



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

CTWS - NASDAQ - as of	5/8/17	\$53.25
Price Target		--
52-Week Range	\$45.13 -	\$59.26
Shares Outstanding (mm)		11.3
Market Cap. (\$mm)		\$603.4
1-Mo. Average Daily Volume		26,029
Institutional Ownership		46.6%
LT Debt/Total Capital	Q1'17	36.7%
ROE	TTM	9.4%
Book Value / Share	Q1'17	\$31.18
Price / Book Value		1.7x
Dividend Yield		2.1%
EBITDA Margin	FY'16	44.5%

EPS (Cont'd Ops) FY 12/31

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.28	--	\$0.36	A --	--
2Q	\$0.89	\$0.78	\$0.78	--	--
3Q	\$0.85	\$0.92	\$0.93	--	--
4Q	\$0.07	\$0.11	\$0.11	--	--
Year	\$2.08	\$2.18	\$2.17	\$2.30	\$2.22
P/E	25.6x		24.5x		24.0x

Revenue (\$MM)

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$21.6	--	\$22.5	A --	--
2Q	\$26.1	\$30.4	\$29.7	--	--
3Q	\$29.5	\$33.7	\$32.9	--	--
4Q	\$21.6	\$24.5	\$24.3	--	--
Year	\$98.7	\$112.1	\$109.3	\$118.4	\$116.1

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
May 9, 2017

Connecticut Water Service, Inc.

CTWS — NASDAQ — Neutral-3

Q1'17 Results for CTWS; Reiterating Neutral Rating.

Investment Highlights

- CTWS reported Q1'17 EPS of \$0.36 versus \$0.28 in Q1'16, results missed our expectation by a penny, which was one of only two published estimates. Core utility operating income grew in the quarter, but EPS was also boosted by a lower effective tax rate.
- Operating revenues grew 4.2% in Q1, reflecting incremental surcharges in CT (WICA) and ME (WISC), along with ~1 month of the Heritage Village (HVWC) purchase that added ~7700 customers.
- Management noted HVWC is already being accretive; we expect Q1 impact was minimal, but the comment bodes well for the balance of 2017, in our view.
- The 4,800 customer AVON acquisition was approved by CT regulators on April 12, with CTWS suggesting the \$36MM deal could close by the third quarter. We leave our model to reflect a 10/1 consummation at this time, but will update if/when the deal closes.
- CTWS' tax rate (as a % of op income) was -3.9% in Q1'17, down from 8.9% in Q1'16 and driving +\$0.06 of EPS versus our model in the first quarter. In our view, CTWS continues to effectively utilize repair tax accounting treatment, adding some resiliency to consolidated financials.
- EPS from services & rentals were \$0.02 in Q1'17, down \$0.04 in the year-ago period. We expect flat-to-lower results across Qs2-4 of this year.
- Our 2017/2018 estimates slip as we adjust for the core operations downside to our Q1, though 2017 in particular is supported by a lower tax rate. Affecting this year with ripple effect into 2018, the 'bell curve' of earnings for both HVWC and (eventually) AVON bring some quarter/quarter uncertainty to our model.
- Valuation keeps us on the sidelines, though qualitatively, we like the narrative through 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. At current, the company is in the process of closing and/or integrating two separate sizeable 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	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Operating Revenues:	\$ 94,020	\$ 96,041	\$ 21,552	\$ 26,055	\$ 29,477	\$ 21,583	\$ 98,667	\$ 22,463	\$ 29,670	\$ 32,910	\$ 24,290	\$ 109,330	\$ 116,140
Operating Expenses:													
O&M	44,445	48,052	11,289	8,840	11,495	12,567	44,191	11,236	12,440	13,120	14,340	51,140	52,580
Depreciation	11,784	12,871	3,398	3,359	3,449	3,699	13,905	3,692	3,860	4,060	4,270	15,880	17,140
Other Tax	9,031	9,294	2,449	2,238	2,535	2,574	9,796	2,605	2,340	2,640	2,670	10,260	10,660
Organizational Review Charge	-	-	-	-	-	-	-	-	-	-	-	0	0
Total Operating Expenses	65,260	70,217	17,136	14,437	17,479	18,840	67,892	17,533	18,640	19,820	21,280	77,280	80,380
Utility Operating Income / (Loss)	28,760	25,824	4,416	11,618	11,998	2,743	30,775	4,930	11,030	13,090	3,010	32,050	35,760
%	30.6%	26.9%	20.5%	44.6%	40.7%	12.7%	31.2%	21.9%	37.2%	39.8%	12.4%	29.3%	30.8%
Income Tax Expense	3,596	(818)	393	589	1,219	369	2,570	(190)	552	655	151	1,170	1,610
as % of Op Income	12.5%	-3.2%	8.9%	5.1%	10.2%	13.5%	8.4%	-3.9%	5.0%	5.0%	5.0%	3.7%	4.5%
Other Utility Income, NoT	833	797	155	188	160	241	744	165	190	160	240	760	760
Gain / (Loss) on Real Estate	50	349	-	-	2	(56)	(54)	33	-	-	-	30	-
Non-Water Sales Earnings	1,471	1,394	395	406	181	237	1,219	258	350	180	240	1,030	1,080
AFUDC	518	530	232	289	330	347	1,198	336	290	300	350	1,280	1,140
Other Income / (Expense)	(202)	(214)	(32)	(283)	(136)	(558)	(1,009)	(9)	(100)	(50)	(50)	(210)	(250)
EBI	27,834	29,498	4,773	11,629	11,316	2,585	30,303	5,903	11,209	13,026	3,640	33,770	36,880
LTD Interest	7,023	7,087	1,736	1,830	2,064	2,084	7,714	2,061	2,190	2,300	2,310	8,860	9,980
Other Debt/Interest Expense	(508)	(350)	(111)	(144)	(283)	(260)	(798)	(226)	-	-	-	(230.00)	-
Net Income	21,319	22,761	3,148	9,943	9,535	761	23,387	4,068	9,019	10,726	1,330	25,140	26,900
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	\$4,059	\$9,009	\$10,716	\$1,321	\$25,102	\$26,862
Diluted Avg Shares	11,091	11,164	11,211	11,223	11,233	11,240	11,228	11,365	11,563	11,569	12,090	11,647	12,105
GAAP EPS			\$ 0.28	\$ 0.89	\$ 0.85	\$ 0.07	\$ 2.08	\$ 0.36	\$ 0.78	\$ 0.93	\$ 0.11	\$ 2.17	\$ 2.22
EPS from Cont'd Ops	\$ 1.92	\$ 2.04	\$ 0.28	\$ 0.89	\$ 0.85	\$ 0.07	\$ 2.08	\$ 0.36	\$ 0.78	\$ 0.93	\$ 0.11	\$ 2.17	\$ 2.22
EPS from Water Activities	\$ 1.79	\$ 1.91	\$ 0.24	\$ 0.85	\$ 0.83	\$ 0.05	\$ 1.97	\$ 0.33	\$ 0.75	\$ 0.91	\$ 0.09	\$ 2.08	\$ 2.13
EPS from Services & Rentals	\$ 0.13	\$ 0.13	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.02	\$ 0.11	\$ 0.02	\$ 0.03	\$ 0.02	\$ 0.02	\$ 0.09	\$ 0.09
EPS from Real Estate	\$ 0.00	\$ 0.03	\$ -	\$ -	\$ 0.00	\$ (0.00)	\$ (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%	4.2%	13.9%	11.6%	12.5%	10.8%	6.2%
O&M Expense	-0.3%	8.1%	-0.3%	-20.9%	-5.7%	-6.0%	-8.0%	-0.5%	40.7%	14.1%	14.1%	15.7%	2.8%
Utility Op Income	2.9%	-10.2%	37.0%	13.9%	11.7%	65.1%	19.2%	11.6%	-5.1%	9.1%	9.7%	4.1%	11.6%
EPS--Cont'd Ops	15.7%	6.2%	0.9%	14.0%	8.0%	-66.1%	2.1%	27.6%	-12.0%	9.2%	63.2%	4.4%	2.2%
EBITDA	5.5%	-6.1%	22.4%	13.1%	10.2%	11.7%	13.5%	10.4%	-0.3%	11.1%	12.2%	7.1%	10.5%
Margin Analysis:													
O&M / Revenue	47.3%	50.0%	52.4%	33.9%	39.0%	58.2%	44.8%	50.0%	41.9%	39.9%	59.0%	46.8%	45.3%
Operating Margin	30.6%	26.9%	20.5%	44.6%	40.7%	12.7%	31.2%	21.9%	37.2%	39.8%	12.4%	29.3%	30.8%
Net Profit Margin--Common Stk	22.6%	23.7%	14.6%	38.1%	32.3%	3.5%	23.7%	18.1%	30.4%	32.6%	5.4%	23.0%	23.1%
			(\$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 Msfiled/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	Q1'17	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	\$2,955	\$5,590	\$2,620	\$1,090	\$1,090	\$160
A/R	11,971	11,012	9,744	11,573	13,819	13,024	13,024	11,648	12,970	15,220	13,710	13,710	14,500
Accrued Unbilled Rev	8,283	8,259	8,119	9,074	10,150	8,171	8,171	8,000	10,400	11,520	9,390	9,390	9,500
Other Current Assets	13,439	7,027	9,940	9,151	11,371	6,605	6,605	8,505	6,710	8,410	6,910	6,910	5,310
Total Current Assets	36,168	27,029	29,343	30,941	36,498	29,364	29,364	31,108	35,670	37,770	31,100	31,100	29,470
Net Utility Plant	506,939	546,284	554,509	568,406	583,789	601,396	601,396	636,610	668,380	673,120	680,560	680,560	724,310
Goodwill	31,685	30,427	30,427	30,427	30,427	30,427	30,427	43,045	61,050	61,050	61,050	61,050	61,050
Other LT Assets	96,397	112,778	109,822	115,467	119,112	123,315	123,315	127,786	129,060	130,350	136,870	136,870	148,070
Total Assets	\$671,189	\$716,518	\$724,101	\$745,241	\$769,826	\$784,502	\$784,502	\$838,549	\$894,160	\$902,290	\$909,580	\$909,580	\$962,900
CP of LTD	2,457	2,842	2,850	2,862	2,883	4,859	4,859	5,185	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	35,089	30,090	29,090	30,090	30,090	34,090
A/P and Accrued Exp	10,019	11,882	8,499	11,577	11,652	13,116	13,116	8,412	11,700	12,140	14,270	14,270	14,840
Other	9,155	6,130	5,490	4,634	5,007	4,197	4,197	5,152	5,180	5,210	5,240	5,240	5,360
Total Current Liabilities	23,622	36,939	46,311	30,273	41,379	55,125	55,125	53,838	48,970	48,690	51,850	51,850	54,370
LTD	176,601	177,654	171,102	200,861	200,155	197,047	197,047	205,589	232,980	232,320	231,110	231,110	255,910
Common Shareholders' equity	209,451	223,977	225,834	230,439	237,620	236,028	236,028	354,325	385,968	393,588	397,468	397,468	417,848
Total Liab & SE	\$671,189	\$716,518	\$724,101	\$745,241	\$769,826	\$784,502	\$784,502	\$838,549	\$894,160	\$902,290	\$909,580	\$909,580	\$962,900
Book Value	\$ 18.84	\$ 20.14	\$ 20.14	\$ 20.53	\$ 21.15	\$ 21.00	\$ 21.00	\$ 31.18	\$ 33.38	\$ 34.02	\$ 32.87	\$ 34.13	\$ 34.52
Price / Book	1.9x	1.9x	2.2x	2.7x	2.4x	2.7x	2.7x	2.3x	1.6x	1.6x	1.6x	1.6x	1.5x
Net Indebtedness / Total Cap	45.9%	46.6%	47.1%	48.0%	48.4%	49.6%	49.6%	40.6%	40.2%	39.8%	39.7%	39.7%	40.9%
LTD / Total Cap	45.7%	44.1%	43.0%	46.5%	45.6%	45.4%	45.4%	36.7%	37.6%	37.1%	36.7%	36.7%	37.9%
ROE (TTM)-Common Stk	10.4%	10.5%	10.4%	10.7%	10.9%	10.1%	10.1%	9.4%	8.1%	7.6%	7.1%	7.1%	6.6%
Cash Flow Analysis													
	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	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	\$4,059	\$9,010	\$10,720	\$1,320	\$25,100	\$26,860
D & A	12,457	12,898	3,641	3,687	3,622	2,223	13,173	3,963	4,230	4,260	2,560	15,010	16,250
AFUDC	(518)	(530)	(232)	(289)	(330)	(347)	(1,198)	(336)	290	300	350	600	1,140
(Gain) / Loss on Sale of Prop	(50)	(349)	-	-	(2)	56	54	33	-	-	-	30.00	-
(Increase) Decrease in Wrkg. Cap.	(4,602)	6,233	(5,528)	227	(5,094)	8,194	(2,201)	(4,102)	1,709	(4,720)	7,750	637	1,320
Operating CF	28,568	40,975	1,020	13,558	7,721	10,878	33,177	3,617	15,239	10,560	11,980	41,377	45,570
Cap Ex	(45,668)	(48,025)	(11,753)	(16,225)	(19,492)	(19,219)	(66,689)	(10,163)	(18,000)	(9,000)	(10,000)	(47,160)	(60,000)
(Acquisitions) / Divestitures	243	14	-	-	-	9	9	1,548	(6,160)	-	-	(4,610)	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)	(3,274)	(3,440)	(3,440)	(3,600)	(13,750)	(14,220)
Free Cash Flow	(22,304)	(19,635)	(13,089)	(5,847)	(14,757)	(11,516)	(45,209)	(8,272)	(12,361)	(1,880)	(1,620)	(24,143)	(28,650)
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)	(808)	(306)	(2,351)	(1,206)	(4,670)	(4,710)
Interim Bank Loan Proceed / (Repay)	1,991	14,094	13,387	(18,272)	10,637	11,116	16,868	2,136	(5,000)	(1,000)	1,000	(2,860)	4,000
Common Stk Issued + Option Exercise	1,697	1,536	425	427	380	378	1,610	339	300	300	300	1,240	1,200
Net CF	(18,230)	(2,129)	(39)	6,049	(4,397)	(1,186)	427	(1,605)	2,633	(2,966)	(1,526)	(3,463)	(910)
Cap Ex / Depreciation	3.7x	3.7x	3.2x	4.4x	5.4x	8.6x	5.1x	2.6x	4.3x	2.1x	3.9x	3.1x	3.7x
EBITDA	41,217	38,722	8,057	15,305	15,620	4,966	43,948	8,893	15,260	17,350	5,570	47,060	52,010
EBITDA margin	43.8%	40.3%	37.4%	58.7%	53.0%	23.0%	44.5%	39.6%	51.4%	52.7%	22.9%	43.0%	44.8%
EBITDA/share	\$3.72	\$3.47	\$0.72	\$1.36	\$1.39	\$0.44	\$3.91	\$0.78	\$1.32	\$1.50	\$0.46	\$4.04	\$4.30
EV / TTM EBITDA	14.0x	15.5x	16.8x	19.8x	17.5x	18.7x	18.7x	22.6x	18.9x	18.2x	18.6x	18.1x	17.3x

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

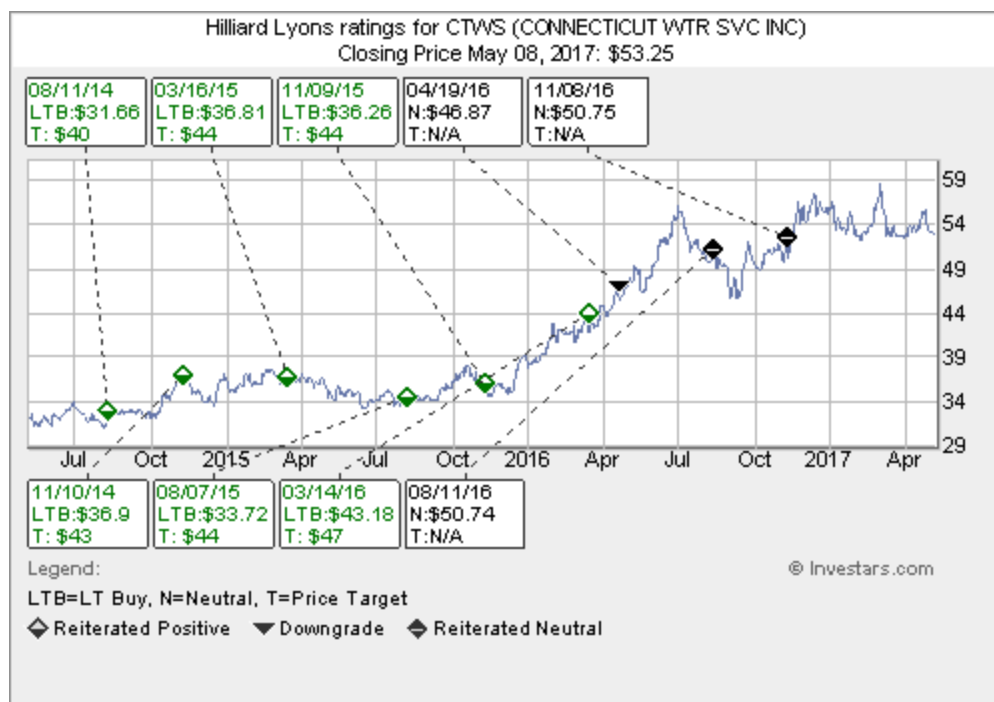
Investment Ratings

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	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 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.