



COMPANY UPDATE / TARGET CHANGE ESTIMATE CHANGE

Key Metrics

AWK - NYSE - as of	4/25/17	\$80.97
Price Target		\$105.00
52-Week Range	\$69.41 -	\$85.24
Shares Outstanding (mm)		178.2
Market Cap. (\$mm)		\$14,430.1
1-Mo. Average Daily Volume		851,674
Institutional Ownership		85.8%
LT Debt / Total Cap	Q4'16	52.5%
ROE	TTM	9.9%
Book Value / Share	Q4'16	\$29.31
Price / Book Value		2.8x
Dividend Yield		2.1%
EBITDA Margin	FY'16	46.6%

EPS (Cont'd Ops) FY 12/31

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$0.46	\$0.49	\$0.49	--	--
2Q	\$0.77	\$0.79	\$0.80	--	--
3Q	\$1.05	\$1.14	\$1.12	--	--
4Q	\$0.57	\$0.61	\$0.61	--	--
Year	\$2.85	\$3.03	\$3.03	\$3.22	\$3.23
P/E	28.4x		26.7x		25.1x

*Adjusted for Special Items

Revenue (\$MM)

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$743	\$774	\$774	--	--
2Q	\$827	\$863	\$866	--	--
3Q	\$930	\$988	\$982	--	--
4Q	\$802	\$830	\$830	--	--
Year	\$3,302	\$3,455	\$3,453	\$3,589	\$3,592

Company Description: *Founded in 1886, American Water is the largest investor-owned U.S. water and wastewater utility company. With headquarters in Voorhees, NJ, the company employs more than 7,000 professionals who provide drinking water, wastewater and other related services to approximately 15 million people in more than 30 states and parts of Canada.*

Water Utilities

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April 26, 2017

American Water Works Co.

AWK – NYSE – Long-term Buy-1

Raising Price Target to \$105 on Rollout of 2019 Estimates and Revised Valuation Methodology.

Investment Highlights

- We are raising our price target on shares of AWK to \$105, assigning our objective a 2-3 year timeframe. We are reiterating our Long-term Buy rating and our suitability rating of ‘1—most conservative.’
- We are initiating a 2019 EPS estimate of \$3.47, which suggests EPS growth of 7.4% over our revised 2018E EPS of \$3.23. At \$105, AWK shares would trade at ~30x our 2019E EPS.
- AWK shares have attained this valuation at various points across the last couple of years, and we believe they can again over our investment timeframe with qualitative industry parameters as constructive as we can recall (i.e. regulatory constructs, M&A trends).
- Furthermore, we believe risk/reward is supported over our somewhat elongated timeframe with AWK increasingly sensitive to money flows tied to ESG [Environment, Social and corporate Governance] and screen-based investing (i.e. smart beta).
- Simply, we believe AWK is of interest to a wider spectrum of investors versus most of its post-2008 history, which we believe bodes well for supporting valuation. We expect any ‘scarcity premium’ embedded in the water industry to generally persist over our investment horizon.
- We also remind investors of our recent non-deal roadshow takeaway that utility-centric US-based active managers are under positioned in the name, representing a ready pool of new investors.
- From a timing perspective, we like getting ahead of the company’s Q1’17 release, which we expect to be a constructive quarter. Also, we suggest weakness in today’s session as a compelling buying opportunity.

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

SUITABILITY

We assign AWK a suitability rating of '1.' Recently added to the S&P 500 Index, we view American Water as a large-cap core holding in the Utility sector. We believe substantial regional diversification helps mitigate regulatory/environment/disaster risks, while exposing the firm to broad secular growth opportunities in water and wastewater infrastructure. Despite a relatively recent IPO (late-2000s), sector-appropriate leverage, long-tenured individual franchises and a predominantly regulated business mix keep AWK above our more aggressive '2' rating.

CONSIDERATIONS AND RISKS

We view all companies in the Water Utilities industry as being subject to significant regulatory and political risks. 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.

Continued growth in non-traditional water distribution, including the Keystone Clearwater purchase, could bring uncertainties associated with costs, liabilities, operational efficiencies and managerial expertise. Furthermore this could alter the market opinion toward fair valuation multiples and metrics.

Significant Cap Ex is required to maintain infrastructure and expand rate base. Should AWK lack the ability to secure funding, or if delays occur, results could be impacted. Water assets can be subject to condemnation through eminent domain. The company's non-regulated businesses provide guarantees and have long-term contracts. AWK is subject to all other risks that result from being a public company.

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

Additional information is available upon request.

American Water Works Co.

Income Statement (\$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	FY'19E	
Operating Revenues	\$3,011,328	\$3,159,000	\$743,000	\$827,000	\$930,000	\$802,000	\$3,302,000	\$774,350	\$866,210	\$982,130	\$830,030	\$3,452,720	\$3,592,440	\$3,734,650	
Operating Expenses															
O&M	1,349,864	1,404,000	348,000	351,000	432,000	373,000	1,504,000	356,780	360,840	377,930	383,370	1,478,920	1,509,490	1,540,510	
D&A	424,084	440,000	116,000	115,000	119,000	120,000	470,000	124,820	123,740	127,780	128,510	504,850	533,110	558,940	
General Taxes	236,732	243,000	66,000	64,000	65,000	63,000	258,000	71,240	69,300	67,770	64,740	273,050	283,970	295,050	
(Gain) on Asset Sale	(1,928)	(3,000)	(100)	(2,000)	(5,000)	(2,000)	(10,000)	(200)	(1,000)	(200)	(300)	(1,700)	(1,700)	(1,700)	
Impairment Charge															
Operating Income (Loss)	1,002,576	1,075,000	213,100	299,000	319,000	248,000	1,080,000	221,710	313,330	408,850	253,710	1,197,600	1,267,570	1,341,850	
%	33.3%	34.0%	28.7%	36.2%	34.3%	30.9%	32.7%	28.6%	36.2%	41.6%	30.6%	34.7%	35.3%	35.9%	
Interest (Expense)/Income	(297,818)	(308,000)	(80,000)	(81,000)	(81,000)	(83,000)	(325,000)	(83,160)	(83,410)	(83,240)	(84,690)	(334,500)	(340,300)	(342,600)	
Other (Expense)/Income	5,057	15,000	2,000	7,000	5,000	1,000	15,000	4,700	6,400	5,000	5,000	21,100	21,100	21,100	
Inc (loss) Cont'd Ops Before Tax	709,815	782,000	136,000	225,000	243,000	166,000	770,000	143,250	236,320	330,610	174,020	884,200	948,370	1,020,350	
Provision for Income Taxes	279,973	306,000	54,000	88,000	95,000	65,000	302,000	56,441	93,110	130,260	65,258	345,068	370,148	398,204	
%	39.4%	39.1%	39.7%	39.1%	39.1%	39.2%	39.2%	39.4%	39.4%	39.4%	37.5%	39.0%	39.0%	39.0%	
Income (Loss) from Cont'd Ops	429,842	476,000	82,000	137,000	148,000	101,000	468,000	86,810	143,210	200,350	108,763	539,132	578,222	622,146	
Inc (Loss) from Disc Ops, net of tax	(6,733)														
Net Income (Loss)	\$423,109	\$476,000	\$82,000	\$137,000	\$148,000	\$101,000	\$468,000	\$86,810	\$143,210	\$200,350	\$108,763	\$539,132	\$578,222	\$622,146	
Diluted Avg Sh	179,806	180,000	179,000	178,000	178,000	178,000	179,000	178,062	178,624	178,685	178,747	178,581	178,909	179,156	
GAAP EPS	\$ 2.35	\$ 2.64	\$ 0.46	\$ 0.77	\$ 0.83	\$ 0.57	\$ 2.63	\$ 0.49	\$ 0.80	\$ 1.12	\$ 0.61	\$ 3.02	\$ 3.23	\$ 3.47	
Inc (loss) frm disc'd ops, net/tax	\$ (0.04)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
EPS from Cont'd Ops--Adj if Nec	\$ 2.45	\$ 2.64	\$ 0.46	\$ 0.77	\$ 1.05	\$ 0.57	\$ 2.85	\$ 0.49	\$ 0.80	\$ 1.12	\$ 0.61	\$ 3.02	\$ 3.23	\$ 3.47	
Dividend	\$ 1.210	\$ 1.330	\$ 0.340	\$ 0.375	\$ 0.375	\$ 0.375	\$ 1.465	\$ 0.375	\$ 0.415	\$ 0.415	\$ 0.415	\$ 1.620	\$ 1.765	\$ 1.765	
Rate of Change Analysis:															
Revenues	4.6%	4.9%	6.4%	5.7%	3.8%	2.4%	4.5%	4.2%	4.7%	5.6%	3.5%	4.6%	4.0%	4.0%	
Operating Income	5.7%	7.2%	4.3%	7.7%	-11.7%	6.9%	0.5%	4.0%	4.8%	28.2%	2.3%	10.9%	5.8%	5.9%	
EPS--Cont'd Ops--Adj if Nec	10.7%	8.0%	3.2%	12.8%	9.3%	3.2%	7.9%	6.4%	4.2%	6.4%	7.2%	6.0%	7.1%	7.4%	
EBITDA	5.1%	6.1%	5.9%	6.9%	-8.3%	6.4%	1.9%	5.3%	5.8%	23.9%	4.3%	10.4%	5.8%	5.6%	
O&M Expense	4.7%	4.0%	7.5%	4.3%	18.8%	-1.8%	7.1%	2.5%	2.8%	-12.5%	2.8%	-1.7%	2.1%	2.1%	
Margin Analysis:															
O&M	44.8%	44.4%	46.8%	42.4%	46.5%	46.5%	45.5%	46.1%	41.7%	38.5%	46.2%	42.8%	42.0%	41.2%	
D&A	14.1%	13.9%	15.6%	13.9%	12.8%	15.0%	14.2%	16.1%	14.3%	13.0%	15.5%	14.6%	14.8%	15.0%	
General Tax	7.9%	7.7%	8.9%	7.7%	7.0%	7.9%	7.8%	9.2%	8.0%	6.9%	7.8%	7.9%	7.9%	7.9%	
Operating Income	33.3%	34.0%	28.7%	36.2%	34.3%	30.9%	32.7%	28.6%	36.2%	41.6%	30.6%	34.7%	35.3%	35.9%	
Tax rate	39.4%	39.1%	39.7%	39.1%	39.1%	39.2%	39.2%	39.4%	39.4%	39.4%	37.5%	39.0%	39.0%	39.0%	
	*Adj EPS Guidance \$2.38- \$2.44	*EPS Guidance \$2.60-\$2.65			*\$0.22 after- tax charge for WW chemical spill settlement	Scranton, PA, WW closed 12/29		*McKsprt could close in Q1'17	*Shorlands closed April 3; 11k H2O cust; 500k share purch price		*Model 10/1 McKsprt close; 22k WW cust		*Adj EPS Guidance \$2.98-\$3.08		

Source: Company reports and Hilliard Lyons estimates

American Water Works Co.

Summary Balance Sheet (\$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	FY'19E
Cash	\$23,080	\$45,000	\$66,000	\$52,000	\$46,000	\$75,000	\$75,000	\$35,570	\$28,880	\$17,020	\$45,340	\$45,340	\$15,060	\$40,940
A/R	267,053	255,000	220,000	240,000	302,000	269,000	269,000	229,280	251,380	318,930	278,400	278,400	287,180	297,630
Unbilled Utility Rev	220,538	267,000	247,000	286,000	285,000	263,000	263,000	257,420	299,560	300,980	272,190	272,190	280,780	291,000
Other Current Assets	150,698	90,000	105,000	113,000	168,000	177,000	177,000	110,250	118,650	176,400	185,850	185,850	195,140	204,900
Total CAs	661,369	657,000	638,000	691,000	801,000	784,000	784,000	632,520	698,470	813,330	781,780	781,780	778,160	834,470
Net PP&E	13,029,296	13,933,000	14,098,000	14,317,000	14,559,000	14,992,000	14,992,000	15,169,680	15,373,440	15,591,910	15,837,900	15,837,900	16,629,790	17,395,850
Goodwill	1,208,043	1,302,000	1,313,000	1,313,000	1,313,000	1,345,000	1,345,000	1,347,500	1,350,000	1,371,250	1,445,750	1,445,750	1,470,750	1,495,750
Other LT Assets	1,232,248	1,349,000	1,368,000	1,385,000	1,298,000	1,361,000	1,361,000	1,504,800	1,523,500	1,427,800	1,497,100	1,497,100	1,646,810	1,811,490
Total Assets	\$16,130,956	\$17,241,000	\$17,417,000	\$17,706,000	\$17,971,000	\$18,482,000	\$18,482,000	\$18,654,500	\$18,945,410	\$19,204,290	\$19,562,530	\$19,562,530	\$20,525,510	\$21,537,560
ST Debt	449,959	628,000	839,000	950,000	951,000	849,000	849,000	914,000	1,014,000	614,000	864,000	864,000	1,064,000	1,274,000
CP of LTD	61,132	54,000	54,000	54,000	53,000	574,000	574,000	572,000	572,000	572,000	310,000	310,000	310,000	249,000
A/P	285,800	126,000	116,000	146,000	135,000	154,000	154,000	120,890	152,920	142,570	159,380	159,380	164,410	170,390
Other	444,107	725,000	605,000	590,000	789,000	815,000	815,000	635,250	619,500	828,450	855,750	855,750	898,540	943,470
Total CLs	1,240,998	1,533,000	1,614,000	1,740,000	1,928,000	2,392,000	2,392,000	2,242,140	2,358,420	2,157,020	2,189,130	2,189,130	2,436,950	2,636,860
LTD	5,448,245	5,874,000	5,850,000	5,861,000	5,853,000	5,759,000	5,759,000	5,761,000	5,761,000	6,061,000	6,323,000	6,323,000	6,032,000	6,154,000
Deferred Income Tax	2,120,739	2,310,000	2,358,000	2,430,000	2,524,000	2,596,000	2,596,000	2,648,000	2,730,000	2,819,000	2,878,000	2,878,000	3,160,000	3,442,000
Other	2,405,383	2,475,000	2,513,000	2,522,000	2,428,000	2,517,000	2,517,000	2,638,650	2,648,100	2,549,400	2,642,850	2,642,850	2,774,990	2,913,740
Common Shareholders' Equity	4,915,591	5,049,000	5,082,000	5,153,000	5,238,000	5,218,000	5,218,000	5,364,710	5,447,890	5,617,870	5,529,550	5,529,550	6,121,570	6,390,960
Total Liabilities & SE	\$16,130,956	\$17,241,000	\$17,417,000	\$17,706,000	\$17,971,000	\$18,482,000	\$18,482,000	\$18,654,500	\$18,945,410	\$19,204,290	\$19,562,530	\$19,562,530	\$20,525,510	\$21,537,560
Summary Cash Flow (\$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	FY'19E
Net Income	\$423,109	\$476,000	\$82,000	\$137,000	\$148,000	\$101,000	\$468,000	\$86,810	\$143,210	\$200,350	\$108,760	\$539,130	\$578,220	\$622,150
D&A	424,084	440,000	116,000	115,000	119,000	120,000	470,000	124,820	123,740	127,780	128,510	504,850	533,110	558,940
Deferred Tax	255,573	296,000	52,000	82,000	89,000	59,000	282,000	52,000	82,000	89,000	59,000	282,000	282,000	282,000
(Inc) / Dec in Wrk Cap	23,992	(52,618)	(90,000)	(52,000)	72,000	(109,000)	(179,000)	(1,290)	(56,510)	70,160	230	12,590	23,150	0
Operating CF	1,126,758	1,159,382	160,000	282,000	428,000	171,000	1,041,000	262,340	292,440	487,290	296,500	1,338,570	1,416,480	1,463,090
Cap Ex	(956,119)	(1,160,000)	(284,000)	(313,000)	(331,000)	(383,000)	(1,311,000)	(300,000)	(325,000)	(325,000)	(300,000)	(1,250,000)	(1,300,000)	(1,300,000)
Acquisitions	(8,935)	(197,000)	(22,000)	(2,000)	(5,000)	(175,000)	(204,000)	(5,000)	(5,000)	(5,000)	(149,000)	(164,000)	(50,000)	(50,000)
Asset/Securities Sales	13,841	5,000	(1,000)	3,000	3,000	4,000	9,000	-	-	-	-	-	-	-
Dividends	(216,354)	(239,000)	(61,000)	(66,000)	(67,000)	(67,000)	(261,000)	(66,770)	(74,130)	(74,150)	(74,180)	(289,230)	(315,770)	(316,200)
Free Cash Flow	(40,809)	(431,618)	(208,000)	(96,000)	28,000	(450,000)	(726,000)	(109,430)	(111,690)	83,140	(226,680)	(364,660)	(249,290)	(203,110)
Adv & Contribs for Construct	26,295	26,000	7,000	11,000	(2,000)	-	16,000	-	-	-	-	-	-	-
LTD Proceeds	500,497	565,000	-	2,000	-	551,000	553,000	-	-	800,000	-	800,000	290,000	290,000
LTD (Repaid)	(238,371)	(130,000)	(11,000)	(2,000)	(7,000)	(124,000)	(144,000)	-	-	(500,000)	-	(500,000)	(291,000)	(291,000)
ST Debt Drawn (Repaid)	(180,348)	180,000	211,000	110,000	1,000	(101,000)	221,000	65,000	100,000	(400,000)	250,000	15,000	200,000	210,000
Anti-Dilutive Repurch	-	(126,000)	(62,000)	(3,000)	-	-	(65,000)	-	-	-	-	-	-	-
Stock Issued	20,913	39,000	10,000	8,000	4,000	4,000	26,000	5,000	5,000	5,000	5,000	20,000	20,000	20,000
Net Cash Flow	88,177	122,382	(53,000)	30,000	24,000	(120,000)	(119,000)	(39,430)	(6,690)	(11,860)	28,320	(29,660)	(30,290)	25,890
EBITDA	1,424,732	1,512,000	329,000	412,000	433,000	366,000	1,540,000	346,330	436,070	536,430	381,920	1,700,750	1,798,980	1,899,090
EBITDA margin--period	47.3%	47.9%	44.3%	49.8%	46.6%	45.6%	46.6%	44.7%	50.3%	54.6%	46.0%	49.3%	50.1%	50.9%
EV / TTM EBITDA	10.5x	11.0x	11.8x	13.4x	12.6x	12.1x	12.1x	12.9x	12.8x	12.2x	12.2x	12.2x	11.4x	10.9x
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	FY'19E
Book Value	\$ 27.29	\$ 28.05	\$ 28.39	\$ 28.95	\$ 29.43	\$ 29.31	\$ 29.31	\$ 30.13	\$ 30.50	\$ 31.44	\$ 30.94	\$ 30.94	\$ 34.20	\$ 35.66
Tangible BV	\$ 20.58	\$ 20.82	\$ 21.06	\$ 21.57	\$ 22.05	\$ 21.76	\$ 21.76	\$ 22.56	\$ 22.94	\$ 23.77	\$ 22.85	\$ 22.85	\$ 25.98	\$ 27.31
Price / Book	2.0x	2.1x	2.4x	2.9x	2.5x	2.5x	2.5x	2.7x	2.7x	2.6x	2.6x	2.6x	2.4x	2.3x
LT Debt / Total Capital	52.6%	53.8%	53.5%	53.2%	52.8%	52.5%	52.5%	51.8%	51.4%	51.9%	53.3%	53.3%	49.6%	49.1%
Net Total Debt / Total Capital	54.7%	56.3%	56.8%	56.9%	56.5%	57.7%	57.7%	57.3%	57.3%	56.3%	57.4%	57.4%	54.7%	54.4%
ROE (TTM)--Adj for Freedom Spill	8.7%	9.5%	9.4%	9.6%	9.8%	9.9%	9.9%	9.8%	9.8%	9.9%	9.9%	9.9%	10.0%	9.8%

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.



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

As of 5 April 2017

Other Disclosures

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