.5%	2.6%	2.5%	2.5%	2.5%	3.0%
Operating Income	10.8%	9.6%	4.9%	-6.3%	10.2%	23.3%	7.0%	9.3%	12.7%	-6.3%	8.0%	4.9%	5.8%
EPS	13.4%	18.0%	9.4%	-7.9%	15.6%	46.9%	12.5%	11.7%	24.1%	-6.2%	16.4%	9.6%	9.4%
EBITDA	9.8%	10.0%	6.2%	-4.6%	6.2%	20.6%	6.2%	7.0%	12.1%	-0.6%	7.5%	6.1%	7.0%
Margin Analysis:													
Utility: Op Exp / Rev	51.1%	49.8%	49.4%	48.1%	45.0%	49.7%	47.9%	48.4%	45.9%	45.8%	48.6%	47.1%	46.2%
Non Utility: Op Exp / Rev	52.8%	52.4%	55.3%	50.9%	59.6%	56.2%	55.5%	55.2%	54.7%	55.1%	54.9%	55.0%	55.0%
Net Income Margin	13.1%	14.7%	15.3%	15.7%	20.0%	14.0%	16.4%	16.6%	18.3%	18.8%	15.8%	17.4%	18.4%
Tax Rate	40.1%	40.8%	40.8%	39.9%	36.4%	40.6%	39.1%	39.1%	38.7%	39.5%	39.0%	39.1%	39.5%
				1.5% div raise		1.5% div raise							

Source: Company reports and Hilliard Lyons estimates

Artesian Resources Corp.

Summary Balance Sheet	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	\$243	\$209	\$511	\$223	\$244	\$226	\$226	\$500	\$3,810	\$4,830	\$2,140	\$2,140	\$1,250
A/R	5,065	6,350	5,809	7,885	7,849	7,796	7,796	6,060	8,440	7,900	8,150	8,150	8,420
Other CAs	11,340	7,885	5,770	5,879	7,786	6,613	6,613	5,890	6,000	7,940	6,750	6,750	6,890
Total Current Assets	16,648	14,444	12,090	13,987	15,879	14,635	14,635	12,450	18,250	20,670	17,040	17,040	16,560
Net PP&E	393,793	405,606	407,173	413,642	419,952	425,502	425,502	427,570	433,210	438,830	443,870	443,870	463,240
Other	11,772	11,576	11,543	11,329	11,108	10,839	10,839	11,770	11,560	11,330	11,060	11,060	11,280
Total Assets	422,213	431,626	\$430,806	\$438,958	\$446,939	\$450,976	450,976	\$451,790	\$463,020	\$470,830	\$471,970	471,970	491,080
LOC	18,491	10,487	6,466	4,818	4,008	7,130	7,130	28,810	34,810	34,810	37,810	37,810	17,810
A/P	3,783	4,914	3,052	3,633	4,402	5,532	5,532	3,190	3,890	4,430	5,780	5,780	5,970
Accrued Exp	1,513	1,254	1,501	2,205	2,570	1,309	1,309	1,280	2,000	2,370	1,090	1,090	860
Other CLs	6,405	6,563	6,419	6,796	9,913	5,357	5,357	6,550	6,930	10,110	5,460	5,460	5,570
Total Current Liabilities	30,192	23,218	17,438	17,452	20,893	19,328	19,328	39,830	47,630	51,720	50,140	50,140	30,210
LTD	104,954	103,647	103,259	102,992	102,599	102,331	102,331	83,190	82,910	82,630	82,340	82,340	105,220
Def Income Tax	57,043	62,156	63,518	64,711	66,449	68,453	68,453	64,150	65,360	67,110	69,140	69,140	69,830
Net CIAC	92,429	99,847	102,842	108,118	110,868	112,106	112,106	112,860	113,610	114,360	115,110	115,110	118,110
Other	11,990	10,427	10,212	10,297	10,253	9,735	9,735	10,420	10,500	10,460	9,930	9,930	10,130
Shareholders' Equity	125,605	132,331	133,537	135,388	135,877	139,023	139,023	141,340	143,010	144,550	145,310	145,310	157,580
Total Liab & SE	\$422,213	\$431,626	\$430,806	\$438,958	\$446,939	\$450,976	450,976	\$451,790	\$463,020	\$470,830	\$471,970	471,970	491,080
Summary Cash Flow	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	\$9,506	\$11,305	\$2,830	\$3,041	\$4,360	\$2,723	\$12,954	\$3,190	\$3,810	\$4,130	\$3,210	\$14,340	\$15,880
D&A	8,673	8,837	2,315	2,249	2,270	2,353	9,188	2,430	2,360	2,380	2,460	9,630	10,040
Deferred Tax	7,255	5,097	543	1,188	1,733	1,633	5,097	750	750	750	750	3,000	3,000
(Inc) / Dec in Wrk Cap	(7,103)	3,200	897	(523)	2,380	(3,461)	(707)	1,280	(690)	2,690	(3,640)	(360)	(340)
Operating Cash Flow	18,331	28,439	6,585	5,955	10,743	3,248	26,532	7,650	6,230	9,950	2,780	26,610	28,580
Cap Ex	(23,730)	(20,694)	(4,270)	(7,780)	(7,954)	(8,247)	(28,251)	(4,500)	(8,000)	(8,000)	(7,500)	(28,000)	(29,410)
Dividends	(7,523)	(7,811)	(2,010)	(2,042)	(2,047)	(2,081)	(8,180)	(2,100)	(2,140)	(2,150)	(2,190)	(8,580)	(8,940)
Free Cash Flow	(12,922)	(66)	305	(3,867)	742	(7,080)	(9,899)	1,050	(3,910)	(200)	(6,910)	(9,970)	(9,770)
Net Adv and CIAC	3,808	5,829	3,214	4,495	2,156	42	9,907	1,000	1,000	1,000	1,000	4,000	4,000
LTD Proceeds	689	-	-	-	-	-	-	35,400	-	-	-	35,400	25,000
LTD (Repay)	(1,132)	(1,263)	(379)	(263)	(383)	(264)	(1,289)	(35,680)	(280)	(280)	(280)	(36,520)	(26,120)
Net LOC Borrow / (Repay)	8,159	(8,004)	(4,021)	(1,648)	(4,106)	6,418	(3,357)	(2,000)	6,000	-	3,000	7,000	4,000
Stock Issued	1,651	3,049	386	830	225	385	1,826	500	500	500	500	2,000	2,000
Net Cash Flow	253	(455)	(495)	(453)	(1,366)	(499)	(2,812)	270	3,310	1,020	(2,690)	1,910	(890)
EBITDA	\$ 31,094	\$ 34,203	\$ 8,120	\$ 8,941	\$ 10,713	\$ 8,564	\$ 36,338	\$ 8,690	\$ 10,020	\$ 10,650	\$ 9,210	\$ 38,570	\$ 41,280
EV / TTM EBITDA	9.9x	10.4x	10.3x	12.1x	10.4x	10.9x	10.9x	11.8x	11.4x	11.4x	11.3x	11.3x	11.2x
Selected Financial Statistics	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Book Value	\$ 14.04	\$ 14.55	\$ 14.63	\$ 14.79	\$ 14.81	\$ 15.13	\$ 15.13	\$ 15.34	\$ 15.47	\$ 15.59	\$ 15.63	\$ 15.63	\$ 16.75
Price / Book	1.6x	1.9x	1.9x	2.3x	1.9x	2.1x	2.1x	2.5x	2.5x	2.4x	2.4x	2.4x	2.3x
LTD / Total Cap	45.5%	43.9%	43.6%	43.2%	43.0%	42.4%	42.4%	37.1%	36.7%	36.4%	36.2%	36.2%	40.0%
ROE (TTM)	7.7%	8.8%	9.0%	8.7%	9.1%	9.6%	9.6%	9.7%	10.1%	9.8%	10.1%	10.1%	10.3%

Source: Company reports and Hilliard Lyons estimates

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.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has 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 revenues, volatility, low trading volume or a narrow customer or product base

Investment 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 setback in the next 12 months.



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking
Buy	36	30%	14%
Hold/Neutral	71	58%	6%
Sell	15	12%	7%
			No Banking
			86%
			94%
			93%

As of 5 April 2017

Other Disclosures

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