



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

CTWS - NASDAQ - as of	8/7/17	\$56.30
Price Target		--
52-Week Range	\$45.13 -	\$62.15
Shares Outstanding (mm)		11.3
Market Cap. (\$mm)		\$638.0
1-Mo. Average Daily Volume		30,056
Institutional Ownership		47.5%
LT Debt/Total Capital	Q2'17	44.1%
ROE	TTM	9.3%
Book Value / Share	Q2'17	\$22.48
Price / Book Value		2.5x
Dividend Yield		2.1%
EBITDA Margin	TTM	46.1%

EPS (Cont'd Ops) FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.28	--	\$0.36	A	--
2Q	\$0.89	--	\$0.73	A	--
3Q	\$0.85	\$0.92	\$0.97	--	--
4Q	\$0.07	\$0.16	\$0.17	--	--
Year	\$2.08	\$2.24	\$2.22	\$2.20	\$2.20
P/E	27.1x		25.4x		25.6x

Revenue (\$MM)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$21.6	--	\$22.5	A	--
2Q	\$26.1	--	\$27.9	A	--
3Q	\$29.5	\$33.9	\$34.7	--	--
4Q	\$21.6	\$24.3	\$24.3	--	--
Year	\$98.7	\$110.4	\$109.4	\$115.6	\$114.6

Company Description: *Connecticut Water Service, Inc. is the largest publicly traded water company based in New England. Through its wholly-owned public water utility subsidiaries, The Connecticut Water Company, The Maine Water Company and the Biddeford & Saco Water Company, CTWS provides drinking water to roughly 129,000 customers in 79 communities across CT and ME.*

Water Utilities

Analyst: Spencer E. Joyce, CFA
502.588.8402 // sjoyce@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 // gmooring@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
August 8, 2017

Connecticut Water Service, Inc.

CTWS — NASDAQ — Neutral-3

Q2'17 Results for CTWS; Reiterating Neutral Rating.

Investment Highlights

- CTWS reported Q2'17 EPS of \$0.73 versus \$0.89 in Q2'16, results missed our expectation for \$0.80, which was one of only two published estimates.
- Non-recurrence of an equity reclassification item in Q2'16 made for a tough comparison, while higher than expected business development costs (M&A) drove about -\$0.04 in yr/yr EPS and most of the downside to our expectations in Q2.
- Operating revenues grew 7.1% in Q2, reflecting incremental surcharges in CT (WICA) and ME (WISC), along with a full quarter of the Heritage Village (HVWC) purchase's ~7,700 customers.
- We remind investors that the 4,800 customer AVON acquisition closed effective July 1, meaning impact to financial statements will not be visible until Q3 is reported in early-November.
- On 6/29, Maine Water filed a general rate case covering the Biddeford and Saco division, requesting \$1.6MM in additional revenue; CT Water filed for an incremental 1.56% WICA increase on 7/26.
- CTWS' tax rate (as a % of op income) was -6.4% in Q2'17, down from 5.1% in Q2'16 but reflective of the partial release of a reserve account. Although on an adjusted basis utilization of repair tax accounting treatment was down slightly in the quarter, we believe it remains a strong complementary theme at CTWS.
- EPS from services & rentals were \$0.03 in Q2'17, down from \$0.04 in the year-ago period.
- Our 2017/2018/2019 EPS estimates change modestly by -\$0.02/\$0.00/-0.03, with the most important year, in our view, remaining 2019 where we expect a level of optimization of both HVWC and Avon.
- We reiterate our Neutral rating pending an entry point.

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

SUITABILITY

We assign CTWS a suitability rating of '3.' A complete description of our suitability scale is on page 5. We view the company as operating entrenched regulated utility monopoly franchises in two states, with a slightly above average risk/reward tied to a reliance upon, and growth potential within, the US Northeast. Connecticut Water Service, Inc.'s small-cap status and relatively low trading volume versus most Utility sector peers keep CTWS below our '2' rating; industry-appropriate leverage, a history of capital return and a seemingly amicable regulatory environment keep CTWS well above our most aggressive '4' rating.

CONSIDERATIONS AND RISKS

A portion of CTWS's growth strategy centers on acquisition, both major and tuck-in. Inability to gain regulatory approval for deals or effectively integrate purchases, and potential overpayment for assets could affect the stock price over various time horizons. At current, the company is in the process of integrating two separate large transactions (AVON and Heritage Village), both of which hold some of these noted risks.

Earnings at Chester Realty Co. can be more difficult to predict than earnings at the regulated utility, and results hold the potential to distort the sustainable earnings run-rate for water activities. Oscillations at Chester could cause consolidated results to differ from our expectations and/or appear weak on a yr/yr basis.

Providing a public service, CTWS is subject to various eminent domain laws and statutes. Seizure of assets could result in permanent losses to stakeholders. Increasingly more complicated environmental restrictions could drive unforeseen fines and costs, which could push financial results below expectations.

Regulatory approval is necessary for the Connecticut Water Company and the Maine Water Company to grow earnings and generate an attractive return on investor capital. A deterioration of relationships at the germane CT and ME regulatory commissions could have a pronounced negative effect on the company.

CWTS' core utility is capital intensive; continued access to capital markets will be important for the company to pursue all prudent Cap Ex investments and acquisitions. Broad capital market disruptions could affect the company's ability to grow and execute its growth strategy.

As a small-cap with minimal trading volume, CTWS holds material liquidity risk. Forced entry/exit, and high position turnover are likely to reduce total return due to shallow market depth and wide bid/ask spreads.

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

Additional information is available upon request.

Connecticut Water Service														
Income Statements (000's)														
	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E	FY'19E
Operating Revenues:	\$ 94,020	\$ 96,041	\$ 21,552	\$ 26,055	\$ 29,477	\$ 21,583	\$ 98,667	\$ 22,463	\$ 27,902	\$ 34,730	\$ 24,290	\$ 109,390	\$ 114,620	\$ 120,760
Operating Expenses:														
O&M	44,445	48,052	11,289	8,840	11,495	12,567	44,191	11,236	11,626	13,120	14,340	50,320	51,720	52,230
Depreciation	11,784	12,871	3,398	3,359	3,449	3,699	13,905	3,692	3,984	4,040	4,270	15,990	17,290	18,360
Other Tax	9,031	9,294	2,449	2,238	2,535	2,574	9,796	2,605	2,477	2,640	2,670	10,390	10,800	11,200
Organizational Review Charge	-	-	-	-	-	-	-	-	-	-	-	0	0	0
Total Operating Expenses	65,260	70,217	17,136	14,437	17,479	18,840	67,892	17,533	18,087	19,800	21,280	76,700	79,810	81,790
Utility Operating Income / (Loss)	28,760	25,824	4,416	11,618	11,998	2,743	30,775	4,930	9,815	14,930	3,010	32,690	34,810	38,970
%	30.6%	26.9%	20.5%	44.6%	40.7%	12.7%	31.2%	21.9%	35.2%	43.0%	12.4%	29.9%	30.4%	32.3%
Income Tax Expense	3,596	(818)	393	589	1,219	369	2,570	(190)	(624)	1,642	331	1,160	1,740	2,730
as % of Op Income	12.5%	-3.2%	8.9%	5.1%	10.2%	13.5%	8.4%	-3.9%	-6.4%	11.0%	11.0%	3.5%	5.0%	7.0%
Other Utility Income, NoT	833	797	155	188	160	241	744	165	190	160	240	760	760	760
Gain / (Loss) on Real Estate	50	349	-	-	2	(56)	(54)	33	-	-	885	920	-	480
Non-Water Sales Earnings	1,471	1,394	395	406	181	237	1,219	258	332	180	240	1,010	1,060	1,110
AFUDC	518	530	232	289	330	347	1,198	336	231	180	180	930	1,280	1,280
Other Income / (Expense)	(202)	(214)	(32)	(283)	(136)	(558)	(1,009)	(9)	(744)	(50)	(50)	(850)	(200)	(200)
EBI	27,834	29,498	4,773	11,629	11,316	2,585	30,303	5,903	10,448	13,758	4,174	34,300	35,970	39,670
LTD Interest	7,023	7,087	1,736	1,830	2,064	2,084	7,714	2,061	2,106	2,270	2,390	8,830	10,200	11,170
Other Debt/Interest Expense	(508)	(350)	(111)	(144)	(283)	(260)	(798)	(226)	(76)	(280)	(260)	(840)	(850)	(850)
Net Income	21,319	22,761	3,148	9,943	9,535	761	23,387	4,068	8,418	11,768	2,044	26,310	26,220	29,350
Preferred Stk Div	38	38	9	10	10	9	38	9	10	10	9	38	38	38
Net Income--Common Stock	\$21,281	\$22,723	\$3,139	\$9,933	\$9,525	\$752	\$23,349	\$4,059	\$8,408	\$11,758	\$2,035	\$26,272	\$26,582	\$29,312
Diluted Avg Shares	11,091	11,164	11,211	11,223	11,233	11,240	11,228	11,365	11,568	12,089	12,095	11,779	12,108	12,129
GAAP EPS			\$ 0.28	\$ 0.89	\$ 0.85	\$ 0.07	\$ 2.08	\$ 0.36	\$ 0.73	\$ 0.97	\$ 0.17	\$ 2.22	\$ 2.20	\$ 2.42
EPS from Cont'd Ops	\$ 1.92	\$ 2.04	\$ 0.28	\$ 0.89	\$ 0.85	\$ 0.07	\$ 2.08	\$ 0.36	\$ 0.73	\$ 0.97	\$ 0.17	\$ 2.22	\$ 2.20	\$ 2.42
EPS from Water Activities	\$ 1.79	\$ 1.91	\$ 0.24	\$ 0.85	\$ 0.83	\$ 0.05	\$ 1.97	\$ 0.33	\$ 0.70	\$ 0.96	\$ 0.15	\$ 2.06	\$ 2.11	\$ 2.29
EPS from Services & Rentals	\$ 0.13	\$ 0.13	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.02	\$ 0.11	\$ 0.02	\$ 0.03	\$ 0.01	\$ 0.02	\$ 0.09	\$ 0.09	\$ 0.09
EPS from Real Estate	\$ 0.00	\$ 0.03	\$ -	\$ -	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ 0.00	\$ -	\$ -	\$ 0.07	\$ 0.08	\$ -	\$ 0.04
rounding error	\$ (0.00)	\$ (0.03)					\$ 0.00							
Dividends Declared	\$ 1.0100	\$ 1.0500	\$ 0.2675	\$ 0.2825	\$ 0.2825	\$ 0.2825	\$ 1.1150	\$ 0.2825	\$ 0.2975	\$ 0.2975	\$ 0.2975	\$ 1.1750	\$ 1.2350	\$ 1.2950
Rate of Change Analysis:														
Revenue	2.8%	2.1%	7.6%	-2.1%	3.6%	3.1%	2.7%	4.2%	7.1%	17.8%	12.5%	10.9%	4.8%	5.4%
O&M Expense	-0.3%	8.1%	-0.3%	-20.9%	-5.7%	-6.0%	-8.0%	-0.5%	31.5%	14.1%	14.1%	13.9%	2.8%	1.0%
Utility Op Income	2.9%	-10.2%	37.0%	13.9%	11.7%	65.1%	19.2%	11.6%	-15.5%	24.4%	9.7%	6.2%	6.5%	12.0%
EPS--Cont'd Ops	15.7%	6.2%	0.9%	14.0%	8.0%	-66.1%	2.1%	27.6%	-17.9%	14.7%	151.5%	7.0%	-1.3%	10.1%
EBITDA	5.5%	-6.1%	22.4%	13.1%	10.2%	11.7%	13.5%	10.4%	-9.3%	22.0%	12.2%	7.9%	7.4%	10.2%
Margin Analysis:														
O&M / Revenue	47.3%	50.0%	52.4%	33.9%	39.0%	58.2%	44.8%	50.0%	41.7%	37.8%	59.0%	46.0%	45.1%	43.3%
Operating Margin	30.6%	26.9%	20.5%	44.6%	40.7%	12.7%	31.2%	21.9%	35.2%	43.0%	12.4%	29.9%	30.4%	32.3%
Net Profit Margin--Common Stk	22.6%	23.7%	14.6%	38.1%	32.3%	3.5%	23.7%	18.1%	30.1%	33.9%	8.4%	24.0%	23.2%	24.3%
			(\$1.0M) O&M chg on equity re-account; reversed in Q2	\$2.6MM O&M benefit from equity re-account			*Initial impact from Msfield/Storrs	*FY Effective out-of-period adj. net \$1.6MM O&M bene	*Heritage Village Closed 2/27--\$20MM EV	*Avon closed effective July 1; ~\$40MM EV	*expect \$1.875MM land sale; (~\$400k BV)--\$0.07/share after-tax	*Exp FY of Msfield/Storrs pipe & service	*Exp FYs of AVON and HVWC	*+0.04/sh land sale

Source: Company reports and Hilliard Lyons estimates

Connecticut Water Service

Balance Sheet Analysis		FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E	FY'19E
Cash & Equivalents		\$2,475	\$731	\$1,540	\$1,143	\$1,158	\$1,564	\$1,564	\$2,955	\$2,694	\$4,230	\$5,470	\$5,470	\$7,560	\$10,020
A/R		11,971	11,012	9,744	11,573	13,819	13,024	13,024	11,648	12,875	16,060	13,710	13,710	14,500	15,030
Accrued Unbilled Rev		8,283	8,259	8,119	9,074	10,150	8,171	8,171	8,000	9,153	12,150	9,390	9,390	9,500	10,070
Other Current Assets		13,439	7,027	9,940	9,151	11,371	6,605	6,605	8,505	8,511	10,210	8,710	8,710	7,110	5,510
Total Current Assets		36,168	27,029	29,343	30,941	36,498	29,364	29,364	31,108	33,233	42,650	37,280	37,280	38,670	40,630
Net Utility Plant		506,939	546,284	554,509	568,406	583,789	601,396	601,396	636,610	647,688	673,560	681,000	681,000	724,910	767,810
Goodwill		31,685	30,427	30,427	30,427	30,427	30,427	30,427	43,045	43,045	63,050	63,050	63,050	63,050	63,050
Other LT Assets		96,397	112,778	109,822	115,467	119,112	123,315	123,315	127,786	131,050	132,360	138,980	138,980	150,350	162,650
Total Assets		\$671,189	\$716,518	\$724,101	\$745,241	\$769,826	\$784,502	\$784,502	\$838,549	\$855,016	\$911,620	\$920,310	\$920,310	\$976,980	\$1,034,140
CP of LTD		2,457	2,842	2,850	2,862	2,883	4,859	4,859	5,185	5,196	2,250	2,250	2,250	80	8,000
Bank Loans Payable		1,991	16,085	29,472	11,200	21,837	32,953	32,953	35,089	43,632	33,630	35,630	35,630	53,630	68,630
A/P and Accrued Exp		10,019	11,882	8,499	11,577	11,652	13,116	13,116	8,412	9,640	12,810	14,270	14,270	14,840	15,510
Other		9,155	6,130	5,490	4,634	5,007	4,197	4,197	5,152	4,140	4,160	4,180	4,180	4,260	4,340
Total Current Liabilities		23,622	36,939	46,311	30,273	41,379	55,125	55,125	53,838	62,608	52,850	56,330	56,330	72,810	96,480
LTD		176,601	177,654	171,102	200,861	200,155	197,047	197,047	205,589	205,351	233,830	232,620	232,620	247,300	251,900
Common Shareholders' equity		209,451	223,977	225,834	230,439	237,620	236,028	236,028	254,325	260,048	295,968	300,428	300,428	318,278	339,388
Total Liab & SE		\$671,189	\$716,518	\$724,101	\$745,241	\$769,826	\$784,502	\$784,502	\$838,549	\$855,016	\$911,620	\$920,310	\$920,310	\$976,980	\$1,034,140
Book Value	\$	18.84	\$ 20.14	\$ 20.14	\$ 20.53	\$ 21.15	\$ 21.00	\$ 21.00	\$ 22.38	\$ 22.48	\$ 24.48	\$ 24.84	\$ 25.50	\$ 26.29	\$ 27.98
Price / Book		1.9x	1.9x	2.2x	2.7x	2.4x	2.7x	2.7x	2.4x	2.5x	2.3x	2.3x	2.2x	2.1x	2.0x
Net Indebtedness / Total Cap		45.9%	46.6%	47.1%	48.0%	48.4%	49.6%	49.6%	48.8%	49.1%	47.2%	46.8%	46.8%	47.9%	48.4%
LTD / Total Cap		45.7%	44.1%	43.0%	46.5%	45.6%	45.4%	45.4%	44.6%	44.1%	44.1%	43.6%	43.6%	43.7%	42.5%
ROE (TTM)–Common Stk		10.4%	10.5%	10.4%	10.7%	10.9%	10.1%	10.1%	10.2%	9.3%	9.7%	9.8%	9.8%	8.6%	9.0%
Cash Flow Analysis		FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E	FY'19E
Net Income		\$21,281	\$22,723	\$3,139	\$9,933	\$9,525	\$752	\$23,349	\$4,059	\$8,408	\$11,760	\$2,030	\$26,270	\$26,580	\$29,310
D & A		12,457	12,898	3,641	3,687	3,622	2,223	13,173	3,963	4,064	4,130	2,560	14,720	16,090	17,100
AFUDC		(518)	(530)	(232)	(289)	(330)	(347)	(1,198)	(336)	(230)	180	180	(210)	1,280	1,280
(Gain) / Loss on Sale of Prop		(50)	(349)	-	-	(2)	56	54	33	-	-	885	920.00	-	480.00
(Increase) Decrease in Wrkg. Cap.		(4,602)	6,233	(5,528)	227	(5,094)	8,194	(2,201)	(4,102)	(2,170)	(4,691)	8,090	(2,873)	1,350	1,250
Operating CF		28,568	40,975	1,020	13,558	7,721	10,878	33,177	3,617	10,072	11,379	13,745	38,827	45,300	49,420
Cap Ex		(45,668)	(48,025)	(11,753)	(16,874)	(18,843)	(19,219)	(66,689)	(10,163)	(14,275)	(10,000)	(10,000)	(44,440)	(60,000)	(60,000)
(Acquisitions) / Divestitures		243	14	-	-	-	9	9	1,548	-	(6,160)	-	(4,610)	0	0
Release of Restricted Cash		5,779	(846)	649	-	197	-	846	-	-	-	-	0	0	0
Dividends–Common Stk		(11,226)	(11,753)	(3,005)	(3,180)	(3,183)	(3,184)	(12,552)	(3,274)	(3,450)	(3,600)	(3,600)	(13,920)	(14,950)	(15,700)
Free Cash Flow		(22,304)	(19,635)	(13,089)	(6,496)	(14,108)	(11,516)	(45,209)	(8,272)	(7,653)	(8,381)	145	(24,143)	(29,650)	(26,280)
LTD Proceeds		4,500	4,352	-	30,000	19,930	-	49,930	5,000	-	21,965	-	26,970	17,250	17,250
LTD (Repayments)		(4,114)	(2,476)	(762)	(259)	(20,587)	(1,164)	(22,772)	(808)	(296)	(2,351)	(1,206)	(4,660)	(4,710)	(4,710)
Interim Bank Loan Proceed / (Repay)		1,991	14,094	13,387	(18,272)	10,637	11,116	16,868	2,136	8,543	(10,000)	2,000	2,680	18,000	15,000
Common Stk Issued + Option Exercise		1,697	1,536	425	427	380	378	1,610	339	353	300	300	1,290	1,200	1,200
Net CF		(18,230)	(2,129)	(39)	5,400	(3,748)	(1,186)	427	(1,605)	947	1,533	1,239	2,137	2,090	2,460
Cap Ex / Depreciation		3.7x	3.7x	3.2x	4.6x	5.2x	6.6x	5.1x	2.6x	3.5x	2.4x	3.9x	3.0x	3.7x	3.5x
EBITDA		41,217	38,722	8,057	15,305	15,620	4,966	43,948	8,893	13,879	19,060	5,570	47,410	50,900	56,070
EBITDA margin		43.8%	40.3%	37.4%	58.7%	53.0%	23.0%	44.5%	39.6%	49.7%	54.9%	22.9%	43.3%	44.4%	46.4%
EBITDA/share		\$3.72	\$3.47	\$0.72	\$1.36	\$1.39	\$0.44	\$3.91	\$0.78	\$1.20	\$1.58	\$0.46	\$4.02	\$4.20	\$4.62
EV / TTM EBITDA		14.0x	15.5x	16.8x	19.8x	17.5x	18.7x	18.7x	18.0x	19.5x	19.5x	19.2x	18.8x	18.1x	16.5x

Source: Company reports and Hilliard Lyons estimates

Analyst Certifications

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

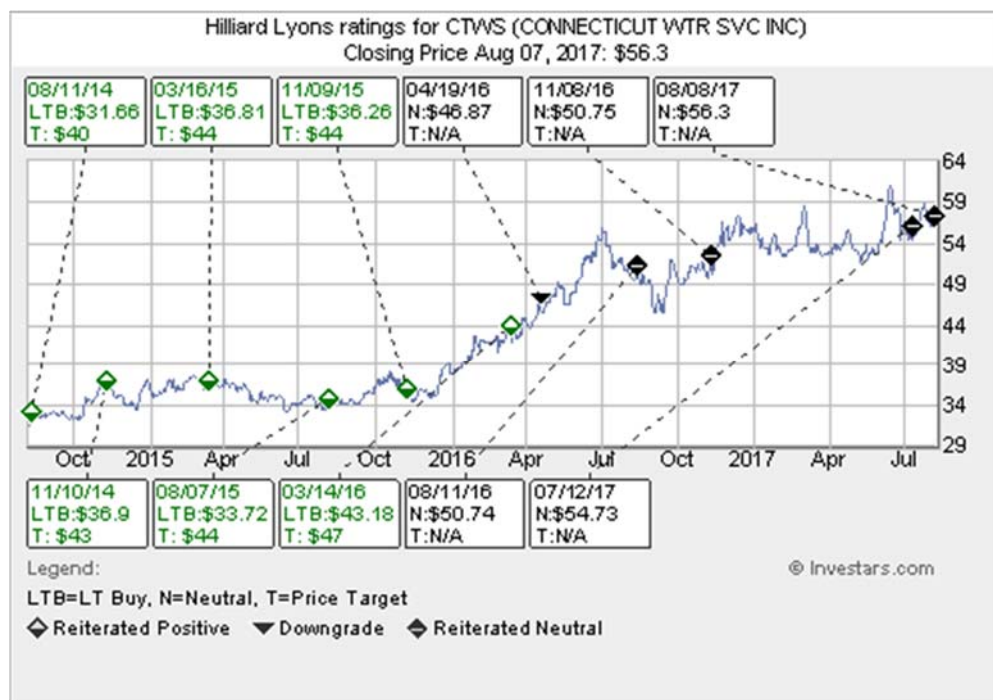
Investment Ratings

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	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	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.