



FUND LAUNCHED

2005

FUNDS UNDER MANAGEMENT

£519.4
MILLION

NET ASSET VALUE PER SHARE

435.7%
SINCE INCEPTION*

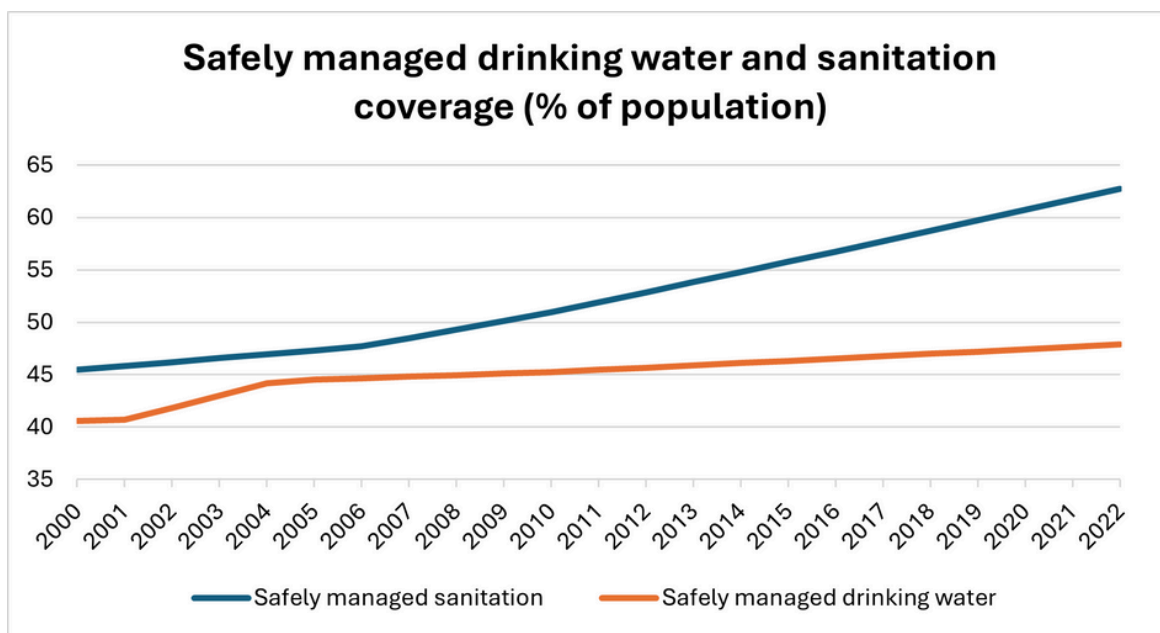


Manila Water

December 2024

The United Nations recognises access to water and sanitation as a human right, culminating as its 6th Sustainable Development Goal of achieving clean water and sanitation for all.¹ The benefits are undeniable, not only being a prerequisite to health, but contributing to economic inclusivity, school attendance, dignity and helping increase overall community resilience. In numerical terms, the World Health Organisation calculates that for every US\$1.00 invested in sanitation, it returns US\$5.50 through lower health costs, more productivity, and fewer premature deaths.²

For The Philippines, with a population of 116m across a sprawling archipelago of over 7,000 islands,³ the provision of water and sanitation services is a difficult undertaking, notwithstanding rising challenges from climate change. According to World Bank data in 2022, only 48% of the population receives safely managed drinking water services and a slightly improved 63% for sanitation services.⁴

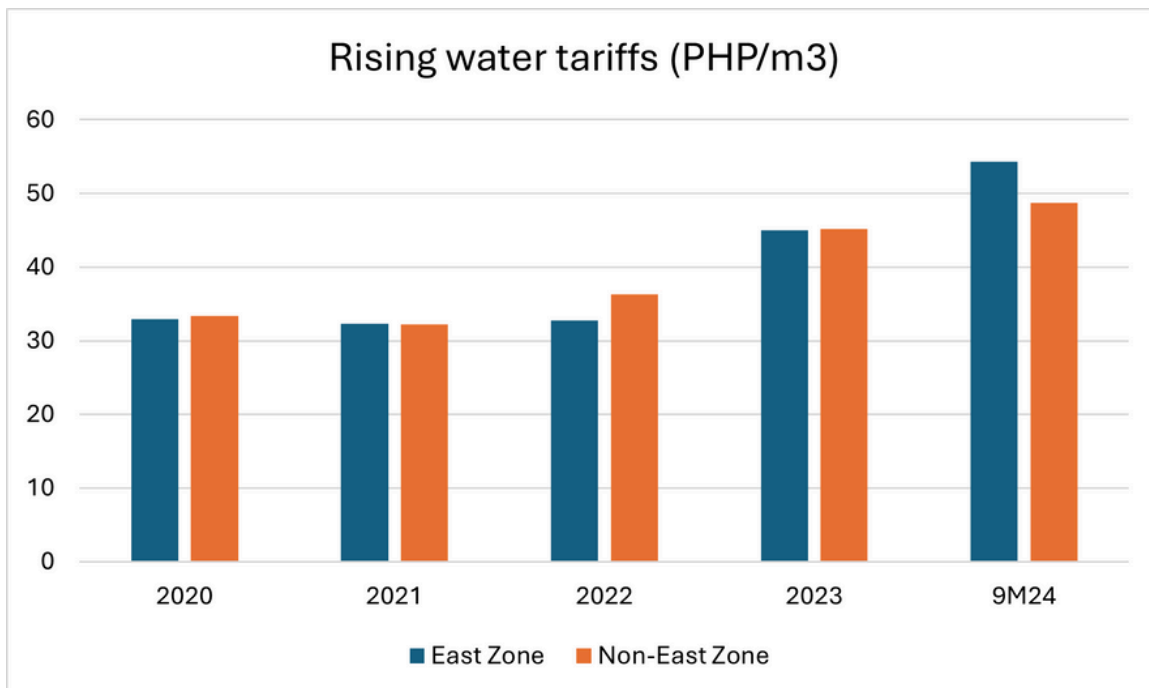


Source: World Bank, 2022

Following years of underinvestment in the country, areas of water stress and scarcity began to emerge, exacerbated further by climate change and weather events such as El Niño, which aggravate both sides of the demand-supply balance. Necessitating a response to prevent an inevitable crisis, in 2021 the National Economic and Development Authority published the Philippine Water Supply and Sanitation Master Plan, an action plan towards achieving universal access to water and sanitation by 2030. The plan calls for PHP1.1tn (~US\$19.0bn) of investment in the sector, contributing to expansion in necessary infrastructure and shoring up water supply.⁵

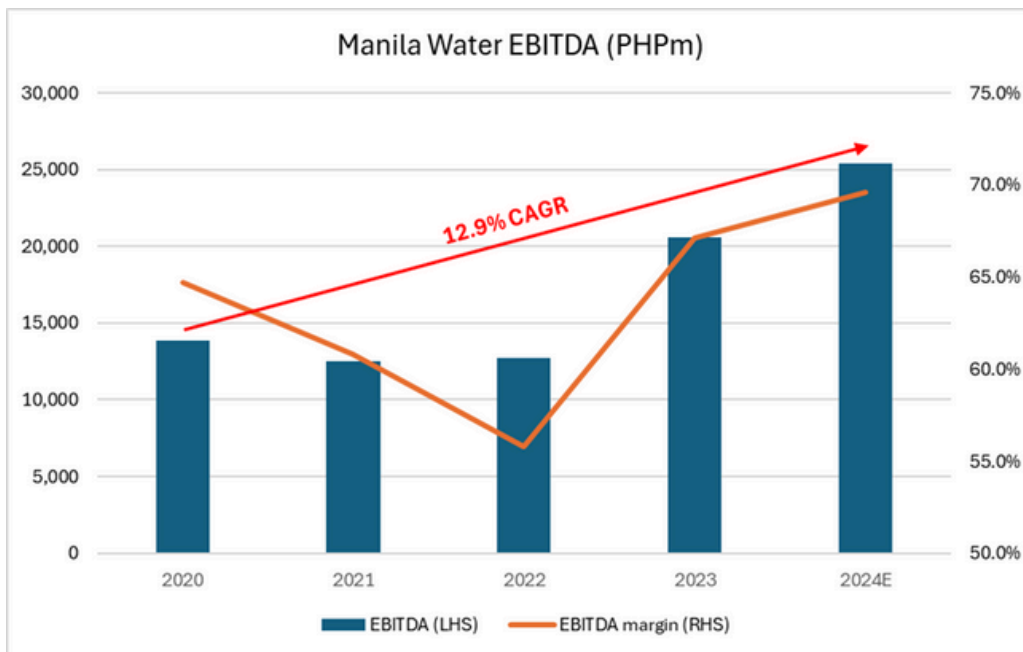
One such beneficiary has been Manila Water, The Philippines' largest private water company, providing services across the water value chain of water source management, transmission, water treatment, distribution and wastewater treatment to a range of residential, commercial and industrial clients. Manila Water's core operation since 1997 is as the concessionaire of the East Zone Service Area of Metro Manila and the province of Rizal, a 1,400km² area encompassing 24 cities and municipalities with a population over 7m.⁶ Utilising its expertise gained from East Zone Manila, the company has expanded its reach elsewhere in the Philippines as well as internationally. In 2021, Manila Water was formally recognised as a public utility by The Philippines government through the provision of a 25 year franchise until 2047, granting an extension of the East Zone Manila concession to match.

Given the rigidity of the 5 year regulatory cycle, it wasn't until 2 years later in 2023 when Manila Water received a transformational change in its regulatory environment, when the Metropolitan Waterworks and Sewerage System (MWSS) approved for East Zone Manila, an increase in the guaranteed return on expenditures from 8% to 12% and a significantly expanded capex plan, the two key metrics that drives returns for the company. This translated to Manila Water securing a 73% mostly front-loaded tariff rebasing adjustment with annual inflation escalation for the 2023-27 regulatory period, accompanied by elevated capex requirements focussed on water supply security, expanding service coverage and complying with regulatory standards for wastewater treatment.⁷ Having pioneered the way, other concession areas across The Philippines have now followed in step, recognising the need for increased investment, translating to higher tariffs and enhancing subsequent returns.



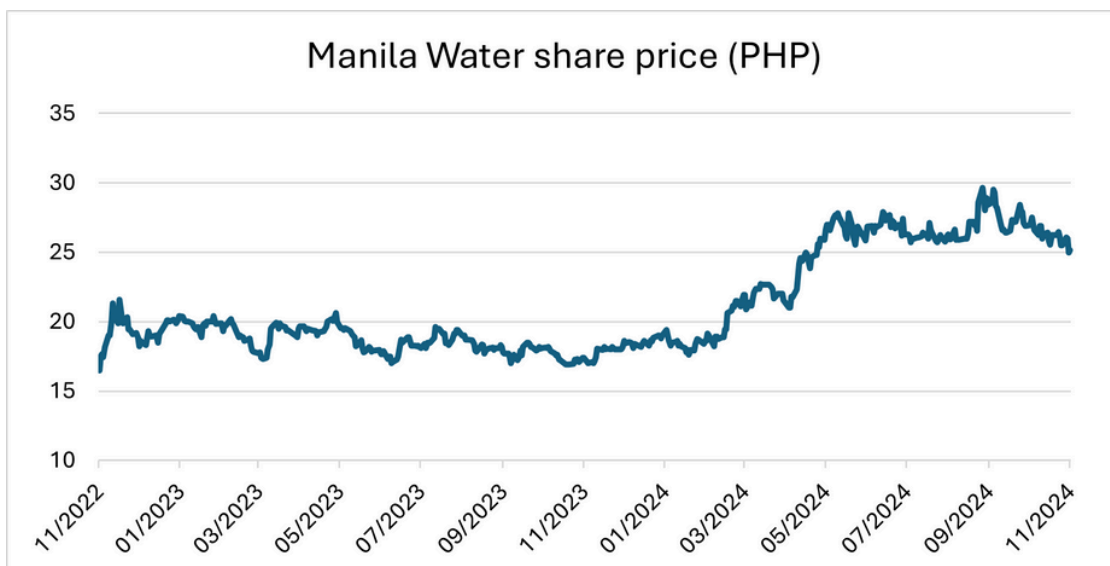
Source: Manila Water, ICM

Naturally, the improvement in the regulatory environment has been reflected in the company's financials, delivering a structural repair to its return on equity. Based on internal forecasts, 2024 EBITDA is expected to be double that of the lows in 2022, when the company was leant on during the pandemic to alleviate the burden on the consumer through a 2 year tariff freeze. Incremental performance beyond the tariff increases can be attributed to robust volumes amidst a strong El Niño, whilst the still enduring well on the supply front, as well as impressive cost efficiencies.



Source: Manila Water, ICM

In 2020, billionaire ports and casino magnate Enrique Razon acquired a majority position in Manila Water from Philippines' conglomerate, Ayala Corp, and has since further increased its shareholding with the full exit of Ayala in early 2024. Notwithstanding the remarkable regulatory change, Razon's entrance to the company has driven the focus on efficiency and shareholder returns. The question remains whether he will attempt to replicate the highly successful international expansion strategy of global port continue operator International Container Terminal Services (ICTSI). Whilst the company does have existing operations in Vietnam, Thailand, Indonesia and Saudi Arabia, these are currently operation and maintenance contracts, with hopes to be entrusted with the full concession in the near future.



Source: Factset

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Beyond company and sector specific factors, Manila Water is well positioned to benefit from many of the structural growth drivers we associate with emerging markets – strong demographics, urbanisation, rising middle class and GDP growth, all the while itself contributing to key social infrastructure that promotes development. Inevitably, Manila Water’s share price has reacted accordingly, accompanied by a significant enhancement in dividend upon the strengthening bottom line, contributing to an already a solid return for UEM’s position. Yet, despite the partial rerating, the company remains attractive on a risk-return basis, underpinned by the strong growth prospects but also simultaneous defensive nature of the water sector. Manila Water is currently a top 10 position in UEM’s portfolio.

Henry Beck

15 December, 2024

Source Data: ICM Limited

[1] United Nations (2015). The 17 Sustainable Development Goals. [online] United Nations. Available at: <https://sdgs.un.org/goals>.

[2] World Health Organisation. (2012). Global costs and benefits of drinking-water supply and sanitation interventions to reach the MDG target and universal coverage. [online] Available at: <https://www.who.int/publications/i/item/WHO-HSE-WSH-12.01>.

[3] World Population Review. (2024). Philippines Population 2024 (Live). [online] Available at: <https://worldpopulationreview.com/countries/philippines>.

[4] World Bank (2018). Philippines | Data. [online] Worldbank.org. Available at: <https://data.worldbank.org/country/philippines>.

[5] National Economic and Development Authority (2021). Philippine Water Supply and Sanitation Master Plan. [online] The National Economic and Development Authority. Available at: <https://neda.gov.ph/pwssmp/>.

[6] Manila Water. (2022). Business Profile. [online] Available at: <https://www.manilawater.com/about-us/our-company/business-profile>.

[7] Manila Water. (2023). 2022 Integrated Report. [online] Available at: <https://www.manilawater.com/sustainability/annual-reports>.

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