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Industry: **WATER INFRASTRUCTURE**

Coverage:

Ticker	Rating	Price
AWK	BUY	\$25.67
AWR	NEUTRAL	\$34.34
CWT	NEUTRAL	\$37.36
PNR	BUY	\$36.52
WTR	NEUTRAL	\$22.79
WTS	NEUTRAL	\$36.71

The Water Rundown

Water Utilities Updates

- WTR Completes 2010 Financing Plan
- AWK Acquires System in New Jersey

Water Infrastructure Updates

- MWA Announces Acquisition
- CCC Reaches Settlement
- BMI Announces Acquisition
- Sumitomo to Double Water Business Staff and Expand Globally

End Market & Industry Updates

- Carolinas Settle Water Dispute
- Saudi Arabia Awards \$149M in Water Contracts
- Northern Ireland Water CEO Resigns After Supply Crisis
- Infrastructure Projects Key to U.S. and Global Economic Growth

Industry Data and Graphs

- Pump Market in Asia
- Pump Market in Africa

IMPORTANT DISCLOSURES ARE LOCATED IN THE APPENDIX.



WATER UTILITIES UPDATES

Aqua America Completes 2010 Financing Plan – WTR (NEUTRAL) announced that its 2010 financing plan has lowered its weighted average cost of capital, resulting in interest expense savings for the company. The company noted that if it had the same cost of debt that it had at the end of 2000, its interest expense would be over \$27M dollars more on an annual basis. WTR's long-term debt now has a weighted average cost of debt of 5.36% vs. a weighted average cost of debt of 7.20% in FY00 and 5.49% in FY09. The company tapped the credit markets a number of times in FY10, with part of the proceeds being used to help finance the company's \$1.5B five-year capital plan to enhance its water infrastructure, the majority of which will be funded with internally generated cash.

American Water Acquires System in New Jersey – AWK (BUY, \$29PT) announced that it has acquired the assets of Jensen's Deep Run community's water system and wastewater treatment and collection system in Plumsted Township. The two systems serve a combined 750 residents. Financial details of the acquisition were not disclosed.

WATER INFRASTRUCTURE UPDATES

Mueller Water Announces Acquisition – MWA (NR), a manufacturer of water transmission and distribution infrastructure, announced that it has acquired Echologics Holding, the parent company of Echologics Engineering. MWA purchased the company for \$8M in cash in mid-December. The company, which was founded in 2003, will continue to operate under the Echologics name as a division of Mueller Co. Based in Toronto, Echologics is a leader in the development of water infrastructure diagnostic technologies for water loss management, leak detection and pipe condition assessment. The company has pioneered the use of non-invasive acoustic wave analysis to locate leaks and potential leaks in water pipes.

Calgon Carbon Reaches Settlement – CCC (NR), an air and water purification products manufacturer, announced that it will pay \$4.23M to For Your Ease Only Inc. (private) to settle a long-standing legal dispute. As a result, For Your Ease Only has agreed to withdraw a lawsuit requesting the courts declare the company did not infringe on CCC's parent for anti-tarnish jewelry boxes and that CCC interfered with the company's relationship with a key retailer. CCC also agreed to withdraw from jewelry box sales immediately. The case has been ongoing for the last 10 years.

Badger Meter Announces Acquisition – BMI (NR) has reportedly acquired Cox Instruments and Flow Dynamics.

Financial terms of the transaction were not disclosed and the purchase resulted in the merger of the two companies into one entity named Cox Flow Measurement. The acquired companies became an operational division of BMI effective January 1, 2011. Cox Flow Measurement is a manufacturer and marketer of high performance flow meters used in demanding applications such as aerospace, custody transfer, and flow measurement calibration test stands.

Sumitomo to Double Water Business Staff and Expand Globally – Sumitomo, Japan's third-biggest trading house, announced that it will double the head count of its global water division in the next seven years in an attempt to boost the size of the company's water assets through investment and acquisitions. The company intends to increase the total number of people it provides water and wastewater services to from 2.5M presently to 20M in the next eight years. The company is quickly ratcheting up its investments in an attempt to catch-up with Mitsubishi and Maruben which have become increasingly active in acquiring water-service companies outside of Japan in the hope of competing with their larger global rivals Veolia Environment (VE, NR) and Suez Environment (SEV, NR) of France. The French and Japanese firms are reportedly targeting water-service providers in China, India, Southeast Asia and the Middle East.

Sumitomo recently entered into the Indian market with its acquisition of VA Tech Wabag, a water supply and sewage treatment company based in Mumbai. In China, the company agreed last year to setup a JV with Beijing Capital Co. to operate sewage treatment businesses in two provinces. Under the terms of the agreement, the company will spend \$609M over a three year period to acquire water-service companies throughout the country. Sumitomo entered the Mexican market in 2004 and currently has operations in three cities: San Luis Potosi, Culiacan and Juarez.

In order to fund its hefty expansion plan, the company is expected to partner with Innovation Network Corporation of Japan, a government-backed investment fund. The managing director of the fund announced that the fund intends to invest \$1.62B over the next three years.

Source: Bloomberg

LBR Note: As a reminder to investors, the surge in valuations of domestic water utilities in 2005-07 was a result of M&A expectations among investors. While Sumitomo did not explicitly mention the U.S. as a potential target market, we would not be surprised if the company became an active bidder in the assets of municipal water systems in the U.S.



END MARKET & INDUSTRY UPDATES

Carolinas Settle Water Dispute – South Carolina’s three year water dispute over water withdrawn from the Catawba River with North Carolina has officially come to an end. The Catawba River stretches nearly 225 miles through both North and South Carolina and provides drinking water to some 1M people and electricity to more than 2M people in the state. South Carolina officials sued North Carolina when the state allowed two Charlotte suburbs to pump up to 10M gallons a day from the Catawba River basin. South Carolina sued to force the state to stop removals that they argued would mean less water for South Carolina residents and businesses. The agreement signed by both parents does not set limits on water that municipalities can withdraw from the river, but does place limits on the way that requests for withdrawals are handled by both states. South Carolina must also be notified of all new requests for withdrawals, and an environmental impact statement is also required for each proposal. Both states also agreed to reevaluate water sharing during droughts and to update a river basin study every 10 years.

Source: Bloomberg

Saudi Arabia Awards \$149M in Water Contracts – Saudi Arabia has awarded \$149M in contract awards to develop water and sanitation projects throughout the country, according to the Minister of Water and Electricity. The contracts include studying water resources in the southern desert region of the country and building water collection centers and a water purification plant. Saudi Arabia is the most populous Arab nation in the Persian Gulf and is the world’s largest desalinated-water producer. The government estimates that it must invest \$33.3B in desalination and water recycling plants in the coming years in order to meet future demand.

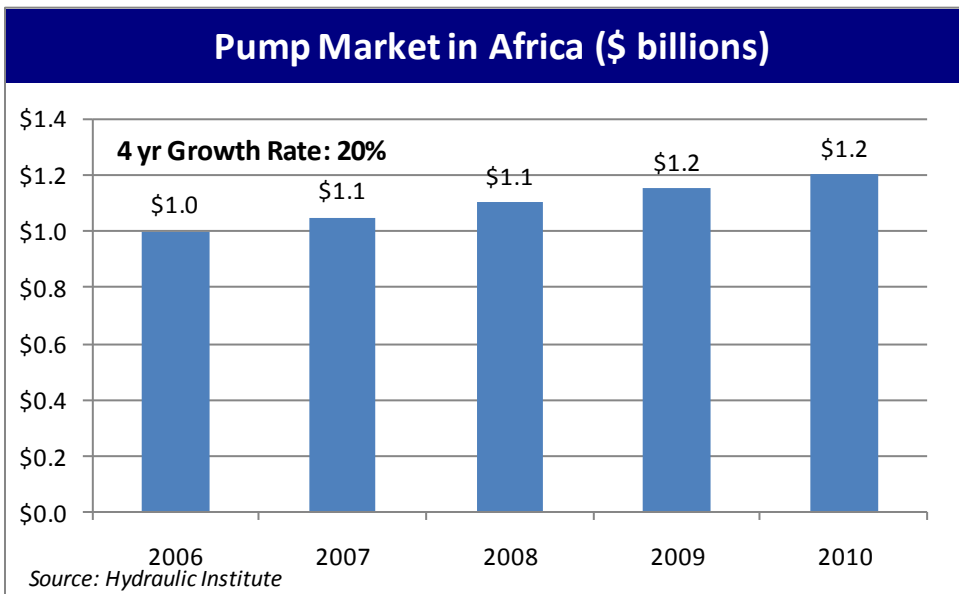
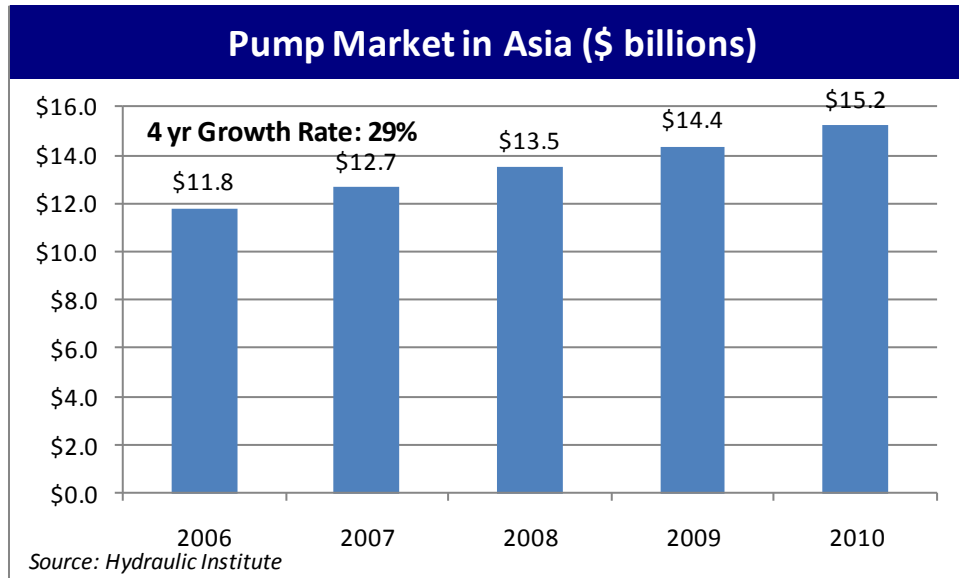
Source: Bloomberg

Northern Ireland Water CEO Resigns After Supply Crisis – Northern Ireland Water has reported that Laurence MacKenzi has resigned from his post as CEO of the state-owned utility after thousands of homes had their supply cut off in late December for as long as a week due to pipe busts throughout the company’s operating regions. The board of the Utility has recommended that Trevor Haslett, director of engineering procurement, be appointed as acting CEO and board director until a permanent CEO is selected.

Source: Bloomberg

Infrastructure Projects Key to U.S. and Global Economic Growth– A soon-to-be released report by CG/LA Infrastructure, infrastructure project development experts, calls on governments in the United States, Latin America, Europe and Asia to support key infrastructure projects that would create jobs and reignite the beleaguered construction industry as a means to support economic recovery and further growth. The report also estimates that global investment in infrastructure projects will total \$24T over the next 20 years, rising to greater than \$1T annually by 2030. The report also noted a number of key findings. Foremost, CG/LA expects that Brazil, India, Indonesia and Turkey will become the leaders in infrastructure spending and will collectively make up between 20% and 25% of global demand during this period. Globally, the group estimates that investment will vary widely across sectors. It expects that investment in electricity and transportation will account for 65% of investments in infrastructure, whereas water distribution and wastewater treatment will continue to underperform relative to the others and account for just 9% of the total investment. The researchers noted that China, currently the largest infrastructure market in the world, accounting for upwards of 40% of demand, will slowly lose its place as the country’s population ages and the initial investment is completed, resulting in the country accounting for just 30% of global infrastructure demand by 2030. Lastly, the group expects that investment in infrastructure projects in the U.S. will continue to decline as a percentage of total global investment in infrastructure. The researchers note that the U.S. currently accounts for 15% of global infrastructure spending, but that figure is expected to decline to just 12% by 2030.

Source: Water World



WATER INDUSTRY PEER VALUATION

(\$ in millions, except per share data)

Company	Ticker	FY End	Rating	Target	% Upside	Share Price	52 Week		Mkt Cap	Revenue Last	Last FY	Earnings per Share		P/E		Dividend Rate	Price/Book
							Hi	Lo				Current FY	Next FY	Current FY	Next FY		
U.S. WATER UTILITIES																	
AMER STATES WATER	AWR	Dec.	Neutral			\$34.34	\$39.61	\$31.20	\$ 639	\$ 361	1.62	1.78	2.15	19.3x	16.0x	3.0%	1.8x
AMERICAN WATER WORKS	AWK	Dec.	BUY	\$29	13%	\$25.67	\$25.82	\$19.41	\$ 4,489	\$ 2,841	1.25	1.55	1.70	16.5x	15.1x	3.4%	1.0x
AQUA AMERICA	WTR	Dec.	Neutral			\$22.79	\$22.97	\$16.45	\$ 3,135	\$ 671	0.77	0.92	1.00	24.7x	22.8x	2.7%	2.2x
CALIFORNIA WATER	CWT	Dec.	Neutral			\$37.36	\$39.70	\$33.81	\$ 778	\$ 449	1.95	1.91	2.20	19.5x	17.0x	3.2%	1.8x
ARTESIAN RESOURCES	ARTNA	Dec.	NR			\$19.06	\$19.63	\$16.43	\$ 144	\$ 61	0.97	1.02	1.11	18.7x	17.2x	4.0%	1.5x
CONNECTICUT WATER	CTWS	Dec.	NR			\$26.05	\$28.27	\$20.00	\$ 225	\$ 59	1.19	1.2	1.19	21.7x	21.9x	3.6%	2.0x
MIDDLESEX WATER	MSEX	Dec.	NR			\$18.65	\$19.31	\$14.74	\$ 290	\$ 91	0.72	0.94	0.95	19.8x	19.6x	3.9%	1.7x
PENNICHUCK	PNNW	Dec.	NR			\$27.35	\$28.39	\$19.00	\$ 128	\$ 33	0.55	0.84	0.95	32.6x	28.8x	2.7%	1.8x
SIW	SIW	Dec.	NR			\$25.39	\$28.24	\$21.60	\$ 471	\$ 216	0.81	0.98	1.06	25.9x	24.0x	2.7%	1.7x
YORK WATER CO (THE)	YORW	Dec.	NR			\$16.38	\$18.00	\$12.83	\$ 208	\$ 37	0.64	0.71	0.76	23.1x	21.6x	3.2%	2.1x
Average														22.2x	20.4x	3.2%	1.7x
EQUIPMENT/ FILTRATION/ TREATMENT SECTOR																	
PENTAIR	PNR	Dec.	BUY	\$39	7%	\$36.52	\$39.32	\$29.41	\$ 3,604	\$ 2,692	1.47	1.96	2.28	18.6x	16.0x	2.1%	1.6x
WATTS WATER TECH	WTS	Dec.	Neutral			\$36.71	\$37.79	\$27.51	\$ 1,359	\$ 1,234	1.54	1.92	2.23	19.2x	16.5x	1.2%	1.3x
AMERON INT'L	AMN	Nov.	NR			\$76.48	\$85.25	\$55.42	\$ 707	\$ 547	3.05	2.90	3.84	26.4x	19.9x	1.6%	1.1x
BADGER METER	BMI	Dec.	NR			\$40.74	\$45.49	\$32.58	\$ 613	\$ 250	1.80	1.91	2.08	21.3x	19.6x	1.4%	4.1x
CALGON CARBON	CCC	Dec.	NR			\$14.14	\$18.35	\$11.75	\$ 796	\$ 412	0.69	0.68	0.86	20.8x	16.4x	0.0%	2.5x
ENERGY RECOVERY	ERII	Dec.	NR			\$3.91	\$7.20	\$3.08	\$ 205	\$ 47	0.07	(0.08)	-	NM	NM	0.0%	2.9x
FRANKLIN ELECTRIC	FELE	Jan.	NR			\$40.59	\$41.79	\$24.93	\$ 942	\$ 626	1.29	1.86	2.29	21.8x	17.7x	1.3%	1.7x
GORMAN-RUPP	GRC	Dec.	NR			\$32.07	\$37.40	\$22.81	\$ 538	\$ 266	1.15	1.34	1.6	23.9x	20.0x	1.3%	2.6x
ITRON	ITRI	Dec.	NR			\$56.87	\$81.95	\$52.03	\$ 2,298	\$ 1,687	2.09	4.02	4.33	14.1x	13.1x	0.0%	1.9x
LAYNE CHRISTENSEN	LAYN	Jan.	NR			\$32.94	\$36.92	\$22.97	\$ 645	\$ 866	0.81	1.42	1.63	23.2x	20.2x	0.0%	1.1x
MUELLER WATER PRODUC	MWA	Sept.	NR			\$4.50	\$5.99	\$2.21	\$ 697	\$ 1,338	-0.29	(0.17)	0.15	NM	NM	1.6%	1.2x
NORTHWEST PIPE	NWPX	Dec.	NR			\$22.54	\$29.19	\$14.62	\$ 209	\$ 283	-0.26	0.12	0.73	187.8x	30.9x	0.0%	1.0x
PALL	PLL	Jul.	NR			\$50.00	\$51.01	\$31.84	\$ 5,759	\$ 2,402	1.77	2.50	2.5	20.0x	20.0x	1.3%	3.7x
SMITH (A.O.)	AOS	Dec.	NR			\$39.47	\$45.80	\$27.39	\$ 1,808	\$ 1,991	1.90	2.70	2.91	14.6x	13.6x	1.4%	1.7x
Average														43.7x	19.4x	0.8%	2.0x
WATER RESOURCES/ INFRASTRUCTURE																	
INSITUFORM TECH	INSU	Dec.	NR			\$26.72	\$28.59	\$18.52	\$ 1,048	\$ 727	1.04	1.52	1.79	17.6x	14.9x	0.0%	1.6x
LINDSAY	LNN	Aug.	NR			\$62.20	\$72.80	\$30.80	\$ 779	\$ 358	1.11	1.68	2.21	34.0x	28.6x	0.5%	2.0x
TETRA TECH	TTEK	Sept.	NR			\$23.76	\$27.59	\$18.00	\$ 1,467	\$ 2,201	1.22	1.25	1.43	19.5x	17.2x	0.0%	1.7x
Average														24.9x	18.9x	0.7%	2.1x
Relevant Indices						Share Price											
Dow Jones Industrials		DJ30				\$11,675											
S&P 500		SPX				\$1,272											
Nasdaq Composite		NDX				\$2,277											

Source: Baseline; Company reports and LBR Estimates. EPS reflects diluted EPS, excluding extraordinary items. Numbers in italics reflect consensus estimates.

** Time period for annual estimates may vary based on reporting date.

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APPENDIX

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period.

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