

CALIFORNIA WATER SERVICE GROUP (NYSE: CWT)

(as at May 31, 2020)



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Business Description:

California Water Service Group ("CWT") is a holding company which engages to provide water utility and other related services in California, Washington, New Mexico and Hawaii through its wholly owned subsidiaries. The company is involved in the production, purchase, storage, treatment, testing, distribution and sale of water for domestic, industrial, public and irrigation uses, as well as for fire protection. It also provides non-regulated water-related services under agreements with municipalities and other private companies. The company was founded in 1926 and is headquartered in San Jose, CA.

Investment Thesis:

- **The company has invested heavily in further water infrastructure.** The company invested more than \$270 million in infrastructure in service areas to replace aging pipes and increase water treatment capacity. This capital expenditure will translate to growth of capacity and continuity planning.
- **CWT provides high quality water to consumers.** Due to consistent sampling and rigorous monitoring, CWT is able to provide high quality water and proper disposals of waste water.
- **Strong commitment to return capital to shareholders.** The company has had a very strong track record of dividend payouts. The dividend increase in fiscal year 2019 was the 53rd consecutive year 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.
- Due to the number of wildfires in the California area, environmental concerns have been forefront for the utilities industry. Companies must navigate this concern in order to continue output.
- Water utilities industry is regulated with multiple barriers to entry. The industry is regulated through different states' public utilities commission, leading to high barriers to entry.
- The industry is relatively low risk from a macroeconomic standpoint. Utilities are heavily involved in daily life and will see consumer use even in economic cycle downturns.

Competitive Advantages:

- Established contracts
- Economies of scale
- Supplier diversity

Competitors:

- American States Water Company, Cadiz Inc., American Water Works Co., Inc., The York Water Company, Middlesex 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 heavy 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:

Martin Kropelnicki, President, Director & Chief Executive Officer; **Thomas Smegal**, VP, Treasurer & Chief Financial Officer; **Michael Luu**, Chief Information Officer & VP-Customer Services; **Michael Mares**, Vice President-Operations.

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Financial Summary:

Income Statement (USD millions except for data under Key Ratios and Figures, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	588.4	609.4	676.1	698.2	714.6
COGS	(358.0)	(386.7)	(415.6)	(441.0)	(461.5)
Gross Profit	230.4	222.7	260.5	257.2	253.1
Profit before Tax	70.3	75.5	109.8	81.5	80.8
Net Profit	45.0	48.7	72.9	65.6	63.1
EPS (Diluted)	0.94	1.01	1.52	1.36	1.31
Dividends per Share	0.67	0.69	0.72	0.75	0.79

Balance Sheet

Total Assets	2,241.3	2,411.7	2,744.7	2,837.7	3,111.3
Long-Term Debt	515.0	558.0	531.7	814.9	808.6
Total Equity	642.0	659.0	699.0	730.0	780.0

Statement of Cash Flow

Cash Flows from Operations	144.6	159.7	147.8	179.0	168.8
Cash Flows from Investing	(178.5)	(230.9)	(206.6)	(273.1)	(276.0)
Cash Flows from Financing	22.9	87.8	128.1	46.5	102.7

Key Ratios and Figures (%)

EBIT Margin	39.2%	36.5%	38.5%	36.8%	35.4%
Estimated Water production (million gallons)	98,899.0	99,096.0	104,986.0	107,589.0	104,735.0
Revenue per Customer	1,156.0	1,191.0	1,315.0	1,349.0	1,373.0

Source: California Water Service Group 2019 Annual Report



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