

Water could satisfy a business thirst

1:23 PM, Apr. 20, and in print April 22, 2012

The Daily Record
Parsippany, NJ

Written by
Scott F. Mahoney

“Water, water, everywhere, and all the boards did shrink; Water, water, everywhere, nor any drop to drink.”

It has been more than two centuries since Samuel Taylor Coleridge wrote “The Rime of the Ancient Mariner” in 1797, from which the above verse was taken, but the travails of the main character, adrift on the ocean with no drinking water, have expanded to much of the land-based population today.

As a result, companies related to global water issues are quickly emerging as potential investment vehicles.

Declining supply and rising demand have combined to make water this century’s version of the oil crisis that emerged throughout the world several decades ago. Freshwater stress, already at challenging levels, is likely to deteriorate as water withdrawals keep rising and supply decreases due to increasing drought and a variety of other conditions. One has to question whether global water usage levels are unsustainable, with drought conditions felt most acutely in Africa and western Asia. Water scarcity also has become an economic constraint in major economies such as China, India and Indonesia, as well as in commercial centers in Australia and the western U.S.

Given the challenging supply-demand situation, the global water industry is expected to undergo a substantial transformation in the near future. Businesses will need to make further investments in water technology and utilities will need to devote more money to water infrastructure. It has been reported that capital expenditures on water infrastructure are expected to grow from \$90 billion in 2010 to \$131 billion in 2016, according to Global Water Intelligence.

Some water utilities suggest that substantially more may be needed to upgrade filtration systems if stricter standards are mandated for removal of pharmaceuticals that seem to be ending up in water supplies with continually greater frequency.

Capital expenditures on desalination alone are projected to jump to \$18 billion in 2016 from \$11 billion in 2010.

Analysts believe that urbanization could cause a five-fold increase in the demand for water in this century, beyond essential needs for personal hygiene, cooking and cleaning, and not including supplies needed for power generation or other industrial activities. The world had 10 cities with populations of 10 million or more in 1990. The United Nations forecasts that by 2020 the world will have 27 such highly populated urban areas.

Global water supply, therefore, should be examined as an important investment opportunity.

In the face of progressively growing demand, a number of options exist to increase the water supply — with coincident opportunities for viable investments. Desalination is one, with rapid technological developments likely making this more attractive. However, even with a five-fold increase in capacity by 2050, desalination would still only account for one percent of the global water supply.

Other opportunities involve treatment and re-use of wastewater, which today accounts for only about two percent of global water sources.

Improved agricultural efficiency and recycling are other ways of helping to avert a water supply crisis. The largest agricultural usage of water occurs in Asia, where inefficient flooding irrigation is common. Sprinkler systems and drip irrigation are significantly more efficient than flooding the fields and transitions to these methods can bring significant market opportunities.

In addition, crops can be developed that require less water. Global agricultural biotech acreage is forecast to double this decade, as farmers adopt biotech products for their higher yield potential.

Clearly, potential investment opportunities concerning water supply, treatment and conservation abound and potential investors would do well to scrutinize them closely.

Meanwhile, the American economy remains in the doldrums. Even if we are at the beginning of a recovery, it will likely take several years to return to the fiscal health we previously enjoyed. But many investors are anxious to get back into growth issues today, and waiting months or even years is not on their agenda.

Water may not completely insulate an investor from the world's financial fires, but it may very well help keep you afloat.

Scott F. Mahoney is a Senior Vice President and Financial Advisor with Morgan Stanley Smith Barney in the firm's Morristown office.