

MOODY'S

RATINGS

Rating Action: Moody's downgrades Thames Water's CFR to Baa3; outlook negative

03 Apr 2024

London, April 03, 2024 -- Moody's Ratings (Moody's) has today downgraded to Baa3 from Baa2 the corporate family rating (CFR) of Thames Water Utilities Ltd. (Thames Water). Concurrently, the rating agency downgraded the backed senior secured debt ratings of Thames Water's guaranteed finance subsidiary Thames Water Utilities Finance Plc (TWUF) to Baa2 from Baa1 and its backed subordinated debt ratings to Ba3 from Ba1. The outlook on Thames Water and TWUF was changed to negative from stable.

Today's rating actions follow the announcement, on 28 March 2024, by Thames Water 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]

A complete list of affected ratings is included at the end of this press release.

RATINGS RATIONALE

While the company continues to have access to GBP2.4 billion of liquidity as at 29 February 2024, which would support ongoing cash outflows, including planned investment, until May 2025, the downgrade of Thames Water's CFR reflects that a delay in the equity injection falls short of Moody's expectation embedded in the previous rating and could add pressure to financial metrics towards financial year-end March 2025 in the absence of future equity injections. It also increases uncertainty over the shareholders' commitment to provide further equity during the next regulatory period, in the context of the company's business plan indicating an additional equity requirement of GBP2.5 billion in the next regulatory period. A delay in the successful implementation of the company's turnaround programme because of an inability to finance its investment programme over an extended period of time could trigger regulatory investigations, which may in turn lead to enforcement action, such as performance penalties. Success in managing regulatory relationships is part of

Moody's assessment for management credibility and overall governance risk considerations under Moody's approach for assessing environmental, social and governance (ESG) risks.

Thames Water's Baa3 CFR remains supported by the operating company's low business risk profile as a monopoly provider of essential water and sewerage services, the relatively stable and predictable cash flow generation under a well-established and transparent regulatory framework, the creditor protections incorporated within the company's financing structure and its solid liquidity profile. The CFR is constrained by relatively high gearing, measured as net debt to regulatory capital value (RCV), of currently around 80%, and challenging performance targets, which coupled with a weak performance track record have resulted in sizeable performance penalties.

The senior secured Baa2 rating of the Class A bonds issued by Thames Water's finance subsidiary, one notch above the CFR, reflects the strength of the debt protection measures for this class of debt (in particular, tighter financial covenant levels) and their senior ranking in the cash waterfall and after any enforcement of security. The Ba3 rating of the Class B bonds, three notches below the CFR, reflects Moody's expectation of a heightened expected loss severity for the Class B lenders, given their deeply subordinated position in the cash flow waterfall.

RATING OUTLOOK

Thames Water's outlook is negative, reflecting the risk that existing or new shareholders may not provide sufficient additional equity over the remainder of this regulatory period and in the next regulatory period, for example because of an adverse regulatory determination, to support the company's ongoing investment needs.

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

Given the negative outlook, Moody's does currently not envisage upward pressure on Thames Water's ratings at this time. The outlook could be stabilised, if the company was able to secure a regulatory price determination that results in substantial equity injections being made to support the company's long-term investment needs. Upward pressure on the ratings could arise if there was progress under the turnaround programme that was accompanied by deleveraging, as measured by net debt to RCV.

Thames Water's ratings could be downgraded if the company faced difficulties in maintaining its forward-looking liquidity. Downward rating pressure could also arise if existing or new shareholders do not provide sufficient additional equity, for example because of an adverse regulatory determination, to support the company's ongoing investment needs.

LIST OF AFFECTED RATINGS

..Issuer: Thames Water Utilities Finance Plc

Downgrades:

...Backed Subordinate Medium-Term Note Program, Downgraded to (P)Ba3 from (P)Ba1

...Backed Senior Secured Medium-Term Note Program, Downgraded to (P)Baa2 from (P)Baa1

...Backed Subordinate Regular Bond/Debenture, Downgraded to Ba3 from Ba1

...Backed Senior Secured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

Outlook Actions:

...Outlook, Changed To Negative From Stable

..Issuer: Thames Water Utilities Ltd.

Downgrades

...LT Corporate Family Rating, Downgraded to Baa3 from Baa2

Outlook Actions:

...Outlook, Changed To Negative From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings 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 is the largest of the ten main water and sewerage companies in England and Wales by both RCV (GBP19 billion at March 2023) and number of customers served. The company provides drinking water to around nine million customers and sewerage services to around 15 million customers in London and the Thames Valley.

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>.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on <https://ratings.moodys.com>.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

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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>

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating

analyst and to the Moody's legal entity that has issued the rating.

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