



Unusual Buyer of American Water Calls

Ticker/Price: AWK (\$131.75)

Analysis:

American Water Works (AWK) with unusual 850 September \$155 calls opening on the day aggressively at \$2.65 to \$3.30, a name with scattered call open interest buys throughout September strikes but nothing too large previously. AWK shares corrected in March to retest a key top from 2017 that acted as support and shares have bounced strongly, back above all key moving averages and just ten points off new highs. The \$23.55B leading water and wastewater utility continues to trade at a premium valuation of 17X EV/EBITDA, 29.6X Earnings and 3.7X Book while offering just a 1.6% dividend yield. AWK is seeing the top-line grow steadily near 5% while EPS seen rising 6.7% in FY20 and 10% in FY21. The company is well capitalized with Debt to EBITDA at 5X but a 4.7X EBITDA/Interest ratio and unlikely to see much disruption from COVID-19. AWK is one of the fastest growing Utilities in the US and intends to invest over \$20B in capital the next ten years for water quality and infrastructure. It also plans to continue acquisitions in a fragmented national water and wastewater landscape. It also has a 7-8% rate base CAGR. Analysts have an average target of \$135 and short interest low at 2.3% of the float. AWK's CEO retired effective 4/1/2020. On 2/20 RW Baird raised its target to \$139 as the company continues to execute on its growth strategy. UBS cut shares to Neutral in early February but with a \$148 target noting it still has best-in-class characteristics. Hedge Fund ownership rose 1.1% in Q4 filings, Pictet Asset Mgmt. and Impax Asset Mgmt. top concentrated holders.

Hawk Vision:



Hawk's Perspective: AWK is a high quality play in Utility and always prefer the Water/Alternative niche plays, not much of an options momentum play, but a quality own.

Confidence Ranking: \$\$