

Research Update:

Thames Water Rating Raised To 'CCC' From 'D' On Completed Debt Restructuring; Outlook Negative

February 27, 2025

Rating Action Overview

- On Feb. 25, 2025, the maturities of all class A debt and class B debt issued by Thames Water Utilities Finance PLC (TWUF) were extended by two years. This followed the High Court of Justice of England and Wales' sanction on Feb. 18, 2025, of the restructuring plan proposed by Thames Water Utilities Holdings Ltd. in connection with implementing a liquidity extension transaction.
- Upon the completion of the maturity extension, we would consider the default cured.
- We therefore raised our issue-level ratings on TWUF's Class A debt to 'CCC' and on the Class B debt to 'CC'.
- We also raised our issuer credit rating on Thames Water Utilities Ltd. (TWUL) and TWUF to 'CCC' from 'D'.
- The outlook on the ratings is negative.

Rating Action Rationale

Upon the completion of the maturity extension, we would consider the default that resulted from the first stage of the restructuring plan cured. On Feb. 25, 2025, the maturities of all class A debt and class B debt issued by TWUF were extended by two years. This followed the High Court of Justice of England and Wales' approval of the restructuring plan proposed by Thames Water Utilities Holdings Ltd. in connection with implementing a liquidity extension transaction.

We note that an ad hoc group of class B debt creditors, Thames Water Ltd., and Charlie Maynard MP, were each granted permission to appeal the court's decision to sanction the plan on certain grounds. They have since filed and served notices of appeal. The appeal hearings will now take place March 11-13, 2025. We believe that, should the appeals overturn the court's decision of Feb. 18, 2025, the maturity extension would become void and new funding of up to £3 billion would no longer be available to Thames Water. Thames Water has the option to appeal to the Supreme Court, but that would likely be a prolonged process. In this case, we believe there would be insufficient liquidity for Thames Water to honor its financial obligation in March

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2025. TWUL would therefore enter standstill and most likely enter a special administrative regime, while TWUF would most likely also enter into insolvency proceedings.

We revised down our assessment of TWUL's business risk profile to satisfactory because we now consider that U.K. water companies will operate in a less supportive regulatory environment. On Feb. 18, 2025, we took multiple rating actions on companies in the U.K. water utilities sector, after revising our view of the preliminary regulatory advantage for water companies in England and Wales to strong/adequate from strong (see "U.K. Water Regulatory Framework Support, Low Financial Flexibility In Coming Regulatory Period Drive Rating Actions"). We project gearing at TWUL will reach over 85%, significantly above Ofwat's notional gearing of 55%. There are significant uncertainties associated with the execution of TWUL's business plans under such conditions, and it already has a track record of weak operational performance during the current AMP7 period, including large outcome delivery incentive (ODI) penalties. Thames Water does not believe that AMP8 operating targets are achievable, which is one of the reasons why it has asked Ofwat to refer its final determination to the competition and market authority for a redetermination. We therefore continue to apply a negative business modifier to assess TWUL's regulatory advantage as adequate. Similar to most U.K. water companies, we consider that the use of the medial volatility table (see: "Corporate Methodology," published Jan. 7, 2024) better reflects our risk perception for Thames Water.

We anticipate the second stage of the restructuring plan will likely result in write-downs of class A and class B debt. To allow the company to make the committed investment, we anticipate significant capital structure changes in the next 12-24 months, which could include new equity raise, as well as likely significant write-downs of its existing debt.

Outlook

The negative outlook indicate that we expect the second stage of the restructuring plan will likely result in write-downs of the class A and class B debt. There are also risks that there will be missed repayments if the pending appeals overturn the court decision of Feb 18, 2025.

Downside scenario

We could lower the issuer credit ratings if TWUL:

- Misses any principal or interest payments; or
- Implements the next round of restructuring plan that includes a potential write-down of its class A and class B debt.

Upside scenario

We could revise the outlook to stable or raise the ratings if TWUL meaningfully improves its liquidity position without weakening terms for current lenders.

Issue Ratings--Recovery Analysis

Key analytical factors

- The issue rating on the class A debt is 'CCC', with a recovery rating of '3', reflecting the potential introduction of additional super senior debt. The '3' recovery rating reflects our expectation of about 65% (rounded estimate) in the event of a default.
- We rate the class B debt at 'CC', with a recovery rating of '6', indicating our expectation of zero recovery (0%).

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Thames Water Downgraded To 'D' And Its Class A And B Debt Downgraded To 'D', Feb. 25, 2025
- U.K. Water Regulatory Framework Support, Low Financial Flexibility In Coming Regulatory Period Drive Rating Actions, Feb. 18, 2025
- Thames Water Utilities Ltd. Rated 'CC' Pending Restructuring; Outlook Negative, Dec. 17, 2024
- Thames Water Utilities Finance PLC's Class A Debt Rating Lowered To 'CC', Class B To 'C' On Proposed Restructuring, Oct. 28, 2024
- S&P Global Ratings Definitions, Oct. 15, 2024
- Thames Water Class A Debt Lowered To 'CCC+' And Class B Debt To 'CCC-' On Near-Term Liquidity Stress, Sep. 25, 2024

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- Thames Water's Class A and B Debt Downgraded On Deteriorating Liquidity; Outlook Negative, July 31, 2024
- Thames Water Class A And B Debt Placed On CreditWatch Negative On Weakening Liquidity, July 10, 2024
- Credit FAQ: Thames Water: Possible Rating Trajectories, May 31, 2024

Ratings List

Ratings list

Upgraded; Outlook Action

	To	From
Thames Water Utilities Ltd.		
Thames Water Utilities Finance PLC		
Issuer Credit Rating	CCC/Negative/--	D/--/--
Foreign Currency	CCC/Negative/--	D/--/--

Upgraded; Recovery Ratings Unchanged

	To	From
Thames Water Utilities Finance PLC		
Senior Secured	CCC	D
Recovery Rating	3(65%)	3(65%)
Subordinated	CC	D
Recovery Rating	6(0%)	6(0%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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