



Top Canadian Water Stocks of 2023

Description

Water stocks are companies that find, clean, treat, package, or distribute water. While water has always been an important resource, it's becoming even more urgently so. The planet is getting warmer, droughts are becoming more common and lasting longer. Added to that, our global population is growing larger and requiring more clean water.

The limited supply of water — and its endless demand — means that water could become more expensive in the coming years. This could make investing in the water industry a good opportunity for forward-thinking Canadians.

If you're interested in investing in water, we'll help you understand why it might be a good investment and some of the top water companies you could start investing in.

What are water stocks?

Water stocks are companies that focus primarily on the purification, distribution, and management of water. From public drinking water to irrigation systems for crops to treating wastewater from sewage, water is a multi-billion dollar industry. It's also one that's likely to grow as the global supply of water grows scarcer.

Since water is essential, it's considered a [safe stock](#), or a stock that's relatively immune to economic cycles.

That said, some companies in the water industry can also be considered [tech stocks](#). Many are developing advanced technologies, such as desalination, that make potable water more accessible to a greater number of communities in the future.

Top Canadian water stocks

Canada has several water stocks on the [Toronto Stock Exchange \(TSX\)](#). You'll also find many more

great opportunities on foreign exchanges, especially those in the United States. That said, here are just a few of the most popular water stocks on the market today.

Water Stock

American Water Works ([NYSE:AWK](#))

York Water Company ([NASDAQ:YORW](#))

Middlesex Water Company ([NASDAQ:MSEX](#))

Essential Utilities ([NYSE:WTRG](#))

Xylem ([NYSE:XYL](#))

H2O Innovation Inc. ([TSXV:HEO](#))

Description

The largest water company in the U.S., with plans to expand into desalination technology.

A Pennsylvania-based water stock, as well as one of the oldest dividend-paying stocks in North America.

Old water company that provides residential and commercial water and wastewater services.

Water and natural gas company that provides services to around 5 million customers.

Young growth company investing in some exciting new water technology.

A micro-cap company known for its membrane filtration technology.

American Water Works

American Water Works is the largest publicly listed water company in the United States. This large-cap stock has operated from its headquarters in New Jersey since 1886. Since going public in 2008 — for a mere \$21.50 per share — the stock has soared in share price.

The company is responsible for providing clean drinking water and reliable wastewater services in 16 states. It is a regulated monopoly, which basically means it doesn't face competition in the regions where it operates, though its prices are regulated by state and local governments. It also has unregulated business in 47 states and Ontario.

American Water Works stock has increased around 25% to 26% per year since its [initial public offering \(IPO\)](#). And the company has plans to grow even more.

With 23 acquisitions in 2021, as well as plans to invest billions in its own expansion and desalination technology, this stock could be poised for serious growth. Not only that, but American Water Works pays a dividend, too.

York Water Company

Founded over 200 years ago, Pennsylvania-based York Water Company is the oldest water utility company in the United States. The company has a number of operations, mostly involving sourcing, purifying, and distributing around 20 million gallons of water daily to its customer base in Pennsylvania.

Though York Water isn't as large as American Water Works, it's been paying a reliable dividend since it was founded in 1816. Even before cars and planes were invented, York Water was paying investors, making it one of the oldest dividend companies (if not the oldest) in North America.

To be sure, York Water isn't a [growth stock](#). Since its prices are fixed by the government, it can only

grow by acquiring new customers. Considering that its biggest acquisition in 2021 totalled US\$12 million and brought in around 1,800 new wastewater customers, it's safe to assume this stock's value won't explode in the coming years. But for investors who want a safe income stock, York Water could be a great choice.

Middlesex Water Company

Another old water company, Middlesex Water has been operating in parts of New Jersey and Delaware for over 125 years. It provides water to both residential and commercial customers, and has recently expanded into wastewater services and even the management of certain municipal water systems.

Like York Water, Middlesex Water Company is a reliable income stock that pays out a fairly good dividend. Though the company doesn't have ambitions to expand operations, it does keep operating costs low, even as its prices have gone up.

Essential Utilities

Essential Utilities is a [large-cap company](#) that recently expanded into natural gas. Though the company is based in Pennsylvania, it provides services to 10 different states, with around 5 million customers.

Essential Utilities is another old, slow-growing utility company that pays out a consistent dividend. The company's recent acquisition of Peoples Natural Gas, however, has helped it grow larger, giving it around 750,000 new customers and driving revenue up by 28%. Essential Utilities has a history of raising its dividends, too.

Xylem

For the most part, the stocks on this list have been solid [utility stocks](#) with reliable dividends and predictable business models. In other words, they're safe, but boring. For investors who want a little more edge, however, water company Xylem could be an interesting investment.

Like other water companies, Xylem derives most of its revenue from purifying and distributing water to residential and commercial clients, as well as offering wastewater and water treatment services. But what makes this company exciting is its research and development of "advanced infrastructure analytics." This is a smart technology that helps communities trace and improve water flows.

The company is very forward-thinking, and approaches water as a problem, not just a service, with numerous products designed to solve the oncoming water crisis.

Xylem is still a young company, which could pose some risks for investors, especially in a volatile market. But for investors who want a growth stock that's water-focused, Xylem could be a good fit.

H2O Innovation Inc.

H2O Innovation is a small Canadian water solutions company that develops collecting and filtering

technology. Though the company is still young, it has become popular over the last decade, especially after it won “Water Company of the Year” in 2020, the first Canadian company to ever win the award.

The company has three pillars: Water Technology & Services, which uses membrane filtration to provide clean drinking water for municipal and industrial customers; Specialty Products, which manufactures chemicals and products for the water industry; and Operations & Maintenance, which provides on-going services to customers after water installations.

H2O Innovation's flagstone technology is membrane filtration, which uses membranes to separate and remove harmful particles from water. In addition to providing clean drinking water, Innovation Inc. has numerous operations, including waterwater, water reuse and recycling, and desalination.

For investors looking for a water-focused growth stock, H2O Innovation could be a great opportunity. Since the company has a smaller [market cap](#), it will likely be volatile, though that could be a good thing if the volatility points upward.

Are water stocks a good investment?

Water is a critical commodity. Plants, animals, people – even bacteria and microorganisms rely on it for survival.

So, yes, the water industry is certainly a good, core, long-term investment, as well as a solid, safe holding that could help stabilize a portfolio.

And water will only become more valuable in the future. Like it or not, the earth is heating up, and water is becoming more scarce. Only 3% of the earth's water is freshwater – the other 97% is saltwater. Although many water companies are exploring mass water desalination, that is, removing salt from seawater to make it potable, the technology has not been perfected for mass scale use.

Many countries are on the brink of water shortages, too, from eastern Asia and sub-Saharan Africa to the southern U.S. and Mexico. Canada, which has the fourth-largest freshwater reservoirs in the world, doesn't face the same existential threat of water shortage as other countries. However, severe droughts and wildfires have shown that even traditionally cold countries could also face water scarcity crises in future.

All that said, water is a great investment. As long as the water company in question has solid financials and a good business model, a water investment could be a significant long-term holding for Canadian investors. You could start with the water companies listed above, or if you prefer a passive approach to investing, you could choose any number of water-focused [exchange-traded funds \(ETFs\)](#).

TICKERS GLOBAL

1. NASDAQ:MSEX (Middlesex Water Company)
2. NASDAQ:YORW (The York Water Company)
3. NYSE:AWK (American Water Works Company, Inc.)
4. NYSE:WTRG (Essential Utilities, Inc.)
5. NYSE:XYL (Xylem Inc.)
6. TSXV:HEO (H2O Innovation Inc.)

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