Water: The Last Bill To Go Unpaid

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La Farfana wastewater treatment plant (Aguas Andinas), Maipú, Chile

Water is the most essential service a utility can provide, and the one customers can least do without. Demand barely moves with the economic cycle, there is no competing supplier to switch to, and tariffs are set by regulation with automatic adjustment for inflation. For UEM, that combination – monopoly assets, inelastic demand and inflation-linked revenues – is the definition of a core holding: dependable cash flows that keep funding our own dividend in good markets and bad.

Why We Invest in Water

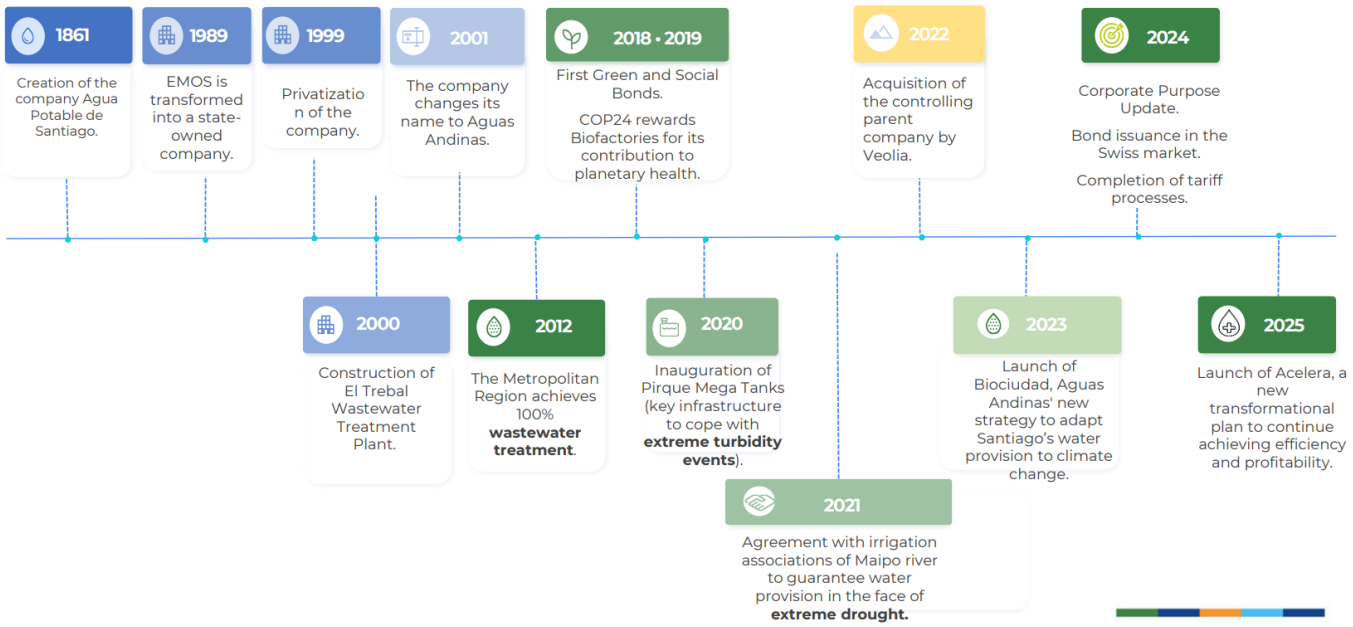
What makes water more than a bond proxy is climate change. Scarcity, more volatile rainfall and ageing networks demand sustained investment, and in a well-designed regulatory model that investment is the growth engine – approved projects are built into tariffs and earn a regulated return once they come into operation. Climate risk, properly regulated and properly managed, becomes earnings growth. Emerging markets are where that investment need is greatest and where the returns on offer are highest.

We look for three things in a water asset: an essential, monopoly network serving a large and growing population; a transparent regulatory framework that pays a fair return on investment; and a management team with the balance sheet and track record to deliver it. Aguas Andinas offers all three – and currently trades well below its own historical multiple.

Chile's Largest Water Utility

Aguas Andinas is Chile's largest water utility, supplying drinking water and wastewater treatment services to Santiago and its Metropolitan Region, the country's capital and economic heart. Founded in 1861 and privatised in 1999, when Chile opened its sanitation sector to private capital, it has been central to modernising the nation's water infrastructure.[1]

Company Milestones



Source: Aguas Andinas[1]

Today the company has universal drinking water and treatment coverage across its concession areas and 99% sewage collection. It serves 2.4 million customers – more than 8 million people, roughly 40% of Chile's water utility clients – in the country's wealthiest and most economically active region. It is about as close to a captive, essential customer base as an investor will find in emerging markets.[1]

Climate Pressure Is the Investment Opportunity

Chile's geography, from the arid Atacama Desert in the north to the glacial regions of the south, makes water availability a national issue and puts efficiency and sustainability at the centre of how the company is run.

Aguas Andinas draws most of its water from the Maipo and Mapocho river basins, both fed by snow and glacier melt from the Andes. Climate change is reducing that snow and ice, raising legitimate questions about the long-term security of supply – and it is precisely those questions that have driven a decade of investment and, with it, the company's growth.

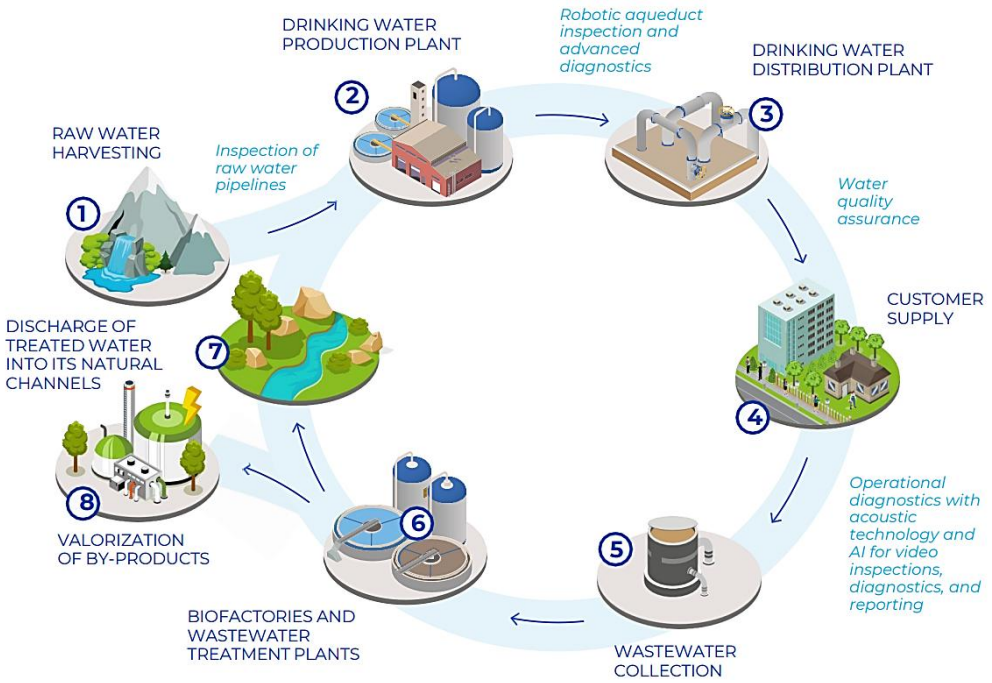
Management's answer has been to go beyond water production. An extensive sewage network and several major treatment plants process nearly all of Santiago's wastewater, enabling the recovery of natural water bodies and the circular use of resources illustrated below. Scarcity has been turned into an operating advantage.

From Raw Water to Circular Economy

Aguas Andinas owns, operates and maintains the **assets.**

We must protect and manage **hydric resources**. Since we share them with other users (we own about 28% of the water rights of the Maipo River, our main source of surface water), we build and manage strong collaborative relationships with other actors in the basin.

With the concept of **Biofactory** we change the concept of sanitation. We go beyond wastewater treatment to focus on a **circular economy** model that transforms wastewater into valuable products (reclaimed water, organic fertilizers, biomethane, and green electricity).



Source: Aguas Andinas[1]

In 2023, Aguas Andinas launched Biociudad, its climate-adaptation and water-resilience plan: new water sources, sustainable groundwater use, infrastructure resilience, nature-based solutions and responsible consumption, backed by **USD 1.0bn of planned investment through 2030**. For shareholders this is not defensive spending – it is a visible, regulator-sanctioned pipeline whose approved projects translate into pre-agreed real tariff increases.

Much of that resilience is already built and working, as the UEM team saw at first hand during a site visit in February 2026.

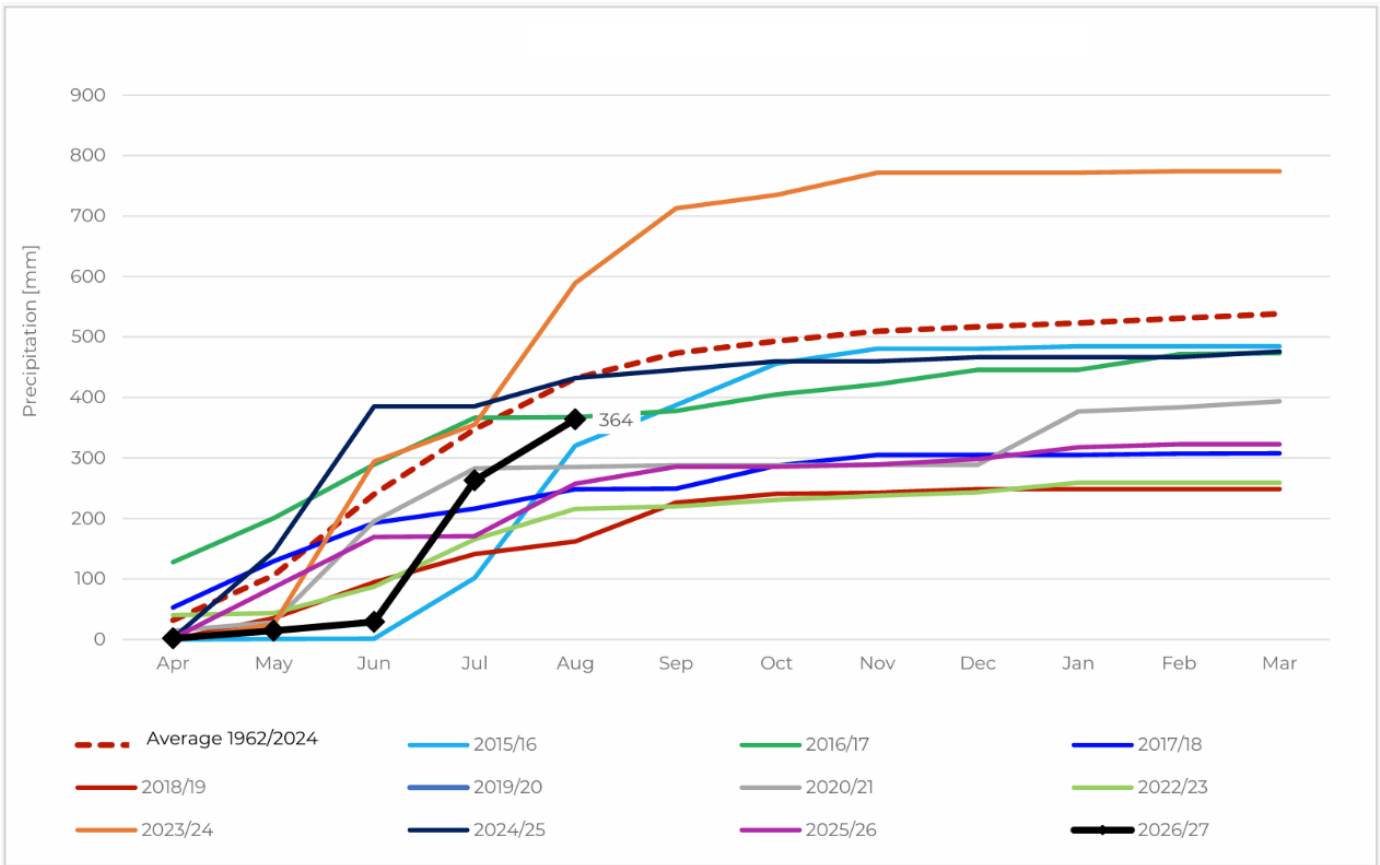
The Mega Estanques de Pirque are a strategic water-storage system operated by Aguas Andinas near Santiago, designed to strengthen the resilience of the Greater Santiago water supply during droughts, extreme weather events and episodes of high river turbidity. The asset consists of six large reservoirs with capacity to store more than 1.5 billion litres of water, increasing the city's supply autonomy to around 34–37 hours in emergency conditions. This unique infrastructure asset plays a critical role in supporting water security and climate resilience across the Santiago Metropolitan Region.

Supply conditions are now easing. After a dry first half that drew El Yeso down to 64.9% of capacity on 19 August 2026 (81% in 1Q26; 94% in 1Q25), a strong El Niño has lifted rainfall sharply since July, and reservoir levels are the figure to watch as the wet season continues. Heavier rain brings its own demands – higher turbidity and network strain – but these are exactly the conditions the Pirque reservoirs and Biociudad were built to absorb, and managing them is what the tariff framework pays for.

Mega Estanques de Pirque

Source: Aguas Andinas[1]

Precipitation in El Yeso Reservoir



Source: Aguas Andinas[1]

A Regulatory Framework That Rewards Investment

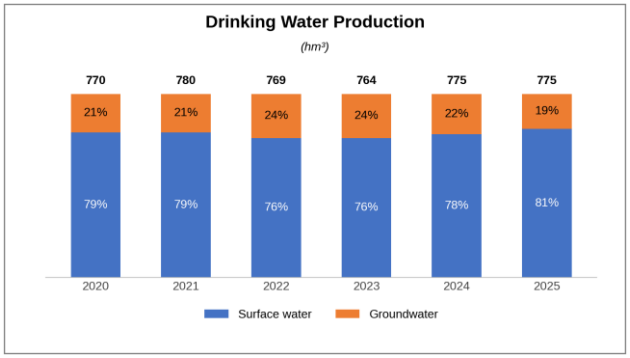
All of the above rests on regulation, and this is where Chile stands apart. The sanitation framework – distinct from the Water Code – has been in place for more than 35 years, overseen by the Superintendence of Sanitation Services (SISS), and has been tested by drought, social unrest, two constitutional rewrite attempts and several changes of government without being rewritten. In practice, investors are buying developed-market regulatory quality at an emerging-market valuation.

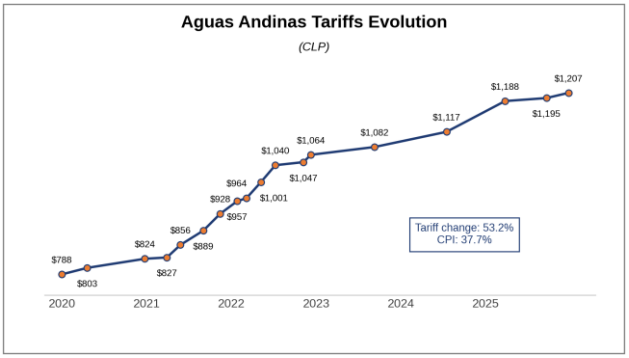
September 2025's Ley Marco de Autorizaciones Sectoriales (LMAS) strengthens the picture further. By standardising and digitising sectoral permits on a single online platform, it is designed to cut permitting times by 30–70%, and by 50% for strategic projects. The read-across for Aguas Andinas is direct: approved capex gets built sooner, starts earning sooner and carries materially less execution risk.[2]

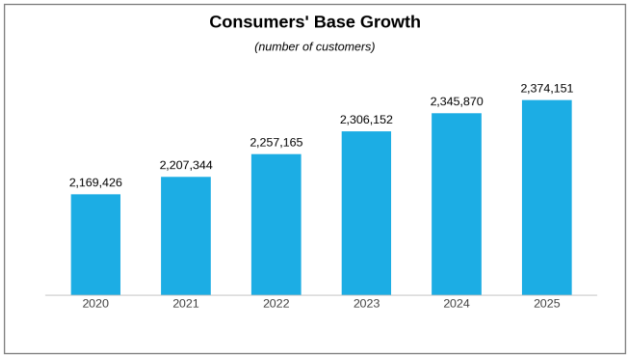
Tariffs are reset every five years against an objective "model company" benchmark – a theoretical, highly efficient operator built from scratch rather than historical costs – with automatic inflation indexation built in. The benchmark assumes an all-equity company; the real one can use debt. That gap belongs to shareholders: Aguas Andinas can finance the same asset base more cheaply than the model assumes and keeps the difference as enhanced return on equity.[1]

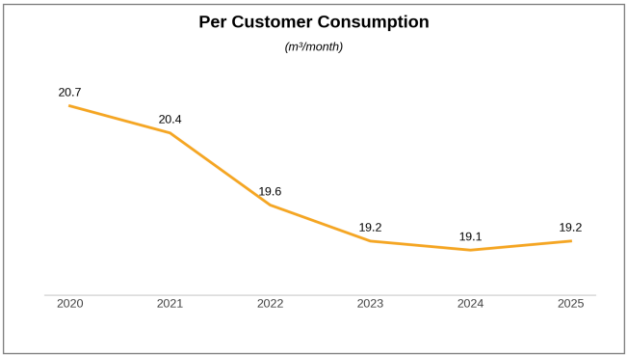
Volumes underline the defensiveness of the business. Production has been broadly stable, with a growing customer base – supported by migration and population expansion – offsetting lower consumption per customer as conservation habits took hold during the drought. Revenue that does not depend on volume growth is exactly what we want funding a dividend.

Production, Tariffs and Customer Base









Source: Aguas Andinas[1]

The November 2024 tariff agreement was the clearest evidence yet. On top of a 5% real increase in base tariffs, the regulator approved a further 7.4% of additional tariffs tied to new works – a **cumulative real tariff uplift of c.12% by 2030**. The Biociudad programme is now recognised in tariffs, removing the risk of a tariff cut that hung over the shares for years. Crucially, it turns water-security spending into regulated growth: approved projects carry pre-agreed tariff increases upon commissioning, while any efficiency gains versus the regulator's assumptions are retained by the company.[1]

2025–2030 Tariff Review Outcome

	Aguas Andinas (89%)	Aguas Cordillera (8%)	Aguas Manquehue (3%)
Base rate	5.0%	12.0%	5.0%
Calendar	3% Mar 25; 1% Dec 25; 1% Mar 26	10% Jul 25; 1% Nov 25; 1% May 26	Jun 25
Standard upgrade tariffs	7.4%	2.15%	0.16%
Estimated timetable	0.55% 2025; 0.3% 2026; 1.86% 2028; 2.31% 2029; 2.39% 2030	0.15% 2025; 2.0% 2029	2025
Investment: main increases	Biociudad Expansion of sewage treatment plants in localities 0.5% annual renewal of networks as from 2024		

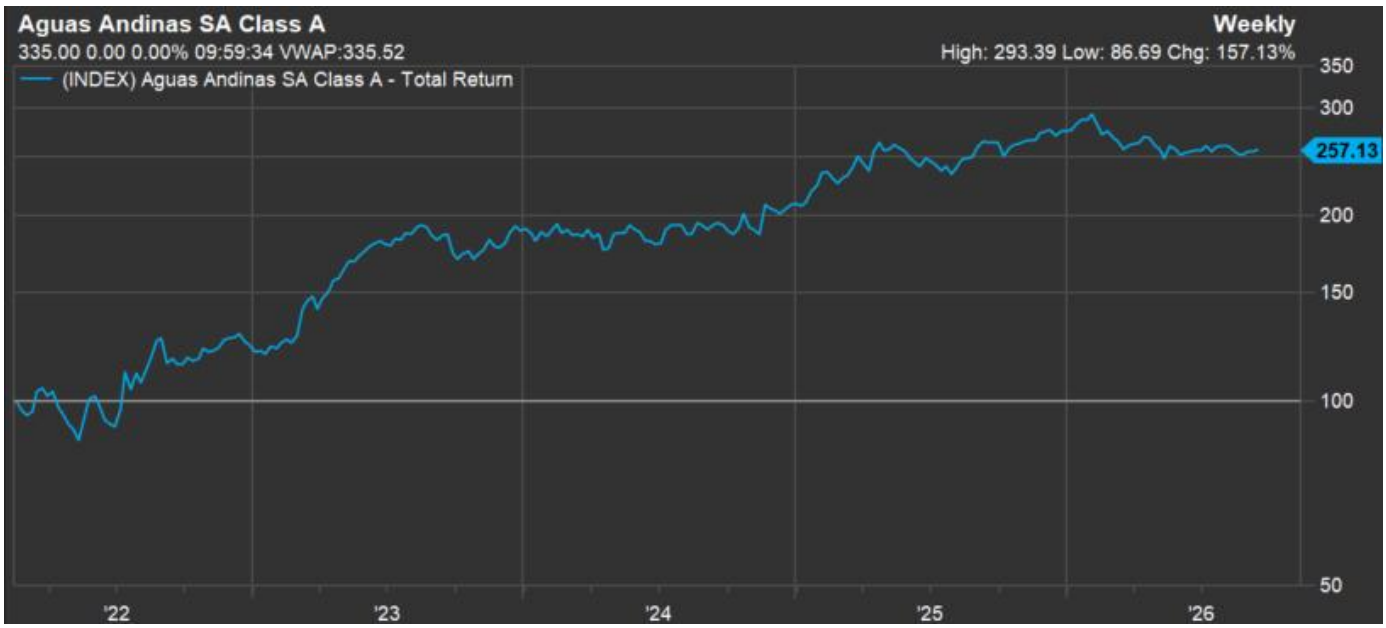
Weighted tariff ~12%

Source: Aguas Andinas

A Re-rating Story – and Why We Still Own It

UEM first bought the shares in February 2022, when the price was 60% below 2019 levels in Chilean pesos (-75% in sterling) and the stock traded at c. 7.3x EV/EBITDA against 11.2x in 2019. A de-rating of that scale in a mature, defensive monopoly is rare; it was driven by a drought lasting more than a decade, La Niña, Water Code reform, the Covid sell-off and broad political and economic uncertainty. Our view was that those pressures were cyclical and the assets were not.

Aguas Andinas Total Return Since Feb 2022: +157% (CLP; Indexed = 100)



Source: FactSet[3]

Much of that thesis has now played out – water conditions have improved from the drought years, the regulator has approved a c.12% real tariff uplift and Chile has elected a pro-market government – yet the shares still trade at 7.9x EV/EBITDA 2027e, a discount to their own history, while offering a 5.3% dividend yield. For UEM the appeal is straightforward: a monopoly asset with inflation-linked, regulated revenues; a fully tariffed investment pipeline that drives real revenue growth; an experienced management team running a genuinely defensive business; and a valuation that has yet to catch up with the improvement in the underlying company. We are being paid an attractive yield to wait for the re-rating.

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Source Data: ICM Limited.

[1] Aguas Andinas - https://www.aguasandinasinversionistas.cl/en/
[2] Ministerio de Economia, Fomento y Turismo de Chile
[3] FactSet
[4] Utilico Emerging Markets

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