

Company Profile:

Essential Utilities Inc is a U.S.-based holding company for regulated utilities providing water or wastewater services to states in the Midwest, East, and South. Aqua America's services include operating and maintenance contracts with municipal authorities, water repair services, and building water systems. The company derives the majority of its revenue from Pennsylvania, where it is headquartered. The firm derives the majority of its revenue from water services and secondarily from wastewater services. Aqua America has a diversified customer base, deriving most of its revenue from residential customers. The company also sells to commercial, fire protection, industrial, and wastewater customers.

Key Statistics

Market Cap	11.21B
Enterprise Value	12.28B
Revenue [TTM]	889.69M
Net Income [TTM]	224.54M
Dividend Yield	2.20%
Historical Volatility	18.61%
Beta [3 year]	0.40

The Story:

Local and state governments grant a company a local monopoly on utilities like electricity and gas, but the company is subject to heavy regulation. In return, the utility company gets what amounts to a guarantee on profits. The company will be allowed to earn a specific return and it will then set its prices at a level that will achieve the stated return. Because their profitability is so stable, utilities tend to pay out handsome dividends.

While electric utilities may come under pressure from increased demand for solar and wind energy, there has been roughly the same amount of water on the planet for millions of years. Water can't be produced easily. It is heavy and difficult to move. Drinkable water is also a core basic need – we don't decrease our water intake during a recession.

Essential Utilities gets most of its business from running water systems for municipalities around the country. The company recently changed its name from Aqua America after completing an acquisition of Peoples gas, a Pittsburgh-based natural gas company.

Many are familiar with the water issues in the town of Flint, MI. The city was struggling financially for a long time and decided to save some money by getting water from the Flint River instead of Lake Huron. The results were disastrous. And now, if you are an elected official and you could hire Essential Utilities to operate your city's water utility.

The company pays a dividend of 2.2% and has paid a quarterly dividend for 75 years. Further, Essential Utilities has increased their payout every year for the past 28 years, making it a Dividend Aristocrat.

Exit Strategy:

This is a long-term investment. We will use a dynamic trailing stop derived from actual historical volatility in the security to exit the position. As of this writing our stop is set at 13.74% - if the share price closes 13.74% below its high since our entry this will trigger our stop and we will sell the next day. We will also sell if the story changes.