

# News +: Enter the Dragon

**Sarah Tame**

**20/02/2013**

Earlier this month an iCON Infrastructure led consortium [sold 100 per cent](#) ownership in UK water utility Sutton and East Surrey water to Japanese trading house Sumitomo Corporation for an equity consideration of £164.5 million. Sumitomo also acquired an existing £140 million debt facility as part of the transaction.

The deal marked the seventh investment in a UK utility by an Asian investor since September 2010. In 2012 four of the big utilities M&A deals in the UK saw Asian investors as part of the equity consortium.

According to sources close to the Sutton and East Surrey Water deal, Sumitomo was not the only Asian investor to show an interest in the asset. China's Beijing Water Authority is also understood to have been one of the frontrunners in the bidding process.

Sutton and East Surrey Water, whilst a relatively small asset in the UK utilities sector, proved attractive as it allowed the winning bidder to acquire a 100 per cent stake in a UK utility whereas the majority of deals in the sector in 2012 largely saw investors take smaller stakes in larger businesses.

The following chart depicts M&A deals in the UK utilities sector involving Asian investors:

Date	Investor	Investor origin	Asset	Transaction details
Jan-12	China Investment Corporation	China	Thames Water	<a href="#">CIC bought an 8.68 per cent stake in Thames water in January 2012.</a>
Sep-10	Cheung Kong Infrastructure	Hong Kong	EDF's UK electricity grid network	<a href="#">CKI bought 100 per cent of the asset for £5.8 billion.</a>
Jul-12	Cheung Kong Infrastructure	Hong Kong	Wales & West Utilities	<a href="#">CKI bought the outstanding shares in the company that it did not already own from fellow shareholders for £645 million (US\$1bn).</a>
Oct-11	Cheung Kong Infrastructure	Hong Kong	Northumbrian Water	<a href="#">In an aggressive takeover bid CKI acquired full ownership of Northumbrian Water for £2.4 billion.</a>
Jun-12	Gingko Tree	China	Veolia Water UK	<a href="#">Gingko Tree was one of the investors behind InfraCapital and Morgan Stanley Infrastructure Partners' 90 per cent acquisition of Veolia's UK water business for £1.2 billion.</a>
May-12	Itochu Corp	Japan	Bristol Water	<a href="#">Itochu Corp bought 20 per cent of Capstone Infrastructure's 70 per cent stake in Bristol Water for US\$70 million.</a>
Feb-13	Sumitomo Corporation	Japan	Sutton and East Surrey Water	<a href="#">Sumitomo Corporation bought UK water utility Sutton and East Surrey Water Group for around £305 million.</a>

Notably, one of the biggest Asian investors in the UK utilities sector is Hong Kong based Cheung Kong Infrastructure. Following its acquisition of EDF's UK electricity grid network in September 2010, it went on to acquire UK water utility Northumbrian Water and UK gas distribution company Wales & West Utilities.

According to one source close to the utilities sector there are two types of Asian investor investing in the UK; the pure financial investor and the strategic investor. The source groups CKI and the Beijing Water Authority into the latter group, whilst adding that the likes of China Investment Corporation and Gingko Tree are pure financial investors.

For Sumitomo the Sutton and East Surrey water deals appears to be a strategic play from the investor who is looking to make further investments in the UK and Europe. Sumitomo said in its press statement to the Japanese media that the acquisition created “an important foundation for its business globally as it expressed a desire to make further investments in Europe and expand its business in the region.”

What is attracting these Asian investors to the UK?

The UK market has long been experienced in dealing with private sector investors with a sound and stable regulatory and legal framework designed to facilitate and encourage private sector investment.

One source said, “Investors look to the UK as it has experience of dealing with private investors and investors feel comfortable investing in the UK, in comparison to other European countries in which regulation is not mature enough to deal with private investors.”

The water sector in the UK is particularly attractive as there are not many opportunities for private sector investment in the water sector globally. Overall regulated utilities offer investors a certainty of revenue and yield, and a simple and reliable asset, with opportunity of growth.

Coupled with the above the UK government also put up the “For Sale” sign for UK infrastructure as it sent delegations to Asia and the Middle East in search of private investors for UK infrastructure projects.

In January 2012 China’s US\$410 billion Sovereign Wealth Fund CIC made its first investment in the UK, buying a stake in Thames Water. The deal came just days after it was reported that UK Chancellor George Osborne had been to China to try and drum up support for UK infrastructure. Later in the year [CIC bought](#) a 10 per cent stake in the holding company that owns Heathrow airport.

But this penchant for UK utilities comes not from Asian investors alone. One source said, “When you look at the UK there are as many UK assets in Canadian hands as there are in Asian hands.”

According to IJ data, the following chart shows the UK assets that have been held at one time or another by some of the biggest Canadian pension funds.

Investor	Asset	Sector
Ontario Teachers' Pension Plan	Birmingham International Airport	Transport
Ontario Teachers' Pension Plan	Bristol Airport	Transport
Ontario Teachers' Pension Plan	Channel Tunnel Rail Link (HS1)	Transport
Canada Pension Plan Investment Board	Anglian Water Osprey	Water
Canada Pension Plan Investment Board	Macquarie Communications Infrastructure Group	Telecoms
Canada Pension Plan Investment Board	Wales & West Utilities	Gas
Caisse de dépôt et placement du Québec	South East Water	Water
Caisse de dépôt et placement du Québec	BAA	Transport
Borealis Infrastructure (OMERS)	Associated British Ports	Transport
Borealis Infrastructure (OMERS)	Channel Tunnel Rail Link (HS1)	Transport

The source added, “I don’t think this investor interest in UK utilities is limited to Asian investors. There is obviously a lot of capital in Asia and the very large pools of capital in Asia are starting to diversify in the same way mature western investors would do. In this context they are also starting to look at infrastructure.”

*Thank you for printing this article from IJGlobal.*

*As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.*

*If you have been given this article by a subscriber, you can contact us through [www.ijglobal.com/sign-in](http://www.ijglobal.com/sign-in), or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*