

AMERICAN STATES WATER COMPANY (NYSE: AWR)



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

American States Water Company ("AWR") operates as a holding company, which engages in the purchase, production, distribution and sale of water. It operates through the following segments: Water, Electric and Contracted Services. The company was founded on December 1, 1929 and is headquartered in San Dimas, CA.

Investment Thesis:

- **American States Water has shown strong financial returns.** In 2019, the company stock price delivered an annual return of over 30%. The 5-year and 10-year compound annual return also exceeded 20%. The strong stock returns are mainly due to the underlying growing financial results of the company.
- **Large growth potential through military contracts.** With eight contracts serving 11 military bases, AWR has shown expanded work on existing military bases. The company is positioned well to capture on its previous expertise to compete for increased military contracts.
- **Strong commitment to return of capital to shareholders.** The company has had a strong track record of dividend payouts. Dividends have been paid every year since 1931, with 65 consecutive years of dividend increases.

Industry Drivers/Trends: Water Utilities

- The industry is highly fragmented with many small non-public players. This sets up a consolidating environment as companies search for opportunities to increase competitiveness.
- The industry is regulated through different states' public utilities commissions, which leads to high barriers to entry.
- The industry is a relatively low risk from a macroeconomic standpoint. Utilities are heavily incorporated in daily life and will see consumer use even in economic recessions.

Competitive Advantages:

- Established contracts
- Economies of scale
- Supplier diversity

Competitors:

- California Water Service Group, American Water Works Co., Inc., Cadiz Inc., The York Water Company

Customers:

- Household users, electricity companies, military bases

Barriers to Entry:

- **Heavily Regulated:** Much of the water utilities industry is regulated. New entrants will be highly examined and must comply with industry regulations before competing for contracts.
- **Established Contracts:** In a contract intensive industry, new entrants must compete against incumbents for contracts. Incumbents have the upper hand as they are able to deliver on the service in a cost-effective manner.
- **Asset-Heavy Industry:** With the amount of infrastructure that is necessary, new entrants struggle with gaining the up-front capital to make the required investments to build pipelines, treatment plants, and other pumping stations.

Officers and Directors:

Robert Sprowls, President, Director & Chief Executive Officer; **Eva Tang**, Senior VP, Secretary, Treasurer & Chief Financial Officer; **Anne Holloway**, Chairman.

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Financial Summary:

Income Statement (USD millions, years ended January 31st)

	2015	2016	2017	2018	2019
Revenue	458.6	436.1	440.6	436.8	473.9
COGS	(243.7)	(223.6)	(222.3)	(234.9)	(244.0)
Gross Income	214.9	212.5	218.3	201.9	229.9
Profit before Tax	98.2	94.5	108.3	81.9	109.0
Net Profit	60.1	59.4	69.0	63.5	84.0
EPS (Diluted)	1.60	1.62	1.75	1.72	2.28
Dividends per Share	0.87	0.91	0.99	1.06	1.16

Balance Sheet

Total Assets	1,344.0	1,470.0	1,417.0	1,501.0	1,647.0
Long-Term Debt	321.0	321.0	321.0	377.0	493.0
Total Equity	466.0	494.0	530.0	558.0	602.0

Statement of Cash Flow

Cash Flows from Operations	95.1	96.9	144.6	136.8	116.9
Cash Flows from Investing	(90.1)	(131.2)	(80.0)	(128.0)	(153.2)
Cash Flows from Financing	(76.6)	30.3	(64.7)	(1.8)	(30.5)

Key Ratios and Figures (%)

Gross Margins	46.9%	48.7%	49.6%	46.2%	48.5%
Return on Equity	12.9%	12.0%	13.0%	11.4%	14.0%

Source: American States Water Company Annual Report 2019; Wall Street Journal



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