

Scarce fresh water an investment boon
Companies tapping growing demand see great returns flowing to shareholders

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Bloomberg News

Monday, July 03, 2006

Jean-Marie Messier lost billions of euros turning the world's biggest water company into entertainment conglomerate Vivendi Universal SA. He should have stuck with water.

The lack of usable water worldwide has made it more valuable than oil. The Bloomberg World Water Index of 11 utilities returned 35 per cent annually since 2003, compared with 29 per cent for oil and gas stocks and 10 per cent for the Standard & Poor's 500 Index.

From hedge fund manager Boone Pickens to buyout specialist Guy Hands, the world's biggest investors are choosing water as the commodity that may appreciate the most in the next several decades. The United Nations estimates that by 2050 more than two billion people in 48 countries will be short of water.

"There is only one direction for water prices at the moment, and that's up," said Hans Peter Portner, who manages a \$2.9 billion US Water Fund at Pictet Asset Management in Geneva. The fund jumped 26 per cent last year, and Portner forecasts annual returns from water of eight per cent through 2020.

General Electric Co. chairman Jeffrey Immelt says "scarce" clean water worldwide will more than double the revenue he gets from water purification and treatment to \$5 billion by 2010. "This will be a big and growing market for a long time," as governments struggle to bring water to four billion people who live in areas of profound shortage, Immelt said at the company's annual meeting in Philadelphia in April.

Belgium's richest man, Albert Frere, has a 2.7 billion-euro (\$3.4 billion) investment in



CREDIT: The Associated Press, File

A Pakistani woman collects water from a community well.

water and energy through his stake in Suez SA, the world's second-biggest owner of water utilities after Veolia Environnement, spun off by Vivendi in 2000. Vivendi dropped from its name in April this year.

TOO MUCH SALT

The signs of a shrinking water supply can be seen worldwide. Many restaurants no longer provide a free glass of water to diners and cities restrict its use for private pools and gardens. More than 98 per cent of the Earth's water is saltwater, and most of the rest is locked in polar ice caps.

The world's lakes, rivers and streams account for just one per cent of the freshwater. Scientists say any shrinking of the ice caps may only intensify the supply problem by raising saltwater levels.

"Water quality, water availability and disputes over water resources are all going to be made worse," said Peter Gleick, president of the Pacific Institute, a research group in Oakland, California.

The cost of water is usually set by government agencies and local regulators. Water doesn't trade on commodity exchanges. Pictet follows price trends in California, the most populous U.S. state, where increases have averaged 6.3 per cent a year from 1989 to 2005. Oil gained an average 7.7 per cent over that period based on futures contracts traded on the New York Mercantile Exchange.

CHINA, INDIA

About \$180 billion a year needs to be invested in water infrastructure in developing countries such as China and India, double the amount that's being spent now, according to the World Water Council in Marseilles, France.

"As the Third World gets richer, it eats more, particularly more meat," Christopher Wyke, 51, who oversees \$63 million at London-based Schroders Investment Management Ltd., said at a June 14 conference in Hong Kong. "To produce one ton of meat takes seven tons of corn. To produce seven tons of corn takes 7,000 gallons of water."

The use of freshwater for human consumption, agriculture and industry may rise 22 per cent by 2025, compared with 1995 levels, according to the International Food Policy Research Institute.

"It's incomprehensible to ignore the importance of water as an asset class when deciding where to put capital," said Neil Berlant, 59, managing director of the water group at Los Angeles-based investment-banking firm Seidler Cos. Berlant, who has been following the water industry for 20 years, expects annual returns of up to 10 per cent in the next three years.

T Boone Pickens, the Dallas hedge fund manager and oil billionaire, spent more than \$50 million for water rights around his 24,000-acre ranch in North Texas. He says he has enough water to serve 20 per cent of the Dallas-Fort Worth area. So far, Pickens, 78, has failed to convince any Texas cities to buy his water, and he needs a commitment before he can build a \$2 billion pipeline system.

Water is a finite resource that will only become more expensive, Pickens said in a June 16 interview in New York. He compared the demand for water to China's purchases of oil fields from Canada to Kazakhstan, saying, "I'd be the same way about water."

Water already is rising in value faster than many commodities. The 35-per-cent annual return over three years for the Bloomberg water index beats the 27-per-cent return for the Bloomberg World Basic Materials Index, which includes 239 companies that produce commodities such as copper, aluminum, paper and steel. Both indexes peaked in May. The water index is down 12 per cent since then, and the basic materials stocks are down 17 per cent.

"We think the way to play it is the companies that source, treat, distribute and monitor this resource," said Rod Parsley at Terrapin Asset Management in New York, who oversees a \$50 million hedge fund that invests only in water-related companies and in water rights.

Terrapin's Water Fund has returned 22 per cent since it was started in April 2005.

Parsley's fund holds companies such as Thailand's Eastern Water Resources Development and Management Pcl, which has returned 42 per cent in the past year including dividends, and Asia Water Technology Ltd., which has more than doubled.

The fund also holds SJW Corp., a San Jose, California, water utility whose shares have fallen six per cent in the past year.

The water industry generates as much as \$450 billion in revenue each year, trailing only electricity and oil, according to Parsley at Terrapin. Most water supplies are owned by governments, reducing the chances for investments.

'VIABLE VEHICLES'

"It sounds like an exciting opportunity, but you have to have viable vehicles with which people can buy into the asset," said Stewart Aldcroft, a regional director with Noble Investments Hong Kong, part of Noble Group Ltd.

"I think we'll have to wait a little longer before it becomes something that people understand."

Technology Partners, a venture capital firm in Palo Alto, California, has invested in

small private companies such as Sensicore, a maker of equipment for testing water supplies based in Ann Arbor, Michigan.

"If you do any form of forward analysis, we're going to end up having even more demand" for water, Ira Ehrenpreis, general partner at Technology Partners, said in a June 15 interview.

The prospects are slim for creation of water futures or some other way to invest directly in the commodity, according to Sean Corrigan, chief investment strategist at Diapason Commodities Management SA, which oversees about \$5 billion in assets from London and Lausanne, Switzerland.

"No government is going to make water a tradable commodity," he said. "It's too politically sensitive."

The two biggest water companies are Veolia and Suez, both based in Paris. Veolia owns utilities that provide water and sewer service to 110 million people. The company, whose shares are up 26 per cent in the past year, owns the transport and energy services businesses spun off by Vivendi.

After the spinoff in 2000, Messier, 49, reduced Vivendi's stake in the 152-year-old old water company to raise cash for his entertainment empire. In the five years ending May 31, the average annual return for Veolia is little changed, while Vivendi shares have lost 16 per cent.

Shares of Suez, which has agreed to be bought by Gaz de France, jumped 37 per cent in the past year.

DESALINIZATION

The strategy of Fairfield, Connecticut-based GE, the world's most valuable company after ExxonMobil Corp., is for its water division to invest in desalination and purification plants in countries that lack freshwater. Saudi Arabia is a potential customer.

The kingdom needs to spend more than \$80 billion by 2025 on desalination plants and sewer facilities as its population grows to about 30 million by 2020 from about 26 million today, according to UN forecasts.

In Algeria, a GE desalination plant provides 50 million gallons of drinking water a day for a nearby city, according to Jeff Connelly, a vice president and general manager for the water unit.

"When you just look at global demographics and industrialization, it's staggering," Connelly said.

In China alone, he said, "20 per cent of the world's people live there. Only seven per cent of the fresh water supply is in China."

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CLOSE WINDOW

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