

Waste companies turning muck into money

Fiona Harvey reports on the changes in waste management that have seen once dull investments turn into darlings of the stock market

Severn Trent threw a spotlight on the world of waste when it announced last week it would demerge Biffa, the UK's biggest waste manager.

Biffa is likely to test the strength of investor interest in this unsexy but increasingly lucrative sector when it is expected to be valued at more than £1bn. It is likely to enter the FTSE 250 as the UK's biggest waste stock when it lists before the end of this year.

More upheavals in the market are expected – including the ownership of Cleanaway, the division of Brambles that was put up for sale last year.

Expanding opportunities in the waste market have recently attracted Guy Hands, whose Terra Firma investment group bought Waste Recycling Group for £531m and then the landfill sites of Shanks Group for £228m.

Cory Environmental, which transports waste down the Thames in barges, was also sold by Exel to Montagu Private Equity for £200m last year.

There are also likely to be

strong opportunities for large waste companies in the next few years, as numerous local government contracts for the treatment and disposal of municipal waste are coming up for tender under the private finance initiative.

The value of these contracts, which will run for between 15 and 30 years, has been estimated at £100bn.

When waste disposal was a matter of throwing rubbish into a hole in the ground, it held little fascination for the stock market. But as the government sought to divert waste away from landfill and into more environmentally sound, and potentially more profitable, treatment methods, the sector has changed markedly.

CONSOLIDATION IN A FRAGMENTED MARKET

The UK's waste market is very fragmented, writes Fiona Harvey.

A handful of large companies – including Biffa, Cleanaway, Veolia, Sita and Waste Recycling Group – dominate the market, but the majority of the sector is made up of an estimated

4,500 small-scale operators. Investors in waste companies are seeking solid returns from a market in an essential service that is driven mainly by government regulation, aided by external factors such as high commodity prices that are focusing attention on recycling valuable materials.

The waste sector in the UK is estimated to be worth more than £7bn per year. But that is expected to increase strongly as companies move to higher value waste management options, such as recycling, the incineration of rubbish for energy and heat, and the use of landfill gas to generate power.

The Institution of Civil Engineers estimates that the UK needs to invest £10bn by

2020 on 1,500 new facilities to

recycle, reprocess, treat and dispose of waste. Ian Simms, chief executive of Impax Group, which manages a fund that invests in waste companies, says: "High commodity prices and a tightening ratchet of environmental policy are spurring continued innovation in waste management and recycling. "Governments are setting tough performance targets and are inviting the private sector to commit a large amount of capital. As a result, water and waste markets are growing rapidly,

Waste management

Market share by turnover, 2005 (%)		Sources of waste (%)	
Biffa	10.3	Demolition & construction	24
Veolia	7.4	Mining & quarrying	21
Cleanaway	7.3	Agriculture	20
Sita	7.2	Industrial	13
Waste Recycling Group	6.0	Dredged material	8
Others	61.8	Municipal waste	8
Estimated total: 4,500 companies		Commercial	6
Sources: Veolia, Defra		Estimated total: 430 m tonnes per year	

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and there is scope for some very attractive investment returns."

One of the main drivers in this sector is the European Union's landfill directive, which stipulates that all waste must be treated before being sent to landfill from 2007, while many kinds of waste – such as tyres and liquid hazardous waste – must be dealt with separately. In addition, more than two-thirds of all biodegradable waste must be diverted from landfill, to processes such as composting, by 2020. The European Union has

also brought in rules saying 95 per cent of cars must be recycled by 2015, and 60 per cent of packaging must be recycled by the end of 2008.

Robin Green, president of the Chartered Institution of Water and Environmental Management, says: "More regulation means having to look at higher technology solutions, which cost more. This is going to be a big boom for this industry."

Small waste companies also sense an opportunity in the expanding market. At least four companies directly involved in waste have recently listed on Aim, while there are more in the pipeline.

Duncan Grierson is chief executive of Sterecycle, which plans to float later this year. He was formerly in private equity but said he moved into waste because "I could see there was a tremendous opportunity but there wasn't much happening from the incumbents. There was clearly a need for new technology and new entrants."