

# Watlington Waterworks Limited

Ticker: WWW - BH  
Sector: Utility

Fiscal Year-End: Dec. 31, 2007  
Web Site: none

<b>Share Price (10/31/08):</b>	\$11.65
<b>Stock Rating:</b>	Buy
<b>Risk Profile:</b>	Low
<b>1-Year Price Target:</b>	\$13.50
<b>1-Year Implied ROR:</b>	19.3%

<b>Annual Dividend:</b>	\$0.40
<b>Current Yield:</b>	3.4%
<b>Payout Ratio:</b>	17.3%
<b>Ex-Dividend Date:</b>	11/28/08
<b>Frequency:</b>	Quarterly

<b>Shares O/S:</b>	1.1m
<b>Market Cap:</b>	\$12.2m
<b>BSX Weight:</b>	0.6%
<b>Book Value:</b>	\$12.00
<b>Price/Book:</b>	0.97x

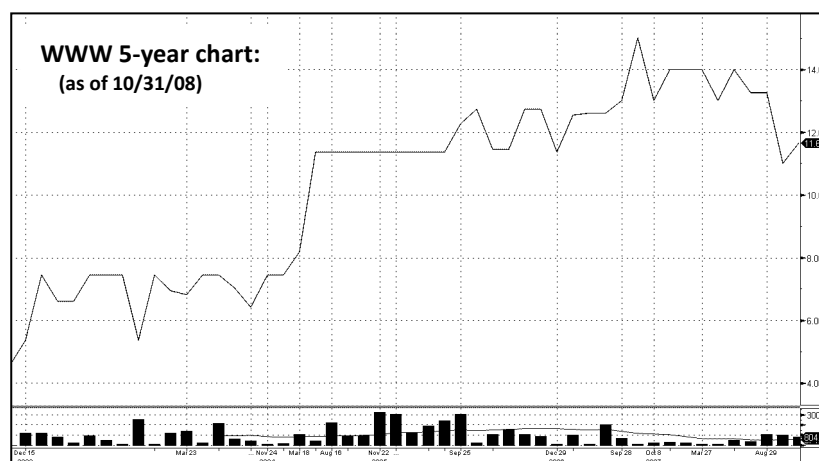
<b>52-Week High:</b>	\$14.00
<b>52-Week Low:</b>	\$11.00
<b>Avg. Monthly Volume:</b>	0.6k

<b>Current P/E Ratio:</b>	5.3x
<b>Shareholder's Equity:</b>	\$12.6m
<b>Total Assets:</b>	\$13.7m
<b>Return on Equity:</b>	16.4%
<b>Return on Assets:</b>	15.0%

Earnings Snapshot	2005	2006	2007	2008E	2009E
<b>EPS:</b>	\$1.56	\$1.95	\$2.20	\$1.87	\$1.96
<b>YoY Growth:</b>	(4.9%)	25.0%	12.8%	(15.0%)	4.8%
<b>P/E Ratio:</b>	7.3x	5.8x	5.9x	6.2x	7.0x
<b>Fiscal YE Price:</b>	\$11.36	\$11.36	\$13.00		

## Notes:

- WWWW distributed a 1-for-10 stock dividend in August 2007. Per-share figures have been adjusted accordingly.



## Company Description

Watlington Waterworks Limited and its subsidiary, Bermuda Waterworks Limited, are engaged primarily in the production and distribution of water and the purification of drinking water for sale at the retail and wholesale level. The group also provides customer services, sells plumbing supplies, and offers coolers for both sale and rental.

In June 2006, the company repurchased 320,620 of its shares from GE Ionics Inc., for a total consideration of \$3.8 million, or \$11.83 per share. In August 2007, Watlington Waterworks distributed a 1-for-10 stock dividend in addition to the regular quarterly cash dividend.

## Watlington Waterworks Limited

### 2007 Results

Despite the closing of a key customer in late 2006, the Wyndham Sonesta, Watlington Waterworks saw its most successful year ever in 2007. A number of infrastructure programs completed in 2006 and 2007 allowed the company to expand its customer service area and increase total revenues by 3.8% to nearly \$10.0 million. Slower expense growth of 1.3% meant the company was able to increase net income by 12.8%. Total earnings in 2007 of \$2.3 million, or \$2.20 per share, compare favorably to 2006 earnings of \$2.1 million, or \$1.95 per share. Higher earnings, working capital improvements, and lower capital expenditures allowed WWW to generate free cash flow that was 181% higher in 2007 than in 2006 (\$2.3 million vs. \$0.8 million). As a result of the higher free cash flow, the company's cash balance increased from \$0.6 million to \$2.2 million year-on-year.

### Forecast and Recommendation

In 2008 and beyond, Watlington Waterworks may face difficulties arising from higher utility costs and lower sales to cruise ships docking in Hamilton. Although smaller cruise ships did stop infrequently in town this year, most of the major lines docked in either St. Georges or Dockyard. Cruise ships were significant customers for WWW and the company feels that it will be impossible to replace them in the near term.

Due to higher utility expenses and the loss of a major customer base, we see limited growth catalysts for Watlington Waterworks in 2008 and 2009. However, we also note that WWW shares appear cheap based on a variety of metrics such as a low price/earnings multiple (5.9x forward earnings), a low payout dividend payout ratio (17.3%), and a price/book multiple that is less than 1.0x. We therefore recommend a Buy on WWW shares. Using an 7.0x multiple of our 2009 estimate EPS of \$1.96, we arrive at our target price of \$13.50 per WWW share.