

INVESTING April 23, 2009, 12:01AM EST

## Water: A Rising Tide of Smart Investing Plays

As water prices climb globally, companies are developing ways to conserve, clean, and meter consumption. Here are some promising contenders

By [David Bogoslaw](#)

With the yearly Earth Day celebration stretching into its fifth decade, water seems to have risen in the public consciousness as one of the planet's chief environmental concerns. There is growing recognition that this resource—which has no substitute—may turn out to be the hot commodity of the 21st century, much as oil has been for much of the past century.

The higher value ascribed to water has less to do with depletion and scarcity than cost. While there's as much water on the planet as there has ever been, cheap water is in short supply. "All the easily tapped sources have already been tapped," by damming up rivers and other methods, says Neil Berlant, lead manager of the PFW Water Fund ([PFWAX](#)), the only [open-end](#) mutual fund focused exclusively on water-related stocks. What remains are more expensive sources of water—from oceans, groundwater, or reclaimed used water—which require either desalination, chemical disinfectants, or other processes to be made suitable for drinking.

There's plenty of technology available to clean up water to meet increasingly strict public safety standards, but consumers will have to get use to paying higher rates to local water systems to pay for the necessary treatment. People in the developing world have long had little access to clean drinking water because of how much it costs.

### PRIVATIZATION WAVE IS COMING TO WATER

Berlant predicts that water prices across the U.S. will double or triple over the next few years—though that's not as scary as it sounds because the increase will come off a fairly low base. He expects the higher cost to unleash a wave of business opportunities as people shop for products and services to improve water quality. This is compounded by the need for water of much higher purity than in the past for such sensitive manufacturing processes as the production of semiconductors, whose optimal performance depends on cleaner chips, he says.

Another trend in water is the move around the world toward privatization of local water systems as the costs of repairing infrastructure and providing clean water exceed what most municipalities can bear. Of nearly 60,000 local water systems in the U.S., the great majority serve fewer than 3,000 people and only 15% are owned by investors. Foreign-based companies such as [Suez Environnement](#) and [Veolia Environnement](#) have been expanding beyond their home territories to buy up public water companies in the U.S. and across the developing world.

The extended downturn in the U.S. housing market, by causing the tax base for many parts of the country to shrink, is likely speeding up the privatization process, says Judd Hill, a managing partner at Washington-based Summit Global Management, who focuses on new investment ideas in the water industry.

The thought of investing in privatized water utilities is sure to stir some uneasiness, if not revolt, among socially responsible investors who look not only at returns on their invested capital but also at the impact of management practices on a company's employees and customers. There has been a backlash against privatization in such places as Uruguay, where the local populace ousted a Suez subsidiary for not doing the work that had been contracted and for denying service to those who couldn't afford connections. The push to make access to water a human right is likely to intensify now that Canadian water activist Maude Barlow has been appointed the United Nations' first advisor on water.

## SEEKING PURE-PLAY WATER COMPANIES

Still, there's growing recognition of the need for further market-oriented solutions, since people lack sufficient motivation to use water more efficiently unless they're paying more for it.

The water industry is undergoing a transition that will result in a more clearly defined structure enabling the emergence of pure-play companies dedicated to resolving water challenges, says Steve Hoffmann, an analyst for the Palisades Water Indexes and author of a new book, *Planet Water: Investing in the World's Most Valuable Resource*. Until then, investors have to decide whether or not big conglomerates have enough exposure to water, amid all their other businesses, to justify investing in them, he says. Despite their accumulation of water treatment expertise in recent years, Hoffmann excludes [General Electric \(GE\)](#), [Dow Chemical \(DOW\)](#) and similar companies from the Palisades indexes he helped to build because their exposure to water is too small a part of overall operations.

While the industry is now extremely fragmented, the number of companies investors can choose among is sure to increase over time as mergers and acquisitions occur, says Hoffmann. "Customer demands for comprehensive, cost-effective solutions discourage a segmented industry structure," he writes in his book.

Companies focused on instrumentation, regulatory compliance monitoring, membrane manufacturing, pumps, and environmental remediation will be among the candidates for consolidation in the years ahead, he believes.

## SOME CITIES STILL NEED WATER METERS

Given the scarcity of cheap water, companies focused on water conservation are a natural place for investors to start. Since irrigation uses the majority of the planet's clean water, Lindsay ([LNN](#)) and Valmont Industries ([VMI](#)) are key components of Berlant's fund and the PowerShares exchange traded funds, which license and track the Palisades indexes. Lindsay and Valmont are the leading makers of more efficient irrigation equipment, controlling more than two-thirds of the U.S. market.

Metering is another critical way to reduce water usage, and some major cities remain only partially metered. Hoffmann recommends water meter manufacturers such as Badger Meter ([BMI](#)) and meter service providers such as Itron ([ITRI](#)) for direct conservation plays.

The rising need for desalination makes Consolidated Water ([CWCO](#)) a good bet, says Berlant. The company cleans up seawater to provide all of the water used by a number of Caribbean islands and is steadily expanding its customer base, he says. He also likes Energy Recovery ([ERII](#)), whose entire business is concentrated in making equipment that significantly reduces energy consumption in desalination plants.

As consumer demand for home-filtered water increases, Calgon Carbon ([CCC](#)) is in a unique position to benefit. Calgon is a leading supplier of activated carbon, the only element used to treat water in kitchen-sink filters and in refrigerator ice makers, as well as in big water treatment facilities.

## ENGINEERING AND CONSULTING PLAYS

An estimated need for up to \$1 trillion in infrastructure repairs in the U.S. over the next 20 years, after decades of neglect, make Mueller Water Products ([MWA](#)) a good investment, says Berlant. Mueller sells assorted components, from water hydrants to meters to pipes. And the need to replace old and leaky pipes will also benefit Northwest Pipe ([NWPX](#)) and Ameron International (AMN). Trading only on the pink sheets right now is Geospatial Holdings ([GSPH](#)), a small Pittsburgh-based company that uses Wi-Fi technology to map pipes so local water utilities can find them to make repairs. Hill at Summit likens the service to an underground Google Maps.

Most of the advanced technology options being developed to treat, and in some cases reclaim, wastewater are being driven by tougher and expanding regulations from the U.S. Environmental Protection Agency. Hoffmann thinks some of the best bets for investors are a few of the engineering and consulting companies that already do a lot of water-related remediation. "They look at the management of water in a very comprehensive, integrated fashion and are at the

forefront of knowledge-specific applications, like watershed regulations," he says.

He includes a number of these companies in the Palisades indexes, including Aecom Technology ([ACM](#)) and the Canadian company Stantec ([STN](#)), both of which specialize in using biological membrane reactors to remove polluting nutrients. He also likes Tetra Tech ([TTEK](#)), which follows the same integrated approach to wastewater management

One of the most pressing environmental issues concerns farm runoff of storm water loaded with nitrogen and other chemical fertilizer compounds and urban runoff of water full of oil and other pollutants washed off dirty streets and parking lots. Excessive runoff that can't flow back into groundwater ends up in the nearest rivers, lakes, and oceans, resulting in a profusion of algae and other plant life that suck up oxygen when they die, creating so-called dead zones that can no longer neutralize pollutants.

### **THE ARTEMIS PROJECT: AWARD TO ABTECH**

A wellspring of creative solutions has emerged in response to this problem—from rooftop rain gardens to permeable asphalt to underground cells that allow tree roots to grow to full capacity and thereby absorb more rainwater—but most are in the early stages of development and not yet available for investment.

The Artemis Project, a San Diego consulting firm focused on the water industry, is trying to make private equity investors more aware of opportunities in new technologies aimed at solving complex water issues. This week, Artemis launched an annual competition that will give awards to companies judged to have the most investment potential. Its top choice this year went to Scottsdale (Ariz.)-based AbTech Industries, a privately held company that makes a relatively low-tech smart sponge that removes oil and grease from runoff water before it can harm large bodies of water.

Among other companies creating innovative technologies on the brink of public consciousness is BPL Global, which uses smart sensors to marry electronic devices that can measure a community's carbon and water footprints and enable better management both of water flow and energy consumption, says Hill at Summit.

If the 120 international companies that the Artemis Project has identified as having promising water solutions are any indication, the tide of innovation—and investing opportunities—should continue to rise for many years to come as the world's water worries grab the spotlight.

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