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Kelda abandons Aquarion

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Yorkshire Water's parent company is pleased not to have lost its shirt. Macquarie is looking for a long-term hold.

Kelda became the latest UK water group to retreat from overseas last month when it agreed to sell its US subsidiary to Australia's Macquarie Bank for US\$860 million.

The Macquarie-led group will pay Kelda US\$625 million in cash for the Aquarion Company and will assume a further US\$235 million of the American company's existing debt. Kelda paid US\$446 million for Aquarion in 1999, which in turn acquired four New England water supply businesses from the American Water Works Company for just over US\$230 million in 2002.

The British company said it expected to make "no material loss or profit" on the sale. "Our investment has been recouped," said Martin Towers, Kelda's group finance director. He added that that was "no mean achievement" given the losses other recent investors in the US water sector had incurred or were facing.

Completion of the deal is contingent upon regulatory approvals in the four states in which Aquarion operates and is expected to take place in the second quarter of 2006. The disposal of Aquarion – which supplies about 677,000 customers in Connecticut, New York, Massachusetts and New Hampshire – represents the end of Kelda's hopes of developing a substantial business in the US by cashing in on an expected round of consolidation in the water industry there.

Kevin Whiteman, Kelda's chief executive, explained that the high valuations of US water companies meant there were limited opportunities for acquisitions without "major investment" and that the company believed it was consequently in the best interests of its shareholders to sell Aquarion and exit the US.

Macquarie will commit US\$205 million to the purchase itself – US\$100 million in equity and a further US\$105 million in what it described as "hybrid equity" – and one of its unlisted managed funds, Macquarie Essential Partnerships, will contribute a further US\$100 million. It will then raise a further US\$320 million of additional debt but declined to disclose the source.

The Australian bank indicated it may assign its equity interest to one of its own managed infrastructure funds – possibly the Macquarie Infrastructure Company that is listed on the New York Stock Exchange or a new fund – in the same way that the UK's South East Water became a core investment for its European infrastructure fund in October 2003.

See also: **Macquarie's infrastructure vision**