

INDUSTRYINSIGHT

Compiled by Clare Pierson



Investing in Water

A senior water analyst discusses the water/wastewater industry in terms of dollar signs

Water & Wastes Digest recently spoke with Ryan Connors, senior water analyst at Boenning & Scattergood (B&S)—an investment firm that provides institutional sales and trading, research, public finance and corporate finance services.

Investing is the key to renewing the nation's water infrastructure, so WWD asked Connors why people should invest in different water/wastewater treatment companies, his advice for industry shareholders and a 2008 industry outlook.

WWD: B&S indicated in a recent research report that the drinking water industry attracts more investors than the wastewater industry. Why do you think this is, and is this changing at all?

Ryan Connors: People generally like to invest in things they know and understand, and when it comes to the water industry, that means the water they get at the tap. This is reinforced by the fact that the potable water side gets more attention in the press.

Still, if you look at the EPA's estimates of the spending that will be required to shore up infrastructure here in the U.S., it becomes clear that the opportunity in wastewater is at least as large as that in potable water.

WWD: What are the key differences between the water equipment and technology sector and the water utility sector from an investment perspective?

Connors: Water utilities and water equipment and technology companies are two entirely different types of investments, and their differences bring to mind the old story of the tortoise and the hare. Water utility stocks are tortoises. They may not grow very fast, but they are remarkably consistent—delivering solid but not spectacular returns every year. This enables these stocks to deliver impressive compounded returns over time.

Water equipment and technology stocks are the hares. Some key technologies—especially in areas like metering, desalination and conveyance—have the potential for very strong growth, and if you invest wisely, you can earn outsized returns. On the other hand, if a company's technology does not pan out, its stock can fall dramatically, making these stocks higher risk/reward investments.

WWD: What is the current state of water equipment stocks in today's economy? Do you have any advice for people that own stocks in this industry?

Connors: For investors holding water utility shares, patience is the name of the game, and the key to success is a "buy and hold" strategy that minimizes trading costs. Water utilities will probably never lead the market in any given year. That said, they will probably never be the market's worst-performing sector either. Over time, that type of consistency adds up to very competitive total returns.

For those investors looking at water equipment and technology stocks, we advise a "top-down" approach. First, identify the subsectors of the market that you believe will see the strongest growth in product demand, then invest in quality companies that should benefit from that demand tailwind.

WWD: Water scarcity in the Southwest, coupled with increasing population growth in that area, is a common topic covered by the media. What technologies and types of companies are likely to benefit from this situation?

Connors: Two areas that are positioned to benefit are advanced water metering solutions and water conveyance. On the metering side, these communities have a pronounced incentive to minimize wasteful water usage patterns on the part of businesses and households. Clearly, the best way to do that is to ensure that those wasting water feel it where it counts—in the wallet. Therefore, what we've seen is accelerated adoption of cutting-edge metering methods in the Southwest, and this benefits water meter manufacturers.

Another area that will see increased demand from continued growth in the Southwest is water conveyance, or pipelines. Obviously, desert communities are often located far away from the nearest water source, and pipelines are typically the best solution for getting water to where it needs to be.

WWD: Finally, B&S completed a 2007 outlook for the water industry's economic growth. Do you have any idea what the 2008 outlook will look like?

Connors: Relative to other, less mature areas of the economy, change occurs fairly slowly in the water industry. Therefore, the same key trends that have driven growth in 2007 will likely continue into 2008. Still, one sector that we see priming for a cyclical upturn is the large-diameter water pipeline market, especially in the key Southwestern region.

A key set of data that we keep an eye on in this market is municipal bond issuance for water infrastructure projects. This has been on the rise over the last several quarters. Coupled with a few major projects already on the docket and a generally upbeat tone among industry participants, this leads us to believe that this area will see a rebound in 2008 after a lull in project activity in 2006 and 2007. **WWD**

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Aquionics UV To Disinfect Cultivation Water



NZ Hothouse, a leading New Zealand provider of fresh produce, uses Aquionics UV technology to disinfect the water

used for soil-less plant cultivation in its glasshouses. Both sites have an Aquionics PMD200 medium pressure system, that treats up to 18,000 gph. UV treatment is ideal for this application, as it introduces no chemicals or unwanted disinfection byproducts into the water and does not alter its pH. The UV systems feature an automatic wiper, which prevents the build-up of deposits on the quartz tube.

Reclaimed Water Benefits California Vineyards



A few California vineyards have recently learned that reclaimed water may actually be more beneficial to crops

than mains water. Dr. Belinda Rawnsley, leader of a three-year, \$350,000 study funded by the Grape and Wine Research Development Corp., said the results are good news for vignerons and horticulturists looking for sustainable irrigation. Rawnsley discovered that, when compared to mains water-irrigated vines, "there were actually less pathogens in the soil, and there were indeed higher levels of microbial activity. This is also a great finding because the higher levels of microbes improve nutrient transfer to the vine."

ADA Updates BPMs for Waste Handling



The American Dental Association has updated its best management practices for the disposal of dental amalgam

waste to include the use of separators—collection devices installed in dental office plumbing that capture and remove at least 95% of solid waste particles before they enter the sewer system. The use of separators will allow greater recycling and reduce the amount of amalgam—which contains mercury—that enters wastewater treatment plants.

New MBR Technology Announced



Siemens Water Technologies introduced a membrane bioreactor (MBR) technology that integrates an expansive

portfolio of biological processes with membrane filtration for effluent quality. This small footprint-integrated system combines Memcor membrane operating system units with proven Envirex biological technologies—such as the Orbal and VLR systems, aerated anoxic process and Cannibal solids reduction process—to provide a full line of MBR processes. The SmartMBR control package is at the heart of each of these combined systems.

Santa Monica Wins Storm Water Management Award



Black & Veatch, a global engineering, consulting and construction company, announced that Santa Monica's West-side Water Quality Improvement

Project—for which the company provided design, permitting and construction support services—received the 2007 Outstanding Storm Water Best Management Practices Implementation Award from the California Stormwater Quality Association. The award was in the treatment control/structural BMP implementation subcategory.

GE Gives Out Ertverband Ecomagination Award



GE Water & Process Technologies honored German water management company Ertverband with an eco-

magination Leadership Award for its role in improving the environmental, public health and aesthetic water qualities of the Nordkanal. For nearly four years, Ertverband has used GE's ZeeWeed MBR technology at the Kaarst Wastewater Treatment Plant in North Rhine Westphalia, which serves a population of 80,000. The land where the old wastewater treatment plant once stood will be reforested and developed into parklands, along with a network of recreational trails that will extend along the Nordkanal.

Sewage Treatment Plant Gets Kudos from EPA



Back in the 1980s, the state of Georgia slapped fines on Mayor Bob Hamrick and the Flat Creek wastewater treatment plant for environmental transgressions. Now Public Utilities

Director Kelly Randall and Plant Manager Michael West have received a national second place award for the plant's management. The EPA decides how much of each priority pollutant, such as phosphorous, can be released into the stream without degrading it, West said. The plant has some of the strictest limits in the state and works to exceed them. In fact, West said that the water that leaves Flat Creek Plant is about 99.9% free of solids and is very near to drinking quality. This fact is proven by the fish pond the plant sustains outside its doors.

Environment One Names New President



George A. Earle III has succeeded Philip Welsh as president of the Environment One Corp. (E/One). Previously, Earle served as E/One's vice president of technology and business integration and

spearheaded the development of the recently launched E/One Extreme grinder pump line. Earle served four terms as president of the U.S. Fuel Cell Council and was active in the development of codes and standards both domestically and internationally to address fuel cell technology.

Bentley Software Selected No. 1 in National Survey



Bentley Systems' Haestad Methods product line has been selected as the No. 1 water resources modeling software in a

national survey. The survey asked licensed civil engineering professionals about their software preferences in seven categories of water resources modeling software. Haestad solutions earned the top position in the following five categories: water distribution, transient analysis, wastewater conveyance, storm water networks and general hydraulics. **WWD**

News compiled by Heather McCoy

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