

MOODY'S

RATINGS

Rating Action: Moody's downgrades Kemble to Ca; maintains negative outlook

03 Apr 2024

London, April 03, 2024 -- Moody's Ratings (Moody's) has today downgraded to Ca from B3 the backed senior secured rating of the GBP400 million medium term notes due 2026, issued by Thames Water (Kemble) Finance PLC (Kemble). Kemble's outlook remains negative.

Today's rating action follows the announcement, on 28 March 2024, by Thames Water Utilities Ltd. (Thames Water, Baa3 negative [corporate family rating]) that it will not receive an additional equity injection of GBP500 million by 31 March 2024, as previously envisaged, and that any future equity contribution is unlikely to be forthcoming ahead of the draft determination for the upcoming regulatory period (1 April 2025-31 March 2030), which is expected before the end of June 2024. [1] It also follows a separate announcement, on the same day, by Kemble that absent new shareholder equity, Kemble Water Finance Limited will stop further interest payments and, unless an extension is granted, will not be able to repay its GBP190 million maturity on 30 April 2024. [2]

RATINGS RATIONALE

The downgrade of Kemble's backed senior secured debt rating to Ca from B3 reflects the heightened risk of a near-term payment default as well as potentially high loss for creditors as a consequence. Existing cash and available undrawn amounts under facilities at Kemble level are currently insufficient to fully support repayment of a GBP190 million bank loan maturing on 30 April 2024. In addition, Kemble's announcement to suspend interest payments may lead to a payment default on the rated bonds at the next interest payment date in May 2024. Financial strategy and risk management is a key consideration under Moody's approach for assessing governance risks under its ESG framework.

While Kemble lenders could agree to a debt restructuring, this would likely entail credit losses for noteholders. Kemble's consolidated leverage currently stands at around 90% of net debt to Thames Water's regulatory capital value (RCV). A Kemble debt restructuring or sale (following enforcement of the share pledge) at a substantial

discount to the operating company's RCV could result in a material loss for Kemble lenders. In addition, the value of the Kemble security and the shares in Thames Water Limited may be limited if either the security granted under the operating company's financing arrangements were to be enforced (subject to the conditions of Thames Water's documentation), or the operating company became subject to a special administration process.

RATING OUTLOOK

Kemble's outlook remains negative, reflecting the risk of a near-term default on the senior secured notes due 2026 and uncertainty around the potential recovery achievable.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Given the current negative outlook, Moody's does not expect any upward rating pressure for the Kemble notes in the near term.

Kemble's rating could be downgraded further if a default on the senior secured notes occurs.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Regulated Water Utilities published in August 2023 and available at <https://ratings.moodys.com/rmc-documents/406788>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Thames Water (Kemble) Finance PLC (Kemble) is the financing subsidiary of Kemble Water Finance Limited, which owns Thames Water through intermediate holding companies including Thames Water Limited. Kemble is ultimately owned by a consortium of national and international infrastructure and pension funds, the largest being OMERS (31.8%) and the Universities Superannuation Scheme Limited (19.7%).

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and is(are) endorsed for use in the EU in accordance with the EU CRA Regulation.

REFERENCES/CITATIONS

[1] <https://www.londonstockexchange.com/news-article/AW14/shareholder-funding-update/16399045>

[2] <https://direct.euronext.com/api/PublicAnnouncements/RISDocument/ANN132737.pdf?id=801873f3-13b4-4f07-9c84-3f27152a1775>

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