THE EXODUS OF FOREIGN CAPITAL FROM CHINA

Ranhill's divestment to SIIC is the latest in a slew of recent deals where Chinese investors have partially or fully acquired portfolios owned by foreign investors. Only five substantial foreign water investors remain: Sino-French (Suez/New World Services), Veolia, Sembcorp, Taliworks (soon to be transferred to LGB), and Metito.[1]

Vendor	Target	Stake	Acquiror	Date	Price ($m)	Capacity[2]
Ranhill Holdings	RWT (HK)	60%	SIIC	2016[3]	41	290,000
Mitsui	Galaxy NewSpring	50%	Yunnan Water	2016[4]	100	1,540,000
Tahal Group	Kardan Water	100%	CGGC	2016	102	525,000
Salcon Berhad	Various	100%	BEWG	2013-16	130	1,125,000
Hyflux	Various	75%	Tuspark TSI	2015	145	265,000
AIRRO Cayman Holdings IV / Lu Hai	Goldtrust Water	100%	China Water Affairs Group	2015	110	1,775,000
MBK Partners/ Hudson Clean Energy	Golden State Water	93%	Beijing Enterprises Holdings.	2014	450	1,600,000

1) Hyflux is not included in this list because it is understood to be negotiating the sale of its Galaxy NewSpring assets
2) Contracted capacity in m^3/d 3) Termsheet signed 31 Aug 2016 4) Sale agreement signed 28 Jul 2016

CHINA STRATEGY

Metito adapts to the times in China as rest of Asia drags

With three new O&M contracts secured so far in 2016, and sludge and desalination projects in its sights, Metito Utilities shows no sign of stepping back from the Chinese market. India and Indonesia have yet to fully deliver on their promises, however.

Rami Ghandour, managing director of Metito Utilities, has assured GWI that the developer has "never looked at exiting the Chinese market", despite competition from Chinese firms and aggressive consolidation activity (*see table above*).

"So far we have been successful as we are," Ghandour added, although he did not rule out a partial divestment of its Chinese project portfolio to a local partner in the future. China accounts for over half of Metito Utilities' consolidated revenues, which in turn constitute a third of the group's $400 million annual turnover, and the majority of its profit (the balance comes from its design-build and chemicals arm, Metito Overseas).

Metito's Chinese portfolio has come a long way since the Dubai-based developer set up a Chinese joint venture with Berlinwasser in 2008. At that time, the portfolio included just two municipal BOT projects with a combined capacity of 620,000m³/d. By 2011, when Metito bought Berlinwasser's remaining 49% stake in the JV, there were five assets with a combined treatment capacity of 1.1 million m³/d. According to Ghandour, it was in 2011 that Metito began developing the industrial business, acknowledging that "as any market matures, the plain vanilla projects become lower return."

The portfolio now encompasses eight concession/BOT projects and three O&M contracts, covering 1.3 million m³/d of aggregate capacity. "We've won three O&Ms this year, and the last three BOTs were industrial wastewater projects," Ghandour explained.

Acknowledging that the industrial space is also becoming more competitive, Ghandour explained that he is constantly on the lookout for new niches: "We are now looking at other projects such as desal, such as sludge." Reuse is also increasingly a feature of the industrial wastewater contracts, and in one O&M contract signed this year for a coal company, Metito is managing seven different types of water treatment under an integrated service contract. "Anything which is new [...] is going to give a higher rate of return," Ghandour said, adding that Metito must "keep evolving to stay ahead of the curve."

Although Ghandour believes that as an engineering firm, Metito's "core strength is in the plant," the company has made it clear it is willing to invest in technologies if need be. This became clear in 2014 when it took a minority equity stake in Thermal Purification Technologies Limited (TPTec), a low-temperature distillation specialist.

"We think that in the long term it's going to have a game-changing effect on the desal industry," Ghandour explained. "It basically slashes your energy costs if you've got a waste heat supply." Ghandour added that he has industrial projects using TPTec technology at an advanced stage of negotiations in China and Singapore.

Ghandour is open to investing in more technologies in the future "if the [target] company needs capital urgently", but he clarified that "our value added to a technology company is that we have access to the client base and we lend credibility." In February, Metito announced an exclusive distribution agreement with Turkish decentralised wastewater reuse firm Biopipe.

Acquisitions may also be a route into new markets in Asia. In Thailand, Ghandour explained, "the opportunity for new BOTs or concessions is quite limited in scale, which is why our strategy for Thailand is to look at acquiring a small platform which can develop things locally." He is open to taking a similar strategy in other Southeast Asian countries.

In Asia, Metito only has two other investment contracts in the form of concessions covering four desalination plants in Indonesia. It continues to actively explore water treatment BOTs in Indonesia, and for the Pekanbaru water supply project, Metito has teamed up with Filipino concessionaire Manila Water, which is part-owned by Mitsubishi Corporation, which acquired a 38% stake in Metito in 2014.

Mitsubishi's "support and introduction" to their extensive network in Asia has bolstered Metito's presence in a number of new countries, according to Ghandour, while also fostering a close relationship with Manila Water. "They run a very efficient network – distribution, billing, collection, customer service – in an emerging market. I don't think you see a lot of companies that have that kind of structure."

Despite having an engineering centre in Pune, Ghandour describes India as "a market we have not been able to crack yet." The company has been pre-qualified on both industrial and municipal investment projects in the past, but has been frustrated by the slow pace of change – despite the hope that attended the accession of prime minister Modi to power.

While Ghandour sees long-term potential in Vietnam and Myanmar, China will continue to lead the business efforts in Asia, followed by Indonesia and India. ■