

Announcement of Periodic Review: Moody's announces completion of a periodic review of ratings of Dwr Cymru Cyfyngedig

05 Jul 2021

London, 05 July 2021 -- Moody's Investors Service ("Moody's") has completed a periodic review of the ratings of Dwr Cymru Cyfyngedig and other ratings that are associated with the same analytical unit. The review was conducted through a portfolio review discussion held on 29 June 2021 in which Moody's reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), recent developments, and a comparison of the financial and operating profile to similarly rated peers. The review did not involve a rating committee. Since 1 January 2019, Moody's practice has been to issue a press release following each periodic review to announce its completion.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Credit ratings and outlook/review status cannot be changed in a portfolio review and hence are not impacted by this announcement. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key rating considerations are summarized below.

The A3 corporate family rating (CFR) of Dwr Cymru Cyfyngedig (Welsh Water) is supported by (1) its low business risk profile as the monopoly provider of essential water and sewerage services in Wales, with stable and predictable cash flows generated under a transparent and well-established regulatory regime, (2) a low level of gearing around 60%, (3) the not-for-dividend status of Welsh Water's ultimate parent company, Glas Cymru Holdings Cyfyngedig, which allows Welsh Water to manage the distribution of its profits in order to maintain the company's publicly stated gearing target of 60% net debt to RCV and (4) the decision by the Welsh Government not to implement retail competition for incumbent water companies operating wholly or mainly in Wales in April 2017, which evidenced a cautious approach to market reform.

The company's rating is constrained by a challenging settlement for the current five year regulatory period (AMP7), which commenced in April 2020, and included (1) a significant cut in allowed wholesale returns, (2) a reduction in total expenditure allowances compared with the company's requests and (3) stringent performance targets.

This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Regulated Water Utilities published in June 2018. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

This announcement applies only to EU rated, UK rated, EU endorsed and UK endorsed ratings. Non EU rated, non UK rated, non EU endorsed and non UK endorsed ratings may be referenced above to the extent necessary, if they are part of the same analytical unit.

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