



COMPANY UPDATE / RATING CHANGE ESTIMATE CHANGE / TARGET CHANGE

Key Metrics

WTR - NYSE - as of	12/20/17	\$37.76
Price Target		--
52-Week Range	\$29.41 -	\$38.44
Shares Outstanding (mm)		177.7
Market Cap. (\$mm)		\$6,709.6
1-Mo. Average Daily Volume		564,017
Institutional Ownership		55.0%
LTD / Total Capital	Q3'17	50.2%
ROE--Adj	TTM	12.6%
Book Value / Share	Q3'17	\$10.88
Price / Book Value		3.5x
Dividend Yield		2.2%
LTM EBITDA Margin		57.1%

EPS (continuing ops) FY 12/31

	Prior		Current			
	2016A	2017E	2017E	2018E	2018E	
1Q	\$0.29	--	\$0.28	A	--	--
2Q	\$0.33	--	\$0.34	A	--	--
3Q	\$0.41	--	\$0.43	A	--	--
4Q	\$0.28	\$0.31	\$0.30	--	--	
Year	\$1.32	\$1.35	\$1.35	\$1.40	\$1.43	
P/E	28.6x		28.0x		26.4x	

*Adjusted for special items

Revenue (\$MM)

	Prior		Current			
	2016A	2017E	2017E	2018E	2018E	
1Q	\$193	--	\$188	A	--	--
2Q	\$204	--	\$203	A	--	--
3Q	\$227	--	\$215	A	--	--
4Q	\$197	\$200	\$202	--	--	
Year	\$820	\$806	\$808	\$841	\$855	

Company Description: Aqua America is a water and wastewater utility holding company with operating subsidiaries serving ~3MM people. WTR provides regulated service to customers in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Indiana, Virginia. The company's history spans over 125 years.

Water Utilities

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Aqua America, Inc.

WTR – NYSE – Neutral-2

Waving the White Flag; Upgrading to Neutral.

Investment Highlights

- We are upgrading our rating on shares of Aqua America to Neutral from Underperform; we are removing our prior price target of \$30. Our suitability rating of '2' remains intact.
- Our rating change is substantially compelled by what we identify as a more balanced set of positive/negative near term catalysts for the stock as we move toward the New Year, coupled with upside to our 2017-2019 financial estimates as we refine our expectations for the next couple of years.
- Earned-ROE compression at Aqua is still a concern for us relative to peers, but see this item as mostly understood by the market and further neutralized by the return of rate activity in Pennsylvania. Having implemented a DSIC surcharge for the in-progress Q4, Aqua PA is on pace to file a base rate case next year.
- We view the pace of M&A deals as somewhat disappointing over the course of our Underperform rating, but see risk here as having improved with progress on filling the pipeline. As of the most recently reported quarter (in early November), Aqua had 5 muni purchases pending, representing ~14k customers and purchase prices of ~\$150MM.
- Aqua reiterated EPS guidance for 2017 in the range of \$1.34 to \$1.39 in early-November; we expect the range remains useful. Our 2017E EPS is unchanged at \$1.35, but our 2018/2019 EPS estimates move +\$0.03/+\$0.04 as we refine our rate outlook for the out years and remove a small level of conservatism.
- Summarily, our Neutral rating reflects a positive view toward core operations and long-term fundamentals, offset somewhat by just average near-term growth prospects and what we view as 'full' valuation.

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

SUITABILITY

We assign WTR a suitability rating of '2.' A complete description of our suitability scale is on page 5. We view Aqua America as a strong operator in the water space, and flag consistent cash flow and earnings predictability due to entrenched regulated monopoly franchises. High sensitivity to a single state (PA) versus some larger utility peers is the primary factor that pushes WTR just below our most conservative '1' suitability rating. A strong history of returning capital to shareholders, low cyclicity and industry-appropriate leverage keep the company well above our more aggressive '3' 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 Cap Ex are required to maintain infrastructure and expand rate base. Should WTR suffer from the 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. Assets can be subject to condemnation through eminent domain. The company's non-reg businesses provide performance guarantees and have long-term contracts. Additionally, WTR is subject to all other risks that result from operating as a public company.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Aqua America, Inc.

Income Statements (000's)	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Operating Revenues	\$779,903	\$814,204	\$192,607	\$203,876	\$226,593	\$196,799	\$819,875	\$187,787	\$203,418	\$215,008	\$201,890	\$808,100	\$855,280	\$890,860
Operating Expenses														
O & M	288,560	309,310	73,541	73,994	79,812	77,550	304,897	69,128	70,853	67,982	76,670	284,630	294,330	298,740
Depreciation	123,050	125,290	32,145	31,619	33,881	33,342	130,987	33,837	33,407	34,264	34,820	136,330	146,220	153,370
Amortization	3,480	3,447	450	528	389	654	2,021	189	127	42	660	1,020	1,020	1,020
Taxes other than Income	50,450	55,057	14,140	14,242	14,712	13,291	56,385	14,737	14,419	15,234	13,730	58,120	53,900	56,140
Operating Income	314,363	321,100	72,331	83,493	97,799	71,962	325,585	69,896	84,612	97,486	76,010	328,000	359,810	381,590
%	40.3%	39.4%	37.6%	41.0%	43.2%	36.6%	39.7%	37.2%	41.6%	45.3%	37.6%	40.6%	42.1%	42.8%
Other Expense / (Income):														
Interest, net	76,400	76,536	19,853	20,115	20,168	20,458	80,594	21,326	21,387	22,411	21,590	86,710	89,780	90,040
AFUDC	(5,130)	(6,219)	(2,308)	(1,871)	(2,267)	(2,369)	(8,815)	(3,193)	(3,463)	(3,914)	(3,500)	(14,070)	(14,070)	(14,070)
(Gain) on Asset Sale	0	(468)	(207)	(121)	(62)	12	(378)	(269)	(10)	(43)	(110)	(430)	(410)	(410)
(Gain) on Debt Extinguish	0	(678)												
Equity (Earnings) / Loss from JV	3,990	35,177	249	229	(1,621)	167	(976)	30	161	(593)	200	(200)	(200)	(200)
Income Before Tax	239,103	216,752	54,744	65,141	81,581	53,694	255,160	52,002	66,537	79,625	57,830	255,990	284,710	306,230
Income Tax	25,219	14,962	3,007	5,515	8,411	4,045	20,978	2,930	5,569	3,400	3,660	15,560	30,330	38,680
%	10.5%	6.9%	5.5%	8.5%	10.3%	7.5%	8.2%	5.6%	8.4%	4.3%	6.3%	6.1%	10.7%	12.6%
Net Income--Cont'd Ops	213,884	201,790	51,737	59,626	73,170	49,649	234,182	49,072	60,968	76,225	54,170	240,430	254,380	267,550
Net Income Avail to Common	\$233,239	\$201,790	\$51,737	\$59,626	\$73,170	\$49,649	\$234,182	\$49,072	\$60,968	\$76,225	\$54,170	\$240,440	\$254,390	\$267,550
EPS Disc Ops	\$0.11													
EPS Continuing Ops	\$1.20	\$1.14	\$0.29	\$0.33	\$0.41	\$0.28	\$1.32	\$0.28	\$0.34	\$0.43	\$0.30	\$1.35	\$1.43	\$1.50
EPS--Cont'd Ops; Ex-NonRecur	\$1.20	\$1.26	\$0.29	\$0.33	\$0.41	\$0.28	\$1.32	\$0.28	\$0.34	\$0.43	\$0.30	\$1.35	\$1.43	\$1.50
Diluted Avg Shares	177,763	177,763	177,819	178,084	177,817	177,880	177,846	177,969	178,045	178,124	178,143	178,070	178,191	177,970
Dividend	\$0.634	\$0.686	\$0.178	\$0.178	\$0.1913	\$0.1913	\$0.739	\$0.1913	\$0.1913	\$0.2047	\$0.2047	\$0.7920	\$0.8394	\$0.8800
Rate of Change Analysis:														
Revenues	2.4%	4.4%	1.2%	-0.9%	2.5%	-0.1%	0.7%	-2.5%	-0.2%	-5.1%	2.6%	-1.4%	5.8%	4.2%
Op Income	4.2%	2.1%	1.6%	4.0%	2.9%	-3.6%	1.4%	-3.4%	1.3%	-0.3%	5.6%	0.7%	9.7%	6.1%
EPS--Cont'd Ops; Ex-Items	4.8%	4.5%	6.6%	3.8%	8.3%	-0.7%	4.8%	-5.2%	2.3%	4.0%	8.9%	2.6%	5.7%	5.3%
EBITDA	3.6%	2.0%	2.4%	3.0%	3.3%	-1.2%	1.9%	-1.0%	2.2%	-0.2%	5.2%	1.5%	9.0%	5.7%
O&M Expense	1.8%	7.2%	0.5%	-7.2%	1.6%	-0.4%	-1.4%	-6.0%	-4.2%	-14.8%	-1.1%	-6.6%	3.4%	1.5%
Margin Analysis:														
O&M	37.0%	38.0%	38.2%	36.3%	35.2%	39.4%	37.2%	36.8%	34.8%	31.6%	38.0%	35.2%	34.4%	33.5%
Taxes other than Income	6.5%	6.8%	7.3%	7.0%	6.5%	6.8%	6.9%	7.8%	7.1%	7.1%	6.8%	7.2%	6.3%	6.3%
Op Income	40.3%	39.4%	37.6%	41.0%	43.2%	36.6%	39.7%	37.2%	41.6%	45.3%	37.6%	40.6%	42.1%	42.8%
Net Income	27.4%	24.8%	26.9%	29.2%	32.3%	25.2%	28.6%	26.1%	30.0%	35.5%	26.8%	29.8%	29.7%	30.0%
Tax Rate	10.5%	6.9%	5.5%	8.5%	10.3%	7.5%	8.2%	5.6%	8.4%	4.3%	6.3%	6.1%	10.7%	12.6%
							*FY 2016 EPS guide \$1.30-\$1.35					*FY 2017 EPS guide \$1.34-\$1.39		

Source: Company reports and Hilliard Lyons estimates

Aqua America, Inc.

Balance Sheet Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Cash	\$4,138	\$3,229	\$3,981	\$4,923	\$3,712	\$3,763	\$3,763	\$4,425	\$7,811	\$4,139	\$6,030	\$6,030	\$3,860	\$17,710
A/R	96,999	99,146	91,761	99,718	109,986	97,394	97,394	89,409	98,890	104,894	99,340	99,340	101,330	103,360
Other	51,385	25,995	26,991	27,791	27,703	27,493	27,493	28,629	31,390	29,309	28,040	28,040	28,600	29,170
Total Current Assets	152,522	128,370	122,733	132,432	141,401	128,650	128,650	122,463	138,091	138,342	133,410	133,410	133,790	150,240
Net PP&E	4,401,990	4,688,925	4,752,881	4,823,487	4,901,486	5,001,615	5,001,615	5,057,826	5,159,151	5,276,474	5,395,990	5,395,990	5,663,750	5,924,360
Regulatory Assets	725,591	830,118	859,830	887,135	911,455	948,647	948,647	974,853	1,003,808	1,044,787	1,044,790	1,044,790	1,046,790	1,046,790
Goodwill	31,184	33,866	42,304	42,234	41,921	42,208	42,208	42,266	42,266	42,230	42,230	42,230	42,330	42,330
Other	95,465	59,759	37,695	37,551	39,762	37,871	37,871	38,187	40,383	43,548	38,630	38,630	39,400	40,190
Total Assets	5,406,752	5,741,038	5,815,443	5,922,839	6,036,025	6,158,991	6,158,991	6,235,595	6,383,699	6,545,381	6,655,050	6,655,050	6,926,060	7,203,910
CP of LTD	58,615	35,593	29,096	38,212	83,777	150,671	150,671	119,296	143,567	84,704	154,051	154,051	94,797	1,200,812
Loans Payable	18,398	16,721	28,041	26,239	47,990	6,535	6,535	27,732	67,456	20,990	105,990	105,990	99,090	234,090
A/P	63,035	56,452	33,971	40,651	44,073	59,872	59,872	50,185	46,376	63,358	62,270	62,270	64,760	67,350
Other	85,287	84,433	83,235	74,118	76,158	84,458	84,458	80,387	75,148	83,898	86,150	86,150	87,870	89,630
Total Current Liab	225,335	193,199	174,343	179,220	251,998	301,536	301,536	277,600	332,547	252,950	408,461	408,461	346,517	1,591,882
LTD	1,560,655	1,743,612	1,744,108	1,775,874	1,726,493	1,737,605	1,737,605	1,797,511	1,822,581	1,952,473	1,780,034	1,780,034	1,964,288	858,273
Shareholders' Equity	1,655,383	1,725,930	1,760,707	1,791,163	1,832,200	1,850,668	1,850,668	1,867,227	1,896,530	1,938,265	2,227,730	2,227,730	2,398,090	2,559,080
Total Liab & SE	5,406,752	5,741,038	5,815,443	5,922,839	6,036,025	6,158,991	6,158,991	6,235,595	6,383,699	6,545,381	6,655,050	6,655,050	6,926,060	7,203,910
Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Net Income--Cont'd Ops	\$213,884	\$201,790	\$51,737	\$59,626	\$73,170	\$49,649	\$234,182	\$49,072	\$60,968	\$76,225	\$54,170	\$240,430	\$254,380	\$267,550
D&A	126,535	128,737	32,595	32,147	31,377	36,889	133,008	34,026	33,534	34,306	35,480	137,346	147,240	154,390
Deferred Income Tax	31,477	16,506	1,436	3,615	10,294	1,905	17,250	2,681	3,618	3,475	10,000	19,770	40,000	40,000
(Inc) / Dec in Working Cap	(25,333)	15,806	(17,290)	(11,194)	(4,718)	36,901	3,699	(6,909)	(21,290)	21,809	7,987	1,597	(220)	3,630
Operating CF	346,563	362,839	68,478	84,194	110,123	125,344	388,139	78,870	76,830	135,815	107,637	399,143	441,400	465,570
Cap ex	(328,605)	(364,689)	(72,984)	(95,603)	(101,432)	(112,977)	(382,996)	(94,562)	(113,910)	(129,259)	(130,000)	(467,731)	(395,000)	(400,000)
JV Investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	(112,106)	(121,248)	(31,513)	(31,558)	(33,923)	(33,929)	(130,923)	(33,945)	(33,975)	(36,366)	(36,466)	(140,752)	(149,574)	(156,611)
Release (Addition) of Const Funds	-	47	-	-	-	-	-	-	-	-	-	-	-	-
Free Cash Flow	(94,148)	(123,051)	(36,019)	(42,967)	(25,232)	(21,562)	(125,780)	(49,637)	(71,055)	(29,810)	(58,829)	(209,340)	(103,174)	(91,041)
FCF/Share														
Acquisitions	(14,616)	(28,989)	(4,461)	(1,165)	-	(3,797)	(9,423)	(220)	(5,545)	(95)	(25,000)	(30,860)	(20,000)	(15,000)
Divestitures	558	648	2,853	3,586	106	1,201	7,746	639	463	42	-	-	-	-
Proceeds from LT Debt	317,699	560,544	96,314	72,983	64,991	269,298	503,586	117,879	104,901	218,514	105,000	546,290	179,000	0
Repayments of LT Debt	(253,192)	(400,407)	(80,341)	(32,309)	(68,709)	(191,728)	(373,087)	(89,666)	(55,833)	(147,771)	(105,000)	(398,270)	(54,000)	0
Net Proceeds (Repayments) ST Debt	(18,342)	(1,677)	11,320	(1,802)	21,751	(41,455)	(10,186)	21,197	39,724	(46,466)	85,000	99,460	(6,900)	135,000
Net Change in Cash Overdraft	(322)	(739)	(17,250)	1,912	2,752	4,510	(8,076)	(2,403)	(10,213)	10,684	-	(1,930)	-	-
Repurchase of Common Stock	(15,756)	(25,247)	(2,827)	(32)	(46)	(123)	(3,028)	(2,053)	(40)	(23)	(3,776)	(5,892)	(15,104)	(15,104)
Net Cash Flow--Cont'd Ops	(70,823)	(10,701)	(27,263)	1,297	(613)	13,979	(12,600)	(2,368)	3,547	9,575	1,895	11,499	(2,178)	13,855
CF--Disc Ops	48,634	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	(22,189)	(10,701)	(27,263)	1,297	(613)	13,979	(12,600)	(2,368)	3,547	9,575	1,895	11,499	(2,178)	13,855
EBITDA	440,893	449,837	104,926	115,640	132,069	105,958	458,593	103,922	118,146	131,792	111,490	465,350	507,050	535,980
EBITDA margin	56.5%	55.2%	54.5%	56.7%	58.3%	53.8%	55.9%	53.3%	58.1%	61.3%	55.2%	57.6%	59.3%	60.2%
EV / TTM EBITDA	14.4x	15.7x	16.4x	17.9x	15.7x	15.8x	15.8x	16.7x	17.1x	17.3x	18.6x	18.6x	17.3x	16.3x
Selected Financial Statistics	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E
Book Value	\$9.32	\$9.74	\$9.90	\$10.06	\$10.30	\$10.40	\$10.40	\$10.49	\$10.65	\$10.88	\$12.51	\$12.51	\$13.46	\$14.39
Tangible BV	\$9.14	\$9.55	\$9.66	\$9.82	\$10.07	\$10.16	\$10.16	\$10.25	\$10.41	\$10.64	\$12.27	\$12.27	\$13.22	\$14.15
Cap Ex / Depreciation	2.6x	2.8x	2.2x	3.0x	3.2x	3.1x	2.9x	2.8x	3.4x	3.8x	3.7x	3.4x	2.7x	2.6x
Price / Book	2.9x	3.1x	3.2x	3.5x	3.0x	2.9x	2.9x	3.1x	3.1x	3.1x	3.0x	3.0x	2.8x	2.6x
Total Net Debt/ Total Capital	49.7%	50.9%	50.5%	50.6%	50.3%	50.5%	50.5%	51.0%	51.6%	51.4%	47.7%	47.7%	47.3%	47.1%
LT Debt/Total Capital	48.5%	50.3%	49.8%	49.8%	48.5%	48.4%	48.4%	49.0%	49.0%	50.2%	44.4%	44.4%	45.0%	25.1%
ROE (TTM)--adj for Q4'15 JV chg	13.5%	13.1%	13.2%	13.1%	13.3%	13.1%	13.1%	12.7%	12.6%	12.6%	12.3%	12.3%	11.3%	11.1%

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

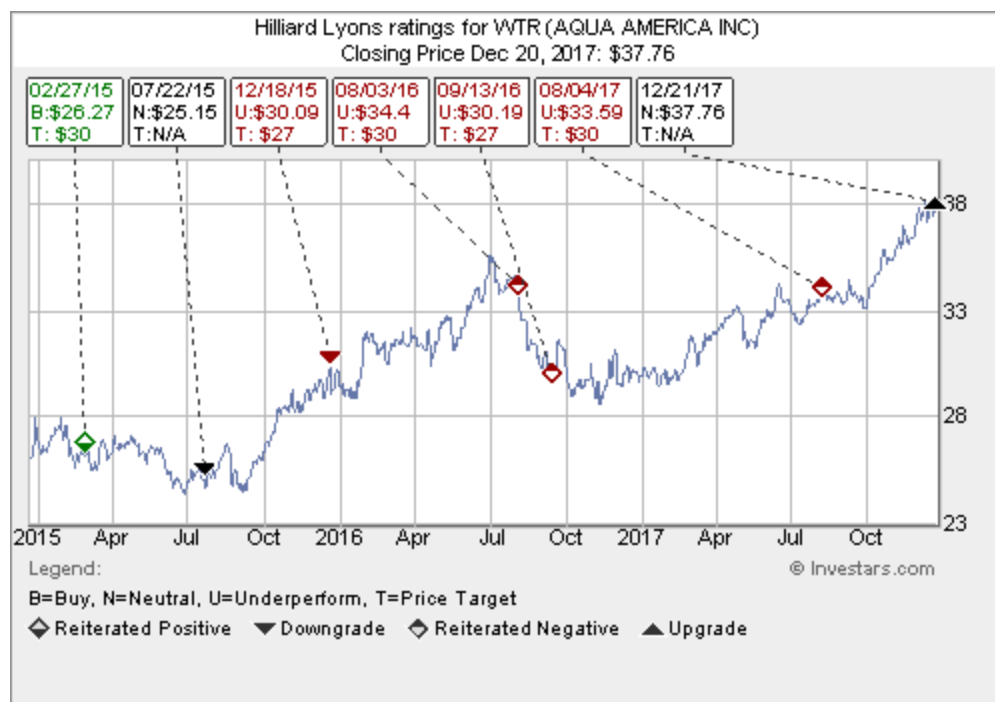
Investment Ratings

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	31	28%	13%	87%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 6 December 2017

Other Disclosures

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