

Watlington Waterworks Limited

Ticker: WWW - BH
Sector: Utility

Fiscal Year-End: Dec. 31, 2006
Web Site: none

Share Price (09/30/07):	\$13.00	Annual Dividend:	\$0.40	Shares O/S:	1.05m
Stock Rating:	Buy	Current Yield:	3.08%	Market Cap:	\$13.6m
Risk Profile:	Low	Payout Ratio:	20%	BSX Weight:	0.48%
1-Year Target Price:	\$15.00	Ex-Dividend Date:	11/30/07	Book Value:	\$11.99
1-Year Implied ROR:	18.5%	Frequency:	Quarterly	Price/Book:	1.08x

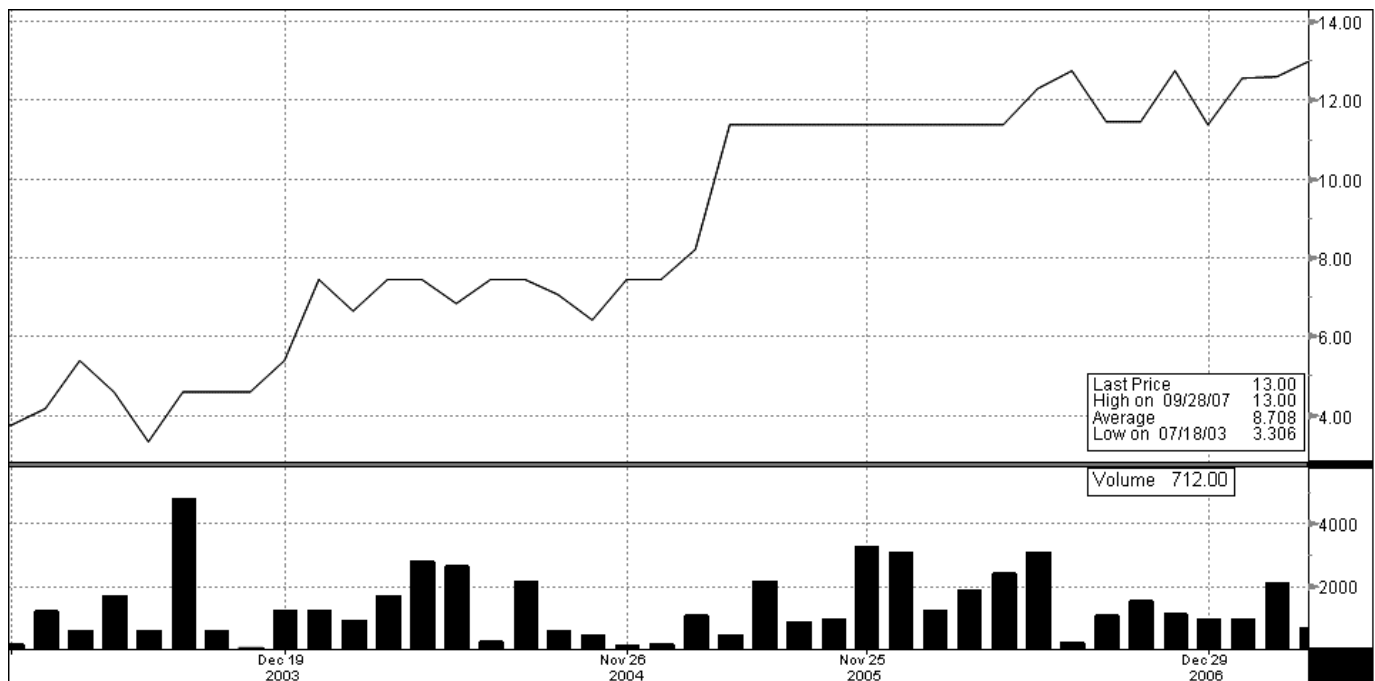
52-Week High:	\$13.00
52-Week Low:	\$11.36
Avg. Monthly Volume:	700

Current P/E Ratio:	6.62x
Shareholder's Equity:	\$12.6m
Total Assets:	\$13.7m
Return on Equity:	16.4%
Return on Assets:	15.0%

	2004	2005	2006	2007E
EPS:	\$1.64	\$1.53	\$1.96	\$1.87
YoY Growth:	16.9%	(6.7%)	28.6%	(4.8%)
P/E Ratio:	5.00x	8.18x	6.37x	8.00x
Fiscal YE Price:	\$8.18	\$12.50	\$12.50	

Notes: WWW distributed a 1-for-10 stock dividend in August 2007
WWW raised its annual dividend by \$0.04 August 2007

WWW 5-year price/volume chart:



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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.

2006 Results

Watlington's fiscal 2006 net earnings of \$2.1 million came in more-or-less equal to net income from 2005. Reported earnings per share of \$2.16, however, were up almost 29% year-on-year due to the GE Ionics stock buyback and consequently, a lower base of outstanding shares. Revenue for the year grew by a marginal \$550,000 to \$9.6 million, with expense growth tracking upwards by roughly the same amount.

Forecast and Recommendation

The operations of Watlington Waterworks have been burdened recently by rising labour and electrical costs – a situation which shows little sign of improvement in the near term. Alas, this appears as a common theme among Bermuda's infrastructure companies. Further complicating matters was the closure in late 2006 of the Wyndham Sonesta, one of Watlington's larger clients, an event which the company decried as “a significant revenue loss” which is “impossible to immediately replace”. On the upside, the substantial rainfall over the past few months should provide relief in the form of marginally lower operating costs. Furthermore, several large-scale tourist accommodations currently under construction signify a potential windfall of new business for the company two-to-three years henceforth. While the GE Ionics share buyback represented a small victory for the company by retiring a significant block of shares at a reasonable price, this transaction ate significantly into corporate cash reserves. Consequently, Watlington will likely have to incur some debt in order to fund future infrastructure projects and growth initiatives.

WWW stock appears “cheap” based on a variety of metrics – it has a low payout ratio, a low price/earnings multiple, trades at a level marginally above book value, and generates a respectable return on both shareholder's equity and total assets. We apply an 8.00x multiple to our fiscal 2007 EPS of \$1.87, resulting in a one-year share price target of \$15.00. LOM rates this stock a “buy”, noting that the company has ample leeway to raise its shareholder dividend payouts in future earnings periods. We would further note that this stock is very illiquid, with the situation exacerbated by the GE Ionics share purchase.