



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

CTWS - NASDAQ - as of	3/13/17	\$53.81
Price Target		--
52-Week Range	\$41.71 -	\$59.26
Shares Outstanding (mm)		11.2
Market Cap. (\$mm)		\$604.8
1-Mo. Average Daily Volume		25,485
Institutional Ownership		47.9%
LT Debt/Total Capital	Q4'16	45.4%
ROE	TTM	10.1%
Book Value / Share	Q4'16	\$21.00
Price / Book Value		2.6x
Dividend Yield		2.1%
EBITDA Margin	FY'16	44.5%

EPS (Cont'd Ops) FY 12/31

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$0.28	--	\$0.37	--	--
2Q	\$0.89	--	\$0.78	--	--
3Q	\$0.85	--	\$0.92	--	--
4Q	\$0.07	--	\$0.11	--	--
Year	\$2.08	\$2.25	\$2.18	\$2.33	\$2.30
P/E	25.9x		24.7x		23.4x

Revenue (\$MM)

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$21.6	--	\$23.5	--	--
2Q	\$26.1	--	\$30.4	--	--
3Q	\$29.5	--	\$33.7	--	--
4Q	\$21.6	--	\$24.5	--	--
Year	\$98.7	\$114.5	\$112.1	\$119.1	\$118.4

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 122,000 customers, or about 400,000 people in CT and ME.*

Water Utilities

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Connecticut Water Service, Inc.

CTWS — NASDAQ — Neutral-3

Q4'16 Results for CTWS; Reiterating Neutral Rating.

Investment Highlights

- CTWS reported Q4'16 EPS of \$0.07 versus \$0.20 in Q4'15; we expected EPS of \$0.10, while the only other estimate was for \$0.11. FY 2016 EPS were \$2.08, which includes ~\$0.10 of out of period adjustments; FY 2015 EPS were \$2.04, but include a \$0.09 catchup benefit and a \$0.03 real estate donation.
- Operating revenues grew 3.1% and 2.7% in Q4 and FY 2016, respectively. Customer growth of 1.1% was above our expectations, although WICA surcharges in CT and rate activity in ME were likely more impactful.
- CTWS completed the ~7,700 customer purchase of Heritage Village in late-February, which coupled with the late-2016 connection of the UCONN/Storrs project, should drive revenue in 2017.
- The 4,800 customer AVON acquisition has been pushed to a possible Q3 closing; regulatory approval for the \$36MM deal is expected in April.
- Operations & maintenance (O&M) expense slipped 6.0% in Q4 to close out a strong 2016, although we expect substantial expansion this year off tough comps and due to acquisition.
- CTWS' tax rate (as a % of op income) was 8.4% in 2016, up from -3.2% in 2015, as the company utilizes its repair tax credit 'lever.' A \$0.09/sh catch-up in ME did not repeat in 2016, although we believe rates could be stable yr/yr in 2017.
- EPS from services & rentals were \$0.11 in 2016, down \$0.02 from \$0.13 in both 2014 and 2015 as competitive pressure materialized in 2H.
- Our 2017/2018 estimates slip as we adjust for AVON timing and the Q4'16 'miss' versus our model. We are reiterating our Neutral rating, pending a better entry point into what we believe remains a dynamic story into 2017-2018.

**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.

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	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Operating Revenues:	\$ 94,020	\$ 96,041	\$ 21,552	\$ 26,055	\$ 29,477	\$ 21,583	\$ 98,667	\$ 23,500	\$ 30,420	\$ 33,660	\$ 24,540	\$ 112,120	\$ 118,420
Operating Expenses:													
O&M	44,445	48,052	11,289	8,840	11,495	12,567	44,191	10,820	12,440	13,120	14,340	50,720	52,130
Depreciation	11,784	12,871	3,398	3,359	3,449	3,699	13,905	3,740	3,790	3,990	4,200	15,720	16,930
Other Tax	9,031	9,294	2,449	2,238	2,535	2,574	9,796	2,550	2,340	2,640	2,670	10,200	10,600
Organizational Review Charge	-	-	-	-	-	-	-	-	-	-	-	0	0
Total Operating Expenses	65,260	70,217	17,136	14,437	17,479	18,840	67,892	17,110	18,570	19,750	21,210	76,640	79,660
Utility Operating Income / (Loss)	28,760	25,824	4,416	11,618	11,998	2,743	30,775	6,390	11,850	13,910	3,330	35,480	38,760
%	30.6%	26.9%	20.5%	44.6%	40.7%	12.7%	31.2%	27.2%	39.0%	41.3%	13.6%	31.6%	32.7%
Income Tax Expense	3,596	(818)	393	589	1,219	369	2,570	639	1,185	1,391	333	3,550	3,100
as % of Op Income	12.5%	-3.2%	8.9%	5.1%	10.2%	13.5%	8.4%	10.0%	10.0%	10.0%	10.0%	10.0%	8.0%
Other Utility Income, NoT	833	797	155	188	160	241	744	160	190	160	240	750	750
Gain / (Loss) on Real Estate	50	349	-	-	2	(56)	(54)	-	-	-	-	-	-
Non-Water Sales Earnings	1,471	1,394	395	406	181	237	1,219	340	350	180	240	1,110	1,170
AFUDC	518	530	232	289	330	347	1,198	200	290	300	350	1,140	1,140
Other Income / (Expense)	(202)	(214)	(32)	(283)	(136)	(558)	(1,009)	(50)	(100)	(50)	(50)	(250)	(250)
EBI	27,834	29,498	4,773	11,629	11,316	2,585	30,303	6,401	11,395	13,109	3,777	34,680	38,470
LTD Interest	7,023	7,087	1,736	1,830	2,064	2,084	7,714	2,230	2,350	2,460	2,470	9,510	10,620
Other Debt/Interest Expense	(508)	(350)	(111)	(144)	(283)	(260)	(798)	-	-	-	-	-	-
Net Income	21,319	22,761	3,148	9,943	9,535	761	23,387	4,171	9,045	10,649	1,307	25,170	27,850
Preferred Stk Div	38	38	9	10	10	9	38	9	10	10	9	38	38
Net Income--Common Stock	\$21,281	\$22,723	\$3,139	\$9,933	\$9,525	\$752	\$23,349	\$4,162	\$9,035	\$10,639	\$1,298	\$25,132	\$27,812
Diluted Avg Shares	11,091	11,164	11,211	11,223	11,233	11,240	11,228	11,343	11,539	11,545	12,066	11,623	12,080
GAAP EPS			\$ 0.28	\$ 0.89	\$ 0.85	\$ 0.07							
EPS from Cont'd Ops	\$ 1.92	\$ 2.04	\$ 0.28	\$ 0.89	\$ 0.85	\$ 0.07	\$ 2.08	\$ 0.37	\$ 0.78	\$ 0.92	\$ 0.11	\$ 2.18	\$ 2.30
EPS from Water Activities	\$ 1.79	\$ 1.91	\$ 0.24	\$ 0.85	\$ 0.83	\$ 0.05	\$ 1.97	\$ 0.34	\$ 0.75	\$ 0.91	\$ 0.09	\$ 2.08	\$ 2.21
EPS from Services & Rentals	\$ 0.13	\$ 0.13	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.02	\$ 0.11	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.02	\$ 0.10	\$ 0.10
EPS from Real Estate	\$ 0.00	\$ 0.03	\$ -	\$ -	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	\$ 1.1750
Rate of Change Analysis:													
Revenue	2.8%	2.1%	7.6%	-2.1%	3.6%	3.1%	2.7%	9.0%	16.8%	14.2%	13.7%	13.6%	5.6%
O&M Expense	-0.3%	8.1%	-0.3%	-20.9%	-5.7%	-6.0%	-8.0%	-4.2%	40.7%	14.1%	14.1%	14.8%	2.8%
Utility Op Income	2.9%	-10.2%	37.0%	13.9%	11.7%	65.1%	19.2%	44.7%	2.0%	15.9%	21.4%	15.3%	9.2%
EPS--Cont'd Ops	15.7%	6.2%	0.9%	14.0%	8.0%	-66.1%	2.1%	31.0%	-11.5%	8.7%	60.8%	4.8%	5.7%
EBITDA	5.5%	-6.1%	22.4%	13.1%	10.2%	11.7%	13.5%	29.1%	4.6%	15.9%	17.8%	14.6%	8.9%
Margin Analysis:													
O&M / Revenue	47.3%	50.0%	52.4%	33.9%	39.0%	58.2%	44.8%	46.0%	40.9%	39.0%	58.4%	45.2%	44.0%
Operating Margin	30.6%	26.9%	20.5%	44.6%	40.7%	12.7%	31.2%	27.2%	39.0%	41.3%	13.6%	31.6%	32.7%
Net Profit Margin--Common Stk	22.6%	23.7%	14.6%	38.1%	32.3%	3.5%	23.7%	17.7%	29.7%	31.6%	5.3%	22.4%	23.5%
			(\$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 could close by end of Q3--\$36MM EV	*10/1 modeled impact from AVON	*Exp FY of Ms filed/Storrs pipe	*Exp FYs of AVON and HVWC		

Source: Company reports and Hilliard Lyons estimates

Connecticut Water Service

Connecticut Water Service													
Balance Sheet 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
Cash & Equivalents	\$2,475	\$731	\$1,540	\$1,143	\$1,158	\$1,564	\$1,564	\$4,390	\$6,670	\$3,560	\$1,980	\$1,980	\$1,850
A/R	11,971	11,012	9,744	11,573	13,819	13,024	13,024	12,010	13,300	15,570	13,860	13,860	14,660
Accrued Unbilled Rev	8,283	8,259	8,119	9,074	10,150	8,171	8,171	8,750	10,670	11,780	9,480	9,480	9,600
Other Current Assets	13,439	7,027	9,940	9,151	11,371	6,605	6,605	6,610	4,810	6,510	5,010	5,010	3,410
Total Current Assets	36,168	27,029	29,343	30,941	36,498	29,364	29,364	31,760	35,450	37,420	30,330	30,330	29,520
Net Utility Plant	506,939	546,284	554,509	568,406	583,789	601,396	601,396	626,090	657,930	662,740	670,220	670,220	714,160
Goodwill	31,685	30,427	30,427	30,427	30,427	30,427	30,427	40,430	58,430	58,430	58,430	58,430	58,430
Other LT Assets	96,397	112,778	109,822	115,467	119,112	123,315	123,315	124,550	125,800	127,060	133,410	133,410	144,320
Total Assets	\$671,189	\$716,518	\$724,101	\$745,241	\$769,826	\$784,502	\$784,502	\$822,830	\$877,610	\$885,650	\$892,390	\$892,390	\$946,430
CP of LTD	2,457	2,842	2,850	2,862	2,883	4,859	4,859	2,000	2,000	2,250	2,250	2,250	80
Bank Loans Payable	1,991	16,085	29,472	11,200	21,837	32,953	32,953	47,950	42,950	41,950	42,950	42,950	46,950
A/P and Accrued Exp	10,019	11,882	8,499	11,577	11,652	13,116	13,116	8,870	11,990	12,420	14,420	14,420	15,000
Other	9,155	6,130	5,490	4,634	5,007	4,197	4,197	4,220	4,240	4,260	4,280	4,280	4,360
Total Current Liabilities	23,622	36,939	46,311	30,273	41,379	55,125	55,125	63,040	61,180	60,880	63,900	63,900	66,390
LTD	176,601	177,654	171,102	200,861	200,155	197,047	197,047	213,810	233,640	232,970	231,770	231,770	256,550
Common Shareholders' equity	209,451	223,977	225,834	230,439	237,620	236,028	236,028	248,120	283,118	290,308	293,398	293,398	313,048
Total Liab & SE	\$671,189	\$716,518	\$724,101	\$745,241	\$769,826	\$784,502	\$784,502	\$822,830	\$877,610	\$885,650	\$892,390	\$892,390	\$946,430
Book Value	\$ 18.84	\$ 20.14	\$ 20.14	\$ 20.53	\$ 21.15	\$ 21.00	\$ 21.00	\$ 21.87	\$ 24.54	\$ 25.15	\$ 24.32	\$ 25.24	\$ 25.91
Price / Book	1.9x	1.9x	2.2x	2.7x	2.4x	2.7x	2.7x	2.5x	2.2x	2.1x	2.2x	2.1x	2.1x
Net Indebtedness / Total Cap	45.9%	46.6%	47.1%	48.0%	48.4%	49.6%	49.6%	51.0%	48.9%	48.5%	48.3%	48.3%	49.0%
LTD / Total Cap	45.7%	44.1%	43.0%	46.5%	45.6%	45.4%	45.4%	46.2%	45.1%	44.5%	44.1%	44.1%	45.0%
ROE (TTM)–Common Stk	10.4%	10.5%	10.4%	10.7%	10.9%	10.1%	10.1%	10.3%	9.5%	9.5%	9.3%	9.3%	9.2%
Cash Flow 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
Net Income	\$21,281	\$22,723	\$3,139	\$9,933	\$9,525	\$752	\$23,349	\$4,160	\$9,040	\$10,640	\$1,300	\$25,130	\$27,810
D & A	12,457	12,898	3,641	3,687	3,622	2,223	13,173	4,010	4,160	4,190	2,520	14,880	16,060
AFUDC	(518)	(530)	(232)	(289)	(330)	(347)	(1,198)	200	290	300	350	1,140	1,140
(Gain) / Loss on Sale of Prop	(50)	(349)	-	-	(2)	56	54	-	-	-	-	-	-
(Increase) Decrease in Wrkg. Cap.	(4,602)	6,233	(5,528)	227	(5,094)	8,194	(2,201)	(3,783)	1,390	(4,720)	7,750	637	1,320
Operating CF	28,568	40,975	1,020	13,558	7,721	10,878	33,177	4,587	14,880	10,410	11,920	41,787	46,330
Cap Ex	(45,668)	(48,025)	(11,753)	(16,225)	(19,492)	(19,219)	(66,689)	(18,000)	(18,000)	(9,000)	(10,000)	(55,000)	(60,000)
(Acquisitions) / Divestitures	243	14	-	-	-	9	9	(16,100)	(6,160)	-	-	(22,260)	0
Release of Restricted Cash	5,779	(846)	649	-	197	-	846	-	-	-	-	0	0
Dividends–Common Stk	(11,226)	(11,753)	(3,005)	(3,180)	(3,183)	(3,184)	(12,552)	(3,200)	(3,430)	(3,430)	(3,590)	(13,650)	(14,190)
Free Cash Flow	(22,304)	(19,635)	(13,089)	(5,847)	(14,757)	(11,516)	(45,209)	(32,713)	(12,710)	(2,020)	(1,670)	(49,123)	(27,860)
LTD Proceeds	4,500	4,352	-	30,000	19,930	-	49,930	5,000	20,000	1,965	-	26,970	27,250
LTD (Repayments)	(4,114)	(2,476)	(762)	(259)	(20,587)	(1,164)	(22,772)	(562)	(306)	(2,351)	(1,206)	(4,430)	(4,710)
Interim Bank Loan Proceed / (Repay)	1,991	14,094	13,387	(18,272)	10,637	11,116	16,868	15,000	(5,000)	(1,000)	1,000	10,000	4,000
Common Stk Issued + Option Exercise	1,697	1,536	425	427	380	378	1,610	16,100	300	300	300	17,000	1,200
Net CF	(18,230)	(2,129)	(39)	6,049	(4,397)	(1,186)	427	2,825	2,284	(3,106)	(1,576)	417	(120)
Cap Ex / Depreciation	3.7x	3.7x	3.2x	4.4x	5.4x	8.6x	5.1x	4.5x	4.3x	2.1x	4.0x	3.7x	3.7x
EBITDA	41,217	38,722	8,057	15,305	15,620	4,966	43,948	10,400	16,010	18,100	5,850	50,360	54,820
EBITDA margin	43.8%	40.3%	37.4%	58.7%	53.0%	23.0%	44.5%	44.3%	52.6%	53.8%	23.8%	44.9%	46.3%
EBITDA /share	\$3.72	\$3.47	\$0.72	\$1.36	\$1.39	\$0.44	\$3.91	\$0.92	\$1.39	\$1.57	\$0.48	\$4.33	\$4.54
EV / TTM EBITDA	14.0x	15.5x	16.8x	19.8x	17.5x	18.7x	18.7x	17.7x	18.1x	17.2x	17.5x	17.0x	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.



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	35	29%	14%	86%
Hold/Neutral	71	59%	6%	94%
Sell	15	12%	7%	93%

As of 8 March 2017

Other Disclosures

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