

Water Services Overview

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Water Services

Utility-Specific Services

- Contract Operations – (running municipal or military base operations under long term agreements)
- Project Work – pipeline, retrofit, and desalination facility design/build/operate
- Water supply for natural gas shale frac operations
- Homeowner Insurance – water and wastewater line protection

Services to Utilities

- Distribution pipe leak detection / replacement / repair
- Engineering / Construction
- Water treatment of shale frac flow back from wells
- Activated Carbon (material change-out)
- Well Drilling / Well Refurbishment



Who Are the Publicly Traded Companies Involved?

		Regulated Utility	Contract Operations	Homeowner Insurance	Desalination	Shale Water Supply	Wastewater treatment	Distribution Pipe Services
AEGN	Aegion (formerly Insituform)							X
AWK	American Water Works	X	X	X	X	X	X	
AWR	American States Water	X	X					
CWCO	Consolidated Water		X		X			
CWT	California Water Service Group	X	X					
ESPH	Ecosphere Technologies						X	
FOSI	Frontier Oilfield Services						X	
GRH	Greenhunter Resources						X	
MWA	Mueller Water Products							X
SJW	San Jose Water	X						
SZE	Suez (United Water)		X		X		X	
UGSI	Underground Solutions							X
WTR	Aqua America	X				X	X	

Sources: company reports, Brean Capital Research

Water Services – Growth Outlook



U.S. Municipal Contract Operations Market Observations:

- Underinvestment, lack of expertise, lack of political will to raise rates and financial strain continues to drive growth, but not as much as we'd expect to see after 5 years of economic challenges.
- Significant opposition to large scale privatizations continues; the recent Allentown, PA 50 year lease effectively transferred operations from one government entity to another.
- Typically low margin business.
- Smaller systems appear to be easier targets, but don't "move the needle" as much for larger utilities.

U.S. Military Contract Market Observations:

- Improving outlook; approximately 20-30 U.S. Army and 33 U.S. Air Force bases expected to be privatized in the coming years.
- Long term operating contracts (typically 50 years) with two components – basic operations, plus upside from special projects.
- Relatively no pushback to privatization.
- Believe pace of privatizations slowed due to inability of U.S. government to get a budget.
- Contracts are considered "essential services" in terms of payment priority.

Water Services – Growth Outlook



U.S. Desalination Market Observations:

- Relatively slow adoption due to environmental/legal challenges (particularly in California).
- Early setbacks – Tampa Bay start-up problems, then underutilization of the facility.
- Market finally developing, with approval of Carlsbad, California plant, future projects should be easier to approve.
- Cost of desalinated water still higher than other sources , but when no alternatives for supply exist.....

U.S. Shale Water Supply and Treatment Market Observations:

- Supply water opportunities appear robust, but natural gas prices too low to drive significant new drilling.
- Treatment (and disposal) end markets look to be longer term opportunities, as only a low percentage of well water “flows back’ from the process, and can be reused.
- Marcellus area opportunities should increase longer term as the gas “finds a home”; consumers and generators continue to move to natural gas where choice is an option, and Cove Point approval for exports (and new pipeline opportunities to allow NG to move more freely) drive additional drilling going forward.

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Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
BUY	144	68.25%	15	10.42%
HOLD	61	28.91%	2	3.28%
SELL	6	2.84%	0	0.00%
NOT RATED				

Note: Stock price volatility may cause temporary non-alignment of some ratings with some target prices.

Important Disclosures cont.

Valuation / Target Price

AWK: Our \$53 target price is based on the shares reaching a P/E level of 22x our 2014 EPS estimate of \$2.40.

CWCO: Our target price of \$16 is based on the shares attaining a P/E multiple of 20x our 2014 EPS estimate of \$0.81.

WTR: Our target price of \$30 is based on the shares attaining a P/E level of 24x our 2014 EPS estimate of \$1.26.

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