



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

YORW - NASDAQ - as of	11/1/17	\$33.40
Price Target		\$27.00
52-Week Range	\$29.10 -	\$39.86
Shares Outstanding (mm)		12.8
Market Cap. (\$mm)		\$429.1
1-Mo. Average Daily Volume		24,880
Institutional Ownership		36.9%
LT Debt/Total Capital	Q3'17	43.1%
ROE	TTM	18.6%
Book Value / Share	Q3'17	\$9.15
Price / Book Value		3.6x
Dividend Yield		1.9%
EBITDA Margin	FY'16	61.6%

EPS FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.19	--	\$0.20	A --	--
2Q	\$0.22	--	\$0.23	A --	--
3Q	\$0.28	--	\$0.31	A --	--
4Q	\$0.23	\$0.25	\$0.25	--	--
Year	\$0.92	\$0.96	\$0.99	\$0.99	\$1.00
P/E	36.3x		33.7x		33.4x

Total Operating Revenue (\$MM)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$11.3	--	\$11.3	A --	--
2Q	\$11.8	--	\$12.3	A --	--
3Q	\$12.6	--	\$12.7	--	--
4Q	\$11.9	\$12.3	\$12.3	--	--
Year	\$47.6	\$48.9	\$48.7	\$51.0	\$51.0

Company Description: *The York Water Company impounds, purifies, and distributes water within its franchise in York and Adams Counties in Pennsylvania. The company has its own distribution system that supplies water to several adjacent areas. York Water serves a population of approximately 196,000 and its average daily consumption is approximately 18.8 million gallons.*

Water Utilities

Analyst: Spencer E. Joyce, CFA
502.588.8402 // sjoyce@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 // gmoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
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The York Water Company

YORW – NASDAQ – Underperform-3

Q3'17 Results for YORW; Reiterating Underperform.

Investment Highlights

- York reported Q3'17 EPS of \$0.31, up three cents versus the prior year; we were looking for EPS to be flat yr/yr, as the only published estimate. A lower effective tax rate and higher AFUDC (interest offset) more than offset a 4.2% decline in operating income.
- Revenue grew 0.7% in Q3, missing our target for +3.2%; DSIC surcharges and customer growth were offset by lower consumption per capita.
- York's Q3'17 effective tax rate was 22.0%, down from 27.8% in the year-ago period and comfortably below our estimate of 28.3%. Continued variance from timing of asset improvements qualifying for IRS deductions drove the decline; leaving Q4 assumptions, our FY effective rate for 2017 falls ~210bps to 25.8%. We trim our 2018 effective rate by ~100bp at this time.
- Q3 Cap Ex at \$6.7MM was more than double YORW's spend in the year-ago period; YTD Cap Ex of \$20.6MM is higher by ~149%. We continue to view this trend as a positive for revenue growth over the next couple of years.
- Having said that, combined O&M plus G&A were 36.2% of revenue in Q3'17, higher by 200bps yr/yr. While slightly better performance sequentially, we worry about revenue growth translating to EPS growth, particularly as York continues to acquire.
- Our 2017 forecasts move slightly in deference to Q3, while 2018 EPS moves up a penny primarily on tax assumptions. We are initiating a 2019 EPS estimate of \$1.05
- We are reiterating our Underperform rating and our \$27 price target. With rising capital spend, core operations at York appear modestly attractive, but we see negative risk/reward based on valuation. Our target values YORW at a TTM P/E of ~27x based on our 2018 estimates, which we believe is reasonable based on peer comparisons.

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

SUITABILITY

We assign YORW a suitability rating of ‘3.’ A complete description of our suitability scale is on page 5. York’s small-cap status, relatively low trading volume and a lack of regional diversification keep YORW below our ‘2’ suitability rating. A long history of capital return, industry-appropriate leverage, and tenured monopoly franchises keep York well above our more aggressive ‘4’ 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 YORW’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/or the utility’s ability to supply water to customers. Risks associated with the collection, treatment, and disposal of wastewater could also impose significant costs.

Significant capital expenditures are required to maintain infrastructure and expand rate base. Should the company 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. Water assets can be subject to condemnation through eminent domain.

York Water operates with limited geographic diversity. As such, the company’s operating results may be more sensitive to negative events that directly affect its regions of operations. Additionally, the company is subject to all other risks that result from operating as a publicly traded company.

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

Additional information is available upon request.

The York Water Company

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
Water Operating Revenue:														
Residential	\$29,079	\$29,682	\$7,231	\$7,491	\$7,911	7,509	\$30,142	\$7,259	\$7,886	\$8,102	\$7,970	\$31,220	\$33,480	\$35,270
Commercial & Industrial	13,267	13,822	3,145	3,435	3,777	3,403	13,760	3,139	3,450	3,673	3,400	13,770	13,770	13,770
Other	3,554	3,585	902	894	913	973	3,682	892	918	917	970	3,700	3,700	3,700
Total Rev	45,900	47,089	11,278	11,820	12,601	11,885	47,584	11,290	12,254	12,692	12,340	48,690	50,950	52,740
Operating Expenses:														
O & M	7,968	8,066	1,893	2,028	2,098	2,012	8,031	2,026	2,262	2,362	2,110	8,760	9,260	9,780
Gen & Admin	8,812	9,082	2,214	2,274	2,217	2,424	9,129	2,393	2,489	2,236	2,470	9,590	9,780	9,980
D & A	5,932	6,151	1,627	1,555	1,614	1,626	6,422	1,681	1,686	1,697	1,760	6,820	7,160	7,350
Taxes other than Income	1,111	1,129	330	268	258	258	1,114	333	288	250	260	1,130	1,140	1,140
Total Exp	23,823	24,428	6,064	6,125	6,187	6,320	24,696	6,433	6,725	6,545	6,600	26,300	27,340	28,250
Operating Income	22,077	22,661	5,214	5,695	6,414	5,565	22,888	4,857	5,529	6,147	5,740	22,390	23,610	24,490
Interest Exp and Other Income:														
LTD Interest	(5,087)	(5,053)	(1,305)	(1,316)	(1,320)	(1,324)	(5,265)	(1,316)	(1,326)	(1,346)	(1,346)	(5,334)	(5,384)	(5,384)
ST Debt Interest											(19)	(19)	(75)	(22)
AFUDC	210	206	53	47	51	77	228	123	196	311	65	695	260	260
Gain on Sale	316	-	-	-	-	36.00	36	-	-	-	-	-	-	-
Other Income / (Expense), net	(1,155)	(585)	(163)	(99)	(196)	(174)	(632)	(126)	(94)	(73)	(200)	(493)	(400)	(400)
Total	(5,716)	(5,432)	(1,415)	(1,368)	(1,465)	(1,385)	(5,633)	(1,319)	(1,224)	(1,108)	(1,500)	(5,151)	(5,599)	(5,546)
EBT	16,361	17,229	3,799	4,327	4,949	4,180	17,255	3,538	4,305	5,039	4,240	17,239	18,011	18,944
Income Tax	4,877	4,740	1,313	1,480	1,378	1,238	5,409	957	1,370	1,108	1,020	4,455	5,190	5,490
Net income	\$11,484	\$12,489	\$2,486	\$2,847	\$3,571	\$2,942	\$11,846	\$2,581	\$2,935	\$3,931	\$3,220	\$12,784	\$12,821	\$13,454
Basic EPS	\$0.89	\$0.97	\$0.19	\$0.2216	\$0.2775	\$0.23	\$0.92	\$0.20	\$0.23	\$0.31	\$0.25	\$0.99	\$1.00	\$1.05
Avg Shares Outstanding	12,880	12,832	12,848	12,850	12,868	12,863	12,846	12,852	12,889	12,847	12,847	12,976	12,857	12,862
Dividend	\$ 0.5788	\$ 0.6040	\$ 0.1555	\$ 0.1555	\$ 0.1555	\$ 0.1602	\$ 0.6267	\$ 0.1602	\$ 0.1602	\$ 0.1602	\$ 0.1634	\$ 0.6440	\$ 0.6569	\$ 0.6700
payout ratio	65%	62%					68%					65%	66%	64%
Rate of Change Analysis:														
Revenues	8.3%	2.6%	0.6%	-0.6%	1.9%	2.3%	1.1%	0.1%	3.7%	0.7%	3.8%	2.3%	4.6%	3.5%
Operating income	6.3%	2.6%	1.6%	0.2%	1.0%	1.3%	1.0%	-6.8%	-2.9%	-4.2%	3.1%	-2.2%	5.4%	3.7%
EPS	19.8%	8.9%	-1.8%	-2.6%	0.8%	-16.7%	-5.4%	3.8%	2.8%	10.3%	9.6%	6.9%	1.2%	4.9%
EBITDA	5.7%	2.9%	2.4%	0.9%	1.7%	2.0%	1.7%	-4.4%	-0.5%	-2.3%	4.3%	-0.3%	5.3%	3.5%
Operating Expenses	10.2%	2.5%	-0.2%	-1.4%	2.9%	3.2%	1.1%	6.1%	9.8%	5.8%	4.4%	6.5%	4.0%	3.3%
Margin Analysis:			36.4%	36.4%	34.2%	37.3%		39.1%	38.8%	36.2%	37.1%			
O&M	17.4%	17.1%	16.8%	17.2%	16.6%	16.9%	16.9%	17.9%	18.5%	18.6%	17.1%	18.0%	18.2%	18.5%
Gen & Admin	19.2%	19.3%	19.6%	19.2%	17.6%	20.4%	19.2%	21.2%	20.3%	17.6%	20.0%	19.7%	19.2%	18.9%
Taxes other than Income	2.4%	2.4%	2.9%	2.3%	2.0%	2.2%	2.3%	2.9%	2.4%	2.0%	2.1%	2.3%	2.2%	2.2%
Operating Income	48.1%	48.1%	46.2%	48.2%	50.9%	46.8%	48.1%	43.0%	45.1%	48.4%	46.5%	46.0%	46.3%	46.4%
Net Income	25.0%	26.5%	22.0%	24.1%	28.3%	24.8%	24.9%	22.9%	24.0%	31.0%	26.1%	26.3%	25.2%	25.5%
TaxRate	29.8%	27.5%	34.6%	34.2%	27.8%	29.6%	31.3%	27.0%	31.8%	22.0%	24.1%	25.8%	28.8%	29.0%

*Exp +1700
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Source: Company reports and Hilliard Lyons estimates

The York Water Company

The York Water Company														
Summary Balance Sheet	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	\$1,488	\$2,879	\$3,217	\$5,009	\$6,199	\$4,209	\$4,209	\$440	\$2	\$2	\$870	\$870	\$2,440	\$2,360
A/R	3,991	3,535	3,583	3,814	4,404	4,296	4,296	3,998	4,234	4,377	4,380	4,380	4,470	4,560
Unbilled Rev	2,377	2,614	2,510	2,444	2,369	2,429	2,429	2,202	2,492	2,425	2,480	2,480	2,530	2,580
Other CAs	3,377	2,764	2,249	1,746	1,869	1,686	1,686	2,364	1,672	1,790	2,271	2,271	2,363	2,423
Total Current Assets	11,233	11,792	11,559	13,013	14,841	12,620	12,620	9,004	8,400	8,594	10,001	10,001	11,803	11,923
Net PP&E	253,194	261,420	261,881	263,682	265,411	270,907	270,907	275,369	283,338	287,610	290,850	290,850	297,690	317,590
Deferred Reg Assets	32,614	32,996	33,278	33,368	34,015	33,027	33,027	33,294	33,440	34,386	34,730	34,730	36,140	37,610
Other	7,298	7,283	4,500	3,976	3,878	3,940	3,940	4,012	4,078	4,189	4,020	4,020	4,100	4,180
Total Assets	\$304,339	\$313,491	\$311,218	\$314,039	\$318,145	\$320,494	\$320,494	\$321,679	\$329,256	\$334,779	\$339,601	\$339,601	\$349,733	\$371,303
CP of LTD	43	44	44	44	54	44	44	44	44	44	40	40	11,090	6,500
ST Borrowings	0	0					0			1,000	4,000	4,000	3,500	2,000
A/P	1,589	1,772	1,947	1,609	1,647	3,669	3,669	3,373	5,148	3,992	3,740	3,740	3,810	3,890
Other CLs	4,298	4,381	4,552	4,361	4,503	4,471	4,471	4,701	4,607	5,042	4,887	4,887	5,085	5,215
Total Current Liabilities	5,930	6,197	6,543	6,014	6,204	8,184	8,184	8,118	9,799	10,078	12,667	12,667	23,485	17,605
LTD	84,842	87,261	84,543	84,569	84,584	84,609	84,609	84,634	88,166	88,930	88,930	88,930	77,890	82,470
Deferred Income Tax	46,024	50,495	50,783	51,357	52,815	54,169	54,169	55,516	56,750	58,809	59,580	59,580	63,480	67,610
CIAC	31,052	34,930	35,107	35,104	35,245	36,654	36,654	36,565	7,483	36,833	31,196	31,196	32,460	33,294
Other	31,928	25,538	23,948	25,018	25,678	22,817	22,817	22,565	51,808	22,556	22,780	22,780	23,700	24,660
Shareholders' Equity	104,563	109,070	110,294	111,977	113,619	114,061	114,061	114,281	115,250	117,573	124,448	124,448	128,718	145,664
Total Liab & SE	\$304,339	\$313,491	\$311,218	\$314,039	\$318,145	\$320,494	\$320,494	\$321,679	\$329,256	\$334,779	\$339,601	\$339,601	\$349,733	\$371,303
Summary Cash Flow	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	\$11,484	\$12,489	\$2,486	\$2,847	\$3,571	\$2,942	\$11,846	\$2,581	\$2,935	\$3,931	\$3,220	\$12,780	\$12,820	\$13,450
D&A	5,932	6,151	1,627	1,555	1,614	1,626	6,422	1,681	1,686	1,697	1,760	6,820	7,160	7,350
Deferred Tax	4,753	2,270	244	363	443	596	1,646	667	714	721	770	2,870	3,900	4,130
(Inc) / Dec in Wrk Cap	(3,991)	1,098	917	(191)	(458)	2,221	2,489	(219)	1,847	(915)	(950)	(240)	30	10
Operating CF	18,178	22,008	5,274	4,574	5,170	7,385	22,403	4,710	7,182	5,434	4,800	22,230	23,910	24,940
Cap Ex	(14,139)	(13,844)	(1,921)	(3,088)	(3,293)	(4,856)	(13,158)	(6,413)	(7,454)	(6,761)	(5,000)	(25,628)	(14,000)	(15,500)
Acquisitions	(369)	(352)	(5)	(24)	-	(21)	(50)	(511)	39	0	(75)	(547)	(300)	(300)
Dividends	(7,402)	(7,682)	(1,980)	(1,987)	(1,993)	(1,996)	(7,956)	(2,056)	(2,061)	(2,051)	(2,100)	(8,270)	(8,440)	(8,610)
Free Cash Flow	(3,732)	130	1,368	(525)	(116)	512	1,239	(4,270)	(2,294)	(3,378)	(2,375)	(12,215)	1,170	530
Cust Adv & CIAC	638	1,117	198	694	828	49	1,769	101	672	542	250	1,565	940	940
LTD Proceeds	14,880	14,301	-	-	-	-	-	-	7,911	7,985	-	15,896	0	11,085
LTD (Repay)	(14,923)	(11,886)	(11)	(11)	(11)	(20)	(53)	(11)	(4,415)	(7,257)	(10)	(11,693)	(40)	(11,125)
Net LOC Borrow / (Repay)	-	-	-	-	-	-	-	-	-	1,000	3,000	4,000	(500)	(1,500)
Stock Issued, Net	(5,692)	(2,546)	733	835	71	(465)	1,174	(303)	1,321	444	0	1,462	-	-
Net Cash Flow	(8,829)	1,116	2,288	993	772	76	4,129	(4,483)	3,195	(664)	865	(985)	1,570	(70)
EBITDA	28,009	28,812	6,841	7,250	8,028	7,191	29,310	6,538	7,215	7,844	7,500	29,210	30,770	31,840
EBITDA Margin	61.0%	61.2%	60.7%	61.3%	63.7%	60.5%	61.6%	57.9%	58.9%	61.8%	60.8%	60.0%	60.4%	60.4%
EV / TTM EBITDA	13.5x	14.0x	16.3x	16.9x	15.8x	19.5x	19.5x	18.4x	18.5x	10.2x	17.8x	17.8x	16.8x	16.2x
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	\$8.23	\$8.51	\$8.58	\$8.71	\$8.83	\$8.87	\$8.87	\$8.89	\$8.94	\$9.15	\$9.69	\$9.69	\$10.02	\$11.33
Price / Book	2.8x	2.9x	3.6x	3.7x	3.4x	4.3x	4.3x	3.9x	3.9x	3.7x	3.4x	3.4x	3.3x	2.9x
LTD / Total Cap	44.8%	44.4%	43.4%	43.0%	42.7%	42.6%	42.6%	42.5%	43.3%	43.1%	41.7%	41.7%	37.7%	36.1%
ROE (TTM)	11.1%	11.7%	11.5%	11.3%	11.2%	10.6%	10.6%	10.6%	18.7%	18.6%	10.8%	10.8%	10.1%	10.0%
ROA (TTM)	4.0%	4.1%	4.0%	4.0%	4.0%	3.8%	3.8%	3.8%	6.6%	6.6%	3.8%	3.8%	3.7%	3.8%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

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	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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