

Water

An investment theme awash with opportunity

RICHARD BLACKWELL

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Water is a commodity that many take for granted, but transporting it, cleaning it and selling it will create increasingly important investment opportunities in the years ahead.

As the world's population increases, the demand for fresh water for drinking, agriculture and industry is going to accelerate, especially in developing countries. At the same time, water pipes and other infrastructure in the developed world will deteriorate further, requiring massive new spending – some of which will flow through the private sector.

Over all, there's going to be more spending on water infrastructure over the next 20 years than on any other segment of the economy, including power production, said Khurram Malik, an analyst at Jacob Securities Inc. in Toronto. That spending – up to \$1-trillion (U.S.) a year – will create huge opportunities for companies in the water business, and their investors.

“If you look at the fundamentals of water over a long period of time, it's a great place to be,” Mr. Malik said. “Compared to any other sector in the global economy, you're going to be hard pressed to find something with better macro fundamentals.”

For investors interested in investing in water, however, there is no classification that neatly houses the industry. Pump- and valve-makers are found under manufacturing. Companies that build pipelines are infrastructure plays, and those that monitor leaks are in the services sector. Soft-drink companies that sell bottled water to consumers have part of the action, and high-tech companies that make leading-edge filters and wastewater treatment systems are lumped in with utilities and construction firms.

Mr. Malik's suggestion to individual investors is to stick with utilities. While many water utilities around the world are owned by governments, there is a growing number of publicly traded companies that have been given the responsibility of running water systems. Many of these are profitable, and some pay hefty dividends, Mr. Malik notes. And the list will be growing as more public utilities are privatized in the years to come.

For Canadian investors, there are only a handful of water utilities traded on the Toronto Stock Exchange.

GWR Global Water Resources Corp. ([GWR-T](#)7.00----%), which recently listed on the TSX, operates water and wastewater utilities in Arizona. And Algonquin Power and Utilities Corp.

([AQN-T](#)5.490.112.04%), which has a big portfolio of power projects, also owns 17 water and wastewater facilities in several U.S. states.

Another route to a relatively low-risk diversified investment in water is to use an exchange traded fund. In Canada, the Claymore S&P Global Water ETF ([CWW-T](#)16.120.020.12%) gives investors exposure to 50 international firms in the water business. There are several U.S. ETFs in the same category, including the PowerShares Water Resources Portfolio ETF ([PHO-N](#)19.620.090.46%).

Otherwise, Canadian investors can buy international utilities' shares on a foreign stock exchange. U.S. utilities such as Aqua America Inc. ([WTR-N](#)22.560.130.58%) and California Water Services Group ([CWT-N](#)36.49-0.15-0.41%) trade on the New York Stock Exchange, while Britain's Severn Trent Plc and United Utilities Group are among those that trade on the London Exchange.

For investors who are more adventurous, there are many Canadian public companies working in specific areas of the water sector, and some of these may make big breakthroughs in the future. But Mr. Malik warns that the risks are similar to those in the technology or green energy sector – a handful will be huge successes, while many will falter or fail.

Two smaller plays are Pure Technologies Ltd. ([PUR-X](#)4.60-0.05-1.08%), a company that has created a system to monitor and detect leaks in water pipelines, and Bioteq Environmental Technologies Inc. ([BQE-T](#)0.740.011.37%), which operates treatment plants that remove metals and other contaminants from industrial water.

There will undoubtedly be more advancements in water treatment in the coming years, and many of the companies that create them will end up as publicly traded companies open to retail investors. David Henderson, managing director of XPV Capital Corp., a Toronto firm that invests in early-stage companies in the water sector, says he is excited by technologies that not only clean waste water, but also harvest the extracted contaminants so they can be reused.

Another area where breakthroughs are expected is in desalination, he said. Many companies are working on energy-efficient processes to turn salt water into fresh water, and some of these will be coming to market in the years ahead.

CORPORATE WATER USE

Investors can see how major corporations around the world use water through a survey conducted by Carbon Disclosure Project, a global non-profit group that gathers environmental information for institutional investors.

In 2010, 150 organizations responded to CDP's water questionnaire; another survey is due in 2011. Many Canadian companies agreed to participate, including Barrick Gold, Cenovus Energy, Potash Corp. of Saskatchewan, Suncor Energy and Royal Bank of Canada.

About 40 per cent of the companies that responded last year said they face water-related risks from floods or droughts. About 60 per cent said they see opportunities to improve their water management practices.

Canadian companies in the water business

Company	Business	Ticker	\$ Price (May 5)
BioteQ Environmental Technologies	international industrial water treatment	BQE-T	0.73
GWR Global Water Resources	water & wastewater plants in Arizona	GWR-T	7.00
Clearford Industries	wastewater collection system	CLI-X	0.32
Pure Technologies	pipe monitoring and assessment	PUR-X	4.65
Aqua-Pure Ventures	industrial wastewater recycling	AQE-X	0.38
GLV Ventures	municipal and industrial water treatment	GLV.A-T	7.91
H2O Innovation	membrane filtration technology	HEO-X	0.29
ProSep	technology to purify oil, gas and water	PRP-T	0.09
Seair	water treatment technology	SDS-X	0.43
Titanium Corp.	mineral recovery from waste water	TIC-X	2.50

Global water stocks

Company	Country	Business	Exchange
Veolia Environnement	France	water & wastewater management	Euronext Paris
Severn Trent PLC	Britain	water and sewer services	LSE
Valmont Industries	United States	irrigation equipment	NYSE
Jain Irrigation Systems	India	irrigation equipment	Bombay
Franklin Electric	United States	water pumps and systems	Nasdaq
Suez Environnement	France	water and wastewater treatment	Euronext Paris
American Water Works	United States	water and wastewater utility	NYSE
United Utilities	Britain	water and wastewater service	LSE
Geberit AG	Switzerland	sanitary systems and pipes	SIX Swiss