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Water shortage and the stock market

Last week, Metro Manila was startled by a severe water shortage that has not been felt in over two decades. Thousands of people lined up for water rationing in several parts of Metro Manila as the sudden shortage affected all clients of Manila Water Corp. If it worsens, the water shortage may affect the stock market, business sentiment, and economic growth.

The great equalizer

Water is the most important basic necessity and is an essential element needed for health, hygiene, and sanitation. Because of this, water shortages can quickly turn into a crisis when they are not solved quickly and decisively. A water shortage can be a great equalizer because it affects both rich and poor alike. Households from many areas in Metro Manila experience daily water interruptions and are forced to line up for rationed supply. In condominiums, residents have started to fetch water from the swimming pool while water is also rationed in many plush subdivisions.

Impact on stock market and economy

Manila Water Corp is listed in the Philippine Stock Exchange under the ticker symbol MWC. It is 51.4%-owned by Ayala Corp (AC) and is the provider of water in the East Zone of Metro Manila. The stock has dropped from a high of P28.35 in December to a low of P25.15 after news of the shortage came out. Meanwhile, water in the West Zone of Metro Manila is provided by Maynilad Water Services which is 51.8%-owned by Metro Pacific Investments Corp (MPI) and 25.3%-owned by DMC Holdings, Inc (DMC). AC, MPI and DMC are components of the 30-stock Philippine Stock Exchange (PSE) Index.

The impact of the water shortage on the stock market is not limited to water concessionaires. Operations of listed restaurants such as Jollibee Foods Corp (JFC), Shakey's Pizza Ventures, Inc (PIZZA) and Max's Group, Inc (MAXS) have been hampered by the shortage. A worsening shortage may affect other sectors such as retail, property, tourism, malls, casinos, hotels, and hospitals. Some BPO companies have asked employees to work from home because of lack of water in their toilets. Meanwhile, many businesses and malls have closed restrooms in the upper floors of their establishments due to the water shortage.

Coupled with the dry season and El Nino, a prolonged shortage may also dent agriculture. Weak agricultural output and dampened economic activity due to the water shortage may drag GDP growth.

Growing demand vs. limited supply

Both Maynilad and Manila Water primarily draw their water from Angat dam. In 1997, water from Angat dam was allocated on a 60/40 split based on the size of the two concession zones. 2,400 million liters per day (mld) were allocated to Maynilad and 1,600 mld were assigned to Manila Water. Over the years, Maynilad's average daily consumption has grown to 2,100 mld while Manila Water's daily average is now at 1,600 mld. Metro Manila's increased water consumption has resulted from steady growth in billed customers which was driven by population growth and economic development within the capital. Unfortunately, growth in water consumption has not been met by increased supply. Many of the supply

augmentation projects proposed in the past five decades were shelved or were disapproved due to lack of government resolve, political pressures from different sectors, resettlement issues, and high costs.

Sole dependence on Angat dam poses major risk

Metro Manila sources 96% of its water from the 51-year old Angat dam. Thus, it is imperative and logical to diversify Metro Manila’s water supply instead of relying on a single major source. In addition, Angat dam sits on a steep mountain slope on top of the West Valley fault line, making it vulnerable to earthquakes or other natural disasters.

Choosing the best options

Considering our sole dependence on Angat dam and given the continued growth in population and water demand, Metro Manila will continue to encounter water shortages if no new major sources are built soon. Repeated episodes of water shortage or a full-blown water crisis may pose health hazards, dampen investor sentiment, and significantly hinder economic growth. The government has to act urgently as major water dams take at least three years to develop. Below, we list some of the major dams that may be developed by either the government or the private sector.

Potential projects to augment water supply

Project	Capacity (in mld)	Funding / Proponents
Kaliwa	600	Government-led, China ODA
Laiban	1,800	San Miguel Corp (SMC)
Wawa	500	Ricky Razon, possibly MWC
Kanan	3,300	?
Angat-Bayabas-Candaba	1,950	?
Montalban	500	?

Source: MWSS

Decisive action and long-term planning

Maynilad has agreed to a cross-border deal that would provide Manila Water with incremental water supply. However, more short-term solutions are needed to further augment supply while new long-term sources are being built. The two water concessionaires should focus on expediting the construction of new treatment plants and smaller water reservoirs to support demand growth in the next three to four years. Aside from this, the government may require property developers, malls, and big establishments to install water-saving features to reduce consumption and catchment facilities to augment supply.

More importantly, the government has to firm up long-term plans to ensure that we have safe, reliable, adequate and affordable water supply. This is where quick and decisive action is needed. Looking at a recent example, it was the decisiveness and resolve of the present government that ended the rice crisis. It would be a monumental accomplishment for this government if it could jumpstart major water dam projects which have been identified five decades ago. These dams are badly needed to complement the aging Angat dam and support the population and economic growth of Metro Manila.

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