



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

WTR - NYSE - as of	5/3/17	\$32.72
Price Target		\$27.00
52-Week Range	\$28.03 -	\$35.83
Shares Outstanding (mm)		177.4
Market Cap. (\$mm)		\$5,806.0
1-Mo. Average Daily Volume		693,471
Institutional Ownership		52.8%
LTD / Total Capital	Q1'17	49.0%
ROE--Adj	TTM	12.7%
Book Value / Share	Q1'17	\$10.49
Price / Book Value		3.1x
Dividend Yield		2.3%
LTM EBITDA Margin		56.1%

EPS (continuing ops) FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.29	--	\$0.28	A --	--
2Q	\$0.33	\$0.35	\$0.35	--	--
3Q	\$0.41	\$0.41	\$0.41	--	--
4Q	\$0.28	\$0.31	\$0.30	--	--
Year	\$1.32	\$1.37	\$1.34	\$1.41	\$1.39
P/E	24.8x		24.4x		23.5x

*Adjusted for special items

Revenue (\$MM)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$193	--	\$188	A --	--
2Q	\$204	\$205	\$201	--	--
3Q	\$227	\$229	\$224	--	--
4Q	\$197	\$203	\$200	--	--
Year	\$820	\$831	\$812	\$861	\$848

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 – Underperform-2

Down Q1 at WTR; Reiterating Underperform Rating. Investment Highlights

- Aqua America reported Q1'17 EPS of \$0.28, down a penny from the year-ago period; results missed our estimate for \$0.30, which was in line with consensus.
- Revenue slid 2.5% to \$188MM in Q1, below our target of \$194MM and consensus at \$195MM. About \$2.5MM of our miss is attributable to divesting market-based businesses, though this has little impact on overall profitability. A bit more impactful, we underestimated a \$2MM headwind from usage trends.
- Four muni acquisitions representing ~8,800 customers and purchase consideration of \$113.1MM remain in various pending stages. We maintain that a few 'wins' in the M&A arena would be positive for the narrative.
- O&M expense fell 6.0% in Q1, but similar to revenue, comparisons are a bit skewed by the exiting/divestiture of market-based businesses. In our view, same system O&M growth of +1% to 2% in 2017 is achievable.
- Q1 Cap Ex at \$95MM was below our model, but still well above Q1'16's \$73MM spend. The 2017-2019 target for investment remains \$1.2B, excluding M&A.
- Aqua reiterated EPS guidance for 2017 in the range of \$1.34 to \$1.39; given the downside to our Q1, our 2017E EPS now rests on the bottom bound of the range. Our 2018E EPS slides \$0.02 to \$1.41.
- We calculate TTM ROE at 12.7%, an (adjusted) low point since the Q4'12 implementation of 'repair tax' accounting. This bodes well for potential rate activity, with guidance firming around PA surcharge and general rate filings in 2017 and 2018, respectively.
- We are reiterating our Underperform rating and 1-year \$27 price target. At our target, WTR would trade ~20x our 2017E EPS, which we view as fair value given continued expectations for ROE compression and projections for below-industry near-term EPS growth.

**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	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Operating Revenues	\$779,903	\$814,204	\$192,607	\$203,876	\$226,593	\$196,799	\$819,875	\$187,787	\$200,940	\$223,800	\$199,660	\$812,190	\$847,600
Operating Expenses													
O & M	288,560	309,310	73,541	73,994	79,812	77,550	304,897	69,128	67,790	71,810	73,510	282,240	286,470
Depreciation	123,050	125,290	32,145	31,619	33,881	33,342	130,987	33,837	33,650	36,220	36,150	139,860	150,020
Amortization	3,480	3,447	450	528	389	654	2,021	189	530	390	660	1,770	1,770
Taxes other than Income	50,450	55,057	14,140	14,242	14,712	13,291	56,385	14,737	12,860	13,650	13,580	54,830	53,370
Operating Income	314,363	321,100	72,331	83,493	97,799	71,962	325,585	69,896	86,110	101,730	75,760	333,490	355,970
%	40.3%	39.4%	37.6%	41.0%	43.2%	36.6%	39.7%	37.2%	42.9%	45.5%	37.9%	41.1%	42.0%
Other Expense / (Income):													
Interest, net	76,400	76,536	19,853	20,115	20,168	20,458	80,594	21,326	19,230	19,380	19,510	79,450	81,030
AFUDC	(5,130)	(6,219)	(2,308)	(1,871)	(2,267)	(2,369)	(8,815)	(3,193)	(1,250)	(950)	(750)	(6,140)	(4,200)
(Gain) on Asset Sale	0	(468)	(207)	(121)	(62)	12	(378)	(269)	(100)	(100)	(110)	(580)	(410)
(Gain) on Debt Extinguish	0	(678)											
Equity (Earnings) / Loss from JV	3,990	35,177	249	229	(1,621)	167	(976)	30	150	150	200	530	(200)
Income Before Tax	239,103	216,752	54,744	65,141	81,581	53,694	255,160	52,002	68,080	83,250	56,910	260,230	279,750
Income Tax	25,219	14,962	3,007	5,515	8,411	4,045	20,978	2,930	5,850	9,950	3,300	22,030	32,170
%	10.5%	6.9%	5.5%	8.5%	10.3%	7.5%	8.2%	5.6%	8.6%	12.0%	5.8%	8.5%	11.5%
Net Income--Cont'd Ops	213,884	201,790	51,737	59,626	73,170	49,649	234,182	49,072	62,230	73,300	53,610	238,200	247,580
Net Income Avail to Common	\$233,239	\$201,790	\$51,737	\$59,626	\$73,170	\$49,649	\$234,182	\$49,072	\$62,230	\$73,300	\$53,610	\$238,210	\$247,580
EPS Disc Ops	\$0.11												
EPS Continuing Ops	\$1.20	\$1.14	\$0.29	\$0.33	\$0.41	\$0.28	\$1.32	\$0.28	\$0.35	\$0.41	\$0.30	\$1.34	\$1.39
EPS--Cont'd Ops; Ex-NonRecur	\$1.20	\$1.26	\$0.29	\$0.33	\$0.41	\$0.28	\$1.32	\$0.28	\$0.35	\$0.41	\$0.30	\$1.34	\$1.39
Diluted Avg Shares	177,763	177,763	177,819	178,084	177,817	177,880	177,846	177,969	178,007	178,044	178,082	178,025	178,175
Dividend	\$0.634	\$0.686	\$0.178	\$0.178	\$0.1913	\$0.1913	\$0.739	\$0.1913	\$0.1913	\$0.2000	\$0.2000	\$0.7826	\$0.7826
Rate of Change Analysis:													
Revenues	2.4%	4.4%	1.2%	-0.9%	2.5%	-0.1%	0.7%	-2.5%	-1.4%	-1.2%	1.5%	-0.9%	4.4%
Op Income	4.2%	2.1%	1.6%	4.0%	2.9%	-3.6%	1.4%	-3.4%	3.1%	4.0%	5.3%	2.4%	6.7%
EPS--Cont'd Ops; Ex-Items	4.8%	4.5%	6.6%	3.8%	8.3%	-0.7%	4.8%	-5.2%	4.4%	0.0%	7.9%	1.6%	3.8%
EBITDA	3.6%	2.0%	2.4%	3.0%	3.3%	-1.2%	1.9%	-1.0%	4.0%	4.7%	6.2%	3.6%	6.9%
O&M Expense	1.8%	7.2%	0.5%	-7.2%	1.6%	-0.4%	-1.4%	-6.0%	-8.4%	-10.0%	-5.2%	-7.4%	1.5%
Margin Analysis:													
O&M	37.0%	38.0%	38.2%	36.3%	35.2%	39.4%	37.2%	36.8%	33.7%	32.1%	36.8%	34.8%	33.8%
Taxes other than Income	6.5%	6.8%	7.3%	7.0%	6.5%	6.8%	6.9%	7.8%	6.4%	6.1%	6.8%	6.8%	6.3%
Op Income	40.3%	39.4%	37.6%	41.0%	43.2%	36.6%	39.7%	37.2%	42.9%	45.5%	37.9%	41.1%	42.0%
Net Income	27.4%	24.8%	26.9%	29.2%	32.3%	25.2%	28.6%	26.1%	31.0%	32.8%	26.9%	29.3%	29.2%
Tax Rate	10.5%	6.9%	5.5%	8.5%	10.3%	7.5%	8.2%	5.6%	8.6%	12.0%	5.8%	8.5%	11.5%
							*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	Q1'17p	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	\$4,138	\$3,229	\$3,981	\$4,923	\$3,712	\$3,763	\$3,763	\$2,000	\$5,800	\$11,780	\$13,950	\$13,950	\$45,400
A/R	96,999	99,146	91,761	99,718	109,986	97,394	97,394	94,000	101,710	112,190	99,340	99,340	101,330
Other	51,385	25,995	26,991	27,791	27,703	27,493	27,493	26,463	28,350	28,260	28,040	28,040	28,600
Total Current Assets	152,522	128,370	122,733	132,432	141,401	128,650	128,650	122,463	135,860	152,230	141,330	141,330	175,330
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	5,156,150	5,314,540	5,407,730	5,407,730	5,670,940
Regulatory Assets	725,591	830,118	859,830	887,135	911,455	948,647	948,647	951,000	951,000	951,000	951,000	951,000	953,000
Goodwill	31,184	33,866	42,304	42,234	41,921	42,208	42,208	42,300	42,300	42,300	42,300	42,300	42,400
Other	95,465	59,759	37,695	37,551	39,762	37,871	37,871	62,006	38,300	40,560	38,630	38,630	39,400
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	6,323,610	6,500,630	6,580,990	6,580,990	6,881,070
CP of LTD	58,615	35,593	29,096	38,212	83,777	150,671	150,671	147,028	103,092	103,092	54,051	54,051	94,797
Loans Payable	18,398	16,721	28,041	26,239	47,990	6,535	6,535	10,000	85,000	105,200	135,200	135,200	150,200
A/P	63,035	56,452	33,971	40,651	44,073	59,872	59,872	35,000	42,280	45,840	62,270	62,270	64,760
Other	85,287	84,433	83,235	74,118	76,158	84,458	84,458	85,572	75,600	77,680	86,150	86,150	87,870
Total Current Liab	225,335	193,199	174,343	179,220	251,998	301,536	301,536	277,600	305,972	331,812	337,671	337,671	397,627
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	1,713,729	1,663,729	1,712,770	1,712,770	1,692,024
Shareholders' Equity	1,655,383	1,725,930	1,760,707	1,791,163	1,832,200	1,850,068	1,850,068	1,867,227	2,071,580	2,268,600	2,281,610	2,281,610	2,564,140
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	6,323,610	6,500,630	6,580,990	6,580,990	6,881,070
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--Cont'd Ops	\$213,884	\$201,790	\$51,737	\$59,626	\$73,170	\$49,649	\$234,182	\$49,072	\$62,230	\$73,300	\$53,610	\$238,200	\$247,580
D&A	126,535	128,737	32,595	32,147	31,377	36,889	133,008	34,026	34,180	36,610	36,810	141,626	151,790
Deferred Income Tax	31,477	16,506	1,436	3,615	10,294	1,905	17,250	10,000	10,000	10,000	10,000	40,000	40,000
(Inc) / Dec in Working Cap	(25,333)	15,806	(17,290)	(11,194)	(4,718)	36,901	3,699	(19,334)	(12,289)	(4,750)	36,140	(233)	1,610
Operating CF	346,563	362,839	68,478	84,194	110,123	125,344	388,139	73,764	94,121	115,160	136,560	419,593	440,980
Cap ex	(328,605)	(364,689)	(72,984)	(95,603)	(101,432)	(112,977)	(382,996)	95,000	(115,000)	(120,000)	(105,000)	(245,000)	(395,000)
JV Investment	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	(112,106)	(121,248)	(31,513)	(31,558)	(33,923)	(33,929)	(130,923)	(34,045)	(34,053)	(35,609)	(35,616)	(139,323)	(139,441)
Release (Addition) of Const Funds	-	47	-	-	-	-	-	-	-	-	-	-	-
Free Cash Flow	(94,148)	(123,051)	(36,019)	(42,967)	(25,232)	(21,562)	(125,780)	134,719	(54,932)	(40,449)	(4,056)	35,270	(93,461)
FCF/Share													
Acquisitions	(14,616)	(28,989)	(4,461)	(1,165)	-	(3,797)	(9,423)	(100)	(17,500)	(75,000)	(25,000)	(117,600)	(20,000)
Divestitures	558	648	2,853	3,586	106	1,201	7,746	-	-	-	-	-	-
Proceeds from LT Debt	317,699	560,544	96,314	72,983	64,991	269,298	503,586	-	-	172,000	105,000	277,000	179,000
Repayments of LT Debt	(253,192)	(400,407)	(80,341)	(32,309)	(68,709)	(191,728)	(373,087)	-	-	(72,000)	(105,000)	(177,000)	(54,000)
Net Proceeds (Repayments) ST Debt	(18,342)	(1,677)	11,320	(1,802)	21,751	(41,455)	(10,186)	20,000	75,000	20,200	30,000	145,200	15,000
Net Change in Cash Overdraft	(322)	(739)	(17,250)	1,912	2,752	4,510	(8,076)	-	-	-	-	-	-
Repurchase of Common Stock	(15,756)	(25,247)	(2,827)	(32)	(46)	(123)	(3,028)	(3,272)	(3,272)	(3,272)	(3,272)	(13,088)	(13,088)
Net Cash Flow--Cont'd Ops	(70,823)	(10,701)	(25,911)	(55)	739	12,627	(12,600)	155,847	3,796	5,979	2,172	167,782	31,451
CF--Disc Ops	48,634	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	(22,189)	(10,701)	(25,911)	(55)	739	12,627	(12,600)	155,847	3,796	5,979	2,172	167,782	31,451
EBITDA	440,893	449,837	104,926	115,640	132,069	105,958	458,593	103,922	120,290	138,340	112,570	475,120	507,760
EBITDA margin	56.5%	55.2%	54.5%	56.7%	58.3%	53.8%	55.9%	55.3%	59.9%	61.8%	56.4%	58.5%	59.9%
EV / TTM EBITDA	14.4x	15.7x	16.4x	17.9x	15.7x	16.8x	16.8x	17.0x	16.5x	16.2x	16.0x	16.0x	14.9x
Selected Financial Statistics	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
Book Value	\$9.32	\$9.74	\$9.90	\$10.06	\$10.30	\$10.40	\$10.40	\$10.49	\$11.64	\$12.74	\$12.81	\$12.81	\$14.39
Tangible BV	\$9.14	\$9.55	\$9.66	\$9.82	\$10.07	\$10.16	\$10.16	\$10.25	\$11.40	\$12.50	\$12.57	\$12.57	\$14.15
Cap Ex / Depreciation	2.6x	2.8x	2.2x	3.0x	3.2x	3.1x	2.9x	-2.8x	3.4x	3.3x	2.9x	1.7x	2.6x
Price / Book	2.9x	3.1x	3.2x	3.5x	3.0x	3.1x	3.1x	3.1x	2.8x	2.6x	2.6x	2.6x	2.3x
Total Net Debt/ Total Capital	49.7%	50.9%	50.5%	50.6%	50.3%	50.5%	50.5%	51.1%	47.8%	45.1%	45.3%	45.3%	42.5%
LT Debt/Total Capital	48.5%	50.3%	49.8%	49.8%	48.5%	48.4%	48.4%	49.0%	45.3%	42.3%	42.9%	42.9%	39.8%
ROE (TTM)--adj for Q4'15 JV chg	13.5%	13.1%	13.2%	13.1%	13.3%	13.1%	13.1%	12.7%	12.4%	11.8%	11.5%	11.5%	10.2%

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

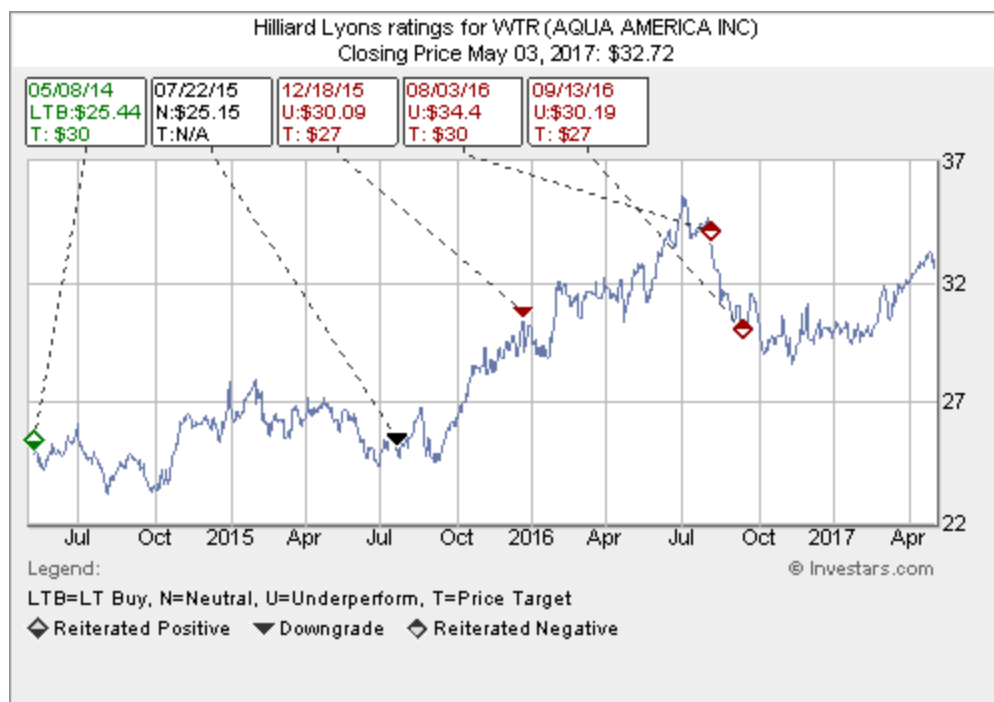
Investment Ratings

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	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.

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