Moody's
INVESTORS SERVICE

ISSUER COMMENT
30 June 2022

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RATINGS

Thames Water Utilities Ltd.

Corporate Family Rating	Baa2
Outlook	Stable

Thames Water Utilities Finance Plc

BACKED Senior Secured (Domestic and Foreign)	Baa1
BACKED Subordinate (Domestic)	Ba1
Outlook	Stable

Source: Moody's Investors Service

KEY METRICS:

Thames Water Utilities Ltd.

	31 March 2019	31 March 2020	31 March 2021
AICR	1.2x	1.5x	1.3x
Net Debt / RCV	83.8%	86.3%	83.7%
FFO / Net Debt	5.1%	6.0%	6.1%
RCF / Net Debt	4.6%	5.6%	5.9%

Source: Moody's Financial Metrics™

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Thames Water Utilities Ltd.

Equity contribution in light of increasing investment plan supportive of financial policy

On 30 June 2022, Thames Water Utilities Ltd. (CFR: Baa2 stable) announced a £2 billion increase in investment with an updated business plan including total expenditure of £11.5 billion over the current five-year period to 31 March 2025, up from the £9.6 billion included in its last regulatory determination.

The new plan will be supported by new equity injections, with £500 million committed during the current financial year to 31 March 2023 and plans for further £1.0 billion shareholder funding. The sizeable shareholder commitment is credit positive. It demonstrates continued shareholder support for the company and will support financial metrics in the face of the material increase in investment. We expect gearing, calculated as net debt to regulatory capital value (RCV), to be maintained broadly in the range of 80-85%.

The additional expenditure aims to boost Thames Water's performance for customers, including around leakage and river health. We expect, however, that improvements will still take several years to materialise. Indeed, Thames Water has said that it will continue with its long-term turnaround plan well into the next regulatory period and aims to reflect this in its business plan for the upcoming 2024 price review. As confirmed in its announcement, "shareholders acknowledge that further shareholder support may be required to improve financial resilience".

Thames Water's overall credit quality remains supported by its low business risk profile as the monopoly provider of essential water and sewerage services, its relatively stable and predictable cash flow generation under a well-established and transparent regulatory framework and the creditor protections incorporated within the company's financing structure. While high leverage above 80% and weak performance will continue to weigh on credit quality, the announced investment plan with significant shareholder support provides a pathway for improvement.

Moody's related publications

» Credit Opinion for Thames Water Utilities Ltd., May 2022

» 2022 Outlook for UK Water, January 2022

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