

Dwr Cymru (Financing) UK Plc

The ratings of Dwr Cymru (Financing) UK Plc (Dwr) reflect tightened rating sensitivities for AMP8 (the five-year price control period ending March 2030), following Fitch Ratings' sector review. Fitch now combines all classes of debt at Dwr into a unified set of stricter rating sensitivities. Additionally, we believe that net outcome delivery incentives (ODI) penalties, assumed fines, and increased interest costs from substantial funding needs for AMP8 investments, would weaken Dwr's post-maintenance interest coverage ratios (PMICRs).

The Stable Outlook is underpinned by Dwr's comfortable net debt/regulatory capital value (RCV) headroom, which offsets forecast cash and nominal PMICRs that are around their negative sensitivities for AMP8.

Key Rating Drivers

Rising Sector Risk: Fitch believes that the final determination has provided a reasonable outcome for most UK water companies, especially compared with the draft determination, and is in line with our expectations. However, we still see moderately higher business risk in AMP8, mainly driven by heightened exposure to environmental risk, increasing public scrutiny, and higher clawback risk, which is linked to the price control deliverables (PCDs) mechanism. Further uncertainties may arise from the Cunliffe review, the most significant regulatory reform since privatisation.

The sector also faces a heightened risk of fines related to operational and environmental under-performance, and a pressing need to rebuild trust with the public, government, and regulatory bodies. At the same time, we would expect the sector to enhance its assets to accommodate population growth and extreme weather conditions.

Constrained PMICRs Forecast: We forecast PMICRs at their negative rating sensitivities, with Dwr's cash PMICR at 1.5x and nominal PMICR at 1.8x. These ratios are weaker than those of peers at the same rating, due to 85% of its debt being inflation-linked, significantly above our calculated sector average of 52%. Additionally, Dwr's embedded cost of debt is among the highest in the sector. Plans to shift towards fixed-rate issuance is expected to weaken cash PMICRs in AMP8, limiting rating headroom. Our forecasts assume an average cost of new debt at 5.6%, broadly in line with the sector average.

Comfortable Gearing Headroom: Fitch forecasts ample total net debt/RCV rating headroom for Dwr against our tightened negative sensitivity of 70%. We forecast net debt/RCV to remain stable at 63% by end-AMP8, consistent with FY24's (financial year-end-March). This stability is supported by dividend retention due to the parent company, Glas Cymru Holdings Cyfyngedig, maintaining a non-dividend policy.

Neutral Total Expenditure (Totex) Performance: AMP8 totex is GBP6 billion (2022–2023, real terms), excluding Ofwat's adjustments, sharply up from GBP3.6 billion in AMP7. Totex allowances are aligned with Dwr's request. AMP8 enhancement totex is nearly 4x higher AMP7's, with around 90% under the PCD mechanism; storm overflows represent 46% of such investments. Under PCD, investments need to achieve the Ofwat benchmarks of allowance and timeline to mitigate the risk of a clawback. PCD ensures that funding is ringfenced and unspent allowances are returned to customers.

Net ODI Penalties Assumed: We forecast cumulative net in-period ODI penalties of GBP150 million for AMP8. Since the cash impact of these penalties materialises with a two-year lag, we expect cash ODI penalties of GBP156 million in AMP8, including amounts from AMP7's final two years. In AMP8, we expect Dwr to incur penalties mainly for leakages, water supply interruptions, storm overflows and main repairs.

Ratings

Senior Secured Debt – Long Term Rating A-
Subordinated Long-Term Rating BBB

[Click here for the full list of ratings](#)

ESG and Climate

ESG Relevance Scores are not assigned to the entities in this report.

2035 Climate Vulnerability Signal: 15

Applicable Criteria

[Corporate Rating Criteria \(December 2024\)](#)
[Sector Navigators – Addendum to the Corporate Rating Criteria \(December 2024\)](#)
[Corporates Recovery Ratings and Instrument Ratings Criteria \(August 2024\)](#)

Related Research

[Global Corporates Macro and Sector Forecasts](#)
[UK Water Companies After the Draft Determination \(July 2024\)](#)
[UK Water – Relative Credit Analysis \(June 2024\)](#)
[Spotlight: UK Water Business Plans \(October 2023\)](#)

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Regulatory Fines Forecast: Fitch forecasts GBP37 million in total fines as baseline cash outflows, due to heightened regulatory scrutiny and stricter controls on wastewater networks. We have assumed fines across all companies operating wastewater networks and will adjust this assumption to reflect actual fines or a perceived reduction in risk, accordingly.

Financial Summary

(GBPm)	2026F	2027F	2028F	2029F	2030F
EBITDA	638	697	753	809	880
Cash PMICR (x)	1.9	1.5	1.5	1.3	1.4
Nominal PMICR (x)	1.9	1.7	1.8	1.7	1.8
Net debt/RCV (%)	63	63	64	64	63

Fitch Ratings, Fitch Solutions, Dwr Cymru Cyfyngedig

Peer Analysis

Dwr's senior secured class A and class B debt is rated in line with Anglian Water Services Financing Plc's class A debt. It is rated higher than Yorkshire Water Services Finance Limited's (YWS) class A debt rating of 'BBB+' /Stable. This is due to YWS's class A debt rating no longer benefitting from a one-notch uplift for sector-specific recovery, as a result of its large super senior mark-to-market (MtM) liabilities at well above 10% of its RCV. For Dwr's class A and class B and Anglian Water's class A debt ratings, we still apply the uplift for sector-specific recovery.

Dwr's class A and class B debt rating is three notches above SW (Finance) I PLC's (Southern Water) class A debt rating of 'BBB-' /Stable. Similar to YWS, Southern Water also has substantial super senior MtM liabilities, which led to the same removal of the sector-specific recovery uplift, in addition to its higher leverage.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Adjusted total net debt/RCV above 70%, cash PMICR below 1.5x and nominal PMICR below 1.8x
- Deterioration in operational and environmental performance, resulting in financial penalties and fines that exceed Fitch's rating case

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Adjusted total net debt/RCV below 65%, combined with cash PMICR above 1.7x and nominal PMICR above 1.9x

Liquidity and Debt Structure

As at 30 September 2024, Dwr had cash and cash equivalents of about GBP690 million and access to GBP400 million of undrawn revolving credit facilities (RCF) maturing in February 2027. However, Dwr has extended the RCF till February 2028. Fitch expects Dwr to access debt markets within the next 12 months to address upcoming debt maturities of GBP720 million and expected negative free cash flow of about GBP180 million in FY26.

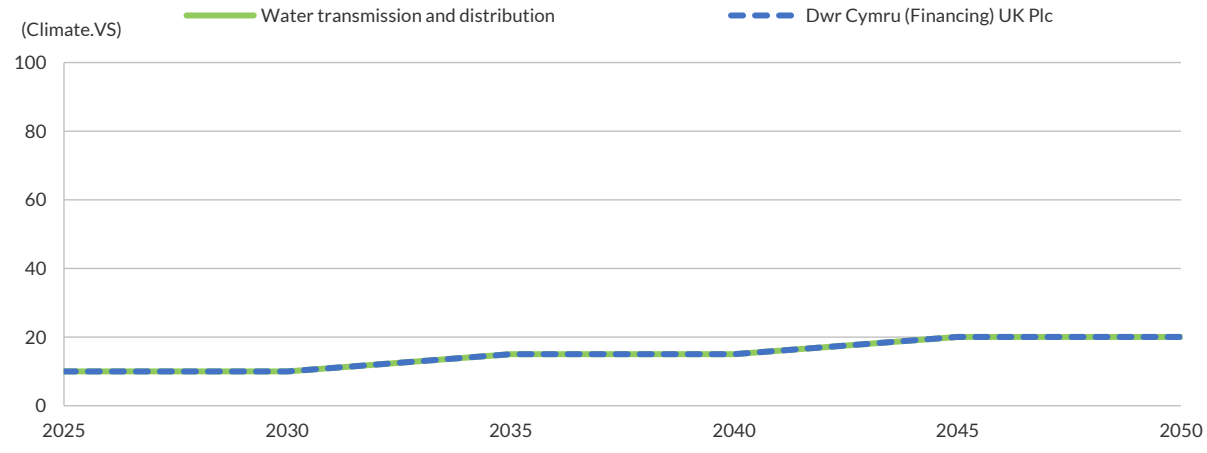
Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's [Corporate Rating Criteria](#). For more detailed, sector-specific information on how Fitch perceives climate-related transition risks, see [Climate Vulnerability Signals for Non-Financial Corporate Sectors](#).

The FY24 revenue-weighted Climate.VS for Dwr for 2035 is 15 out of 100, suggesting low exposure to climate-related risks in that year. This signal is in line with the sector average for the water/wastewater utilities sector.

Climate.VS Evolution

As of 31 March 2024



Source: Fitch Ratings

Liquidity and Debt Maturities

Liquidity Analysis

(GBPm)	2025F	2026F	2027F
Available liquidity			
Beginning cash balance	147	578	-251
Rating case FCF after acquisitions and divestitures	-219	-109	-207
Debt issued since last balance sheet	950	–	–
Total available liquidity (A)	878	469	-457
Liquidity uses			
Debt maturities	-300	-720	-220
Total liquidity uses (B)	-300	-720	-220
Liquidity calculation			
Ending cash balance (A+B)	578	-251	-677
Revolver availability	400	400	400
Ending liquidity	978	-149	-277
Liquidity score (x)	4.3	1.2	-0.3

Source: Fitch Ratings, Fitch Solutions, Dwr Cymru Cyfyngedig

Scheduled Debt Maturities

(GBPm)	31 Mar 2024
2025	300
2026	720
2027	220
2028	590
Thereafter	2,673
Total	4,503

Source: Fitch Ratings, Fitch Solutions, Dwr Cymru Cyfyngedig

Key Assumptions

- Ofwat's final determination financial model used as the principal source of information
- Neutral totex performance
- Net cash ODI penalties of GBP156 million in AMP8
- Fines totalling GBP37 million in AMP8
- Nominal cost of new debt averaging 5.6%
- CPIH averaging 2.8% (starting at 3.3% in FY26 and decreasing to 2.5% by 2030). RPI averaging 3% (starting at 3.5% in FY26 and trending down to 2.5% by 2030)
- No cash tax payments or pension-deficit recovery payments
- No dividends or equity injections

Summary of Financial Adjustments

- Statutory cash interest and total debt reconciled with FY24 investor reports

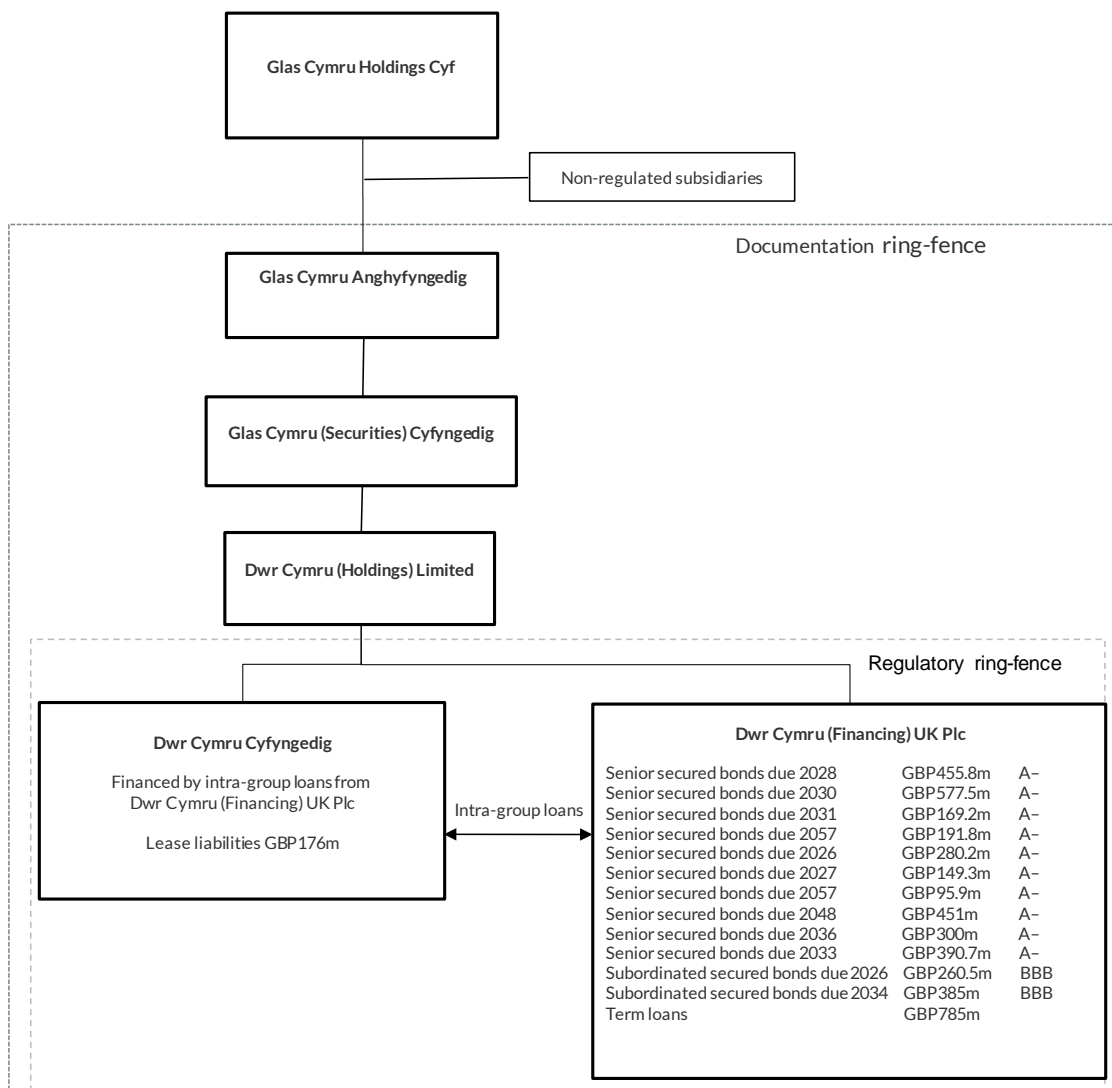
Financial Data

Dwr Cymru AMP8 – Forecasts

(GBP m)	Notes and formulas	FY26F	FY27F	FY28F	FY29F	FY30F
Post-maintenance cash flow						
Regulated EBITDA		667	736	793	858	914
Environment Agency and Ofwat fines		-7.4	-7.4	-7.4	-7.4	-7.4
Cash ODI rewards/(penalties) (nominal)		-22	-31	-32	-42	-27
Fitch EBITDA		638	697	753	809	880
Regulatory depreciation		-339	-365	-397	-431	-458
Cash tax		0	0	0	0	0
Pension deficit repair						
Post-maintenance cash flow	(a)	299	332	356	379	422
Net cash interest (after interest received)	(b)	158	218	237	295	300
Cash PMICR (x)	a / b	1.9	1.5	1.5	1.3	1.4
RCV y-o-y indexation	(c)	270	245	265	284	273
Nominal post-maintenance cash flow	(a+c) = d	569	577	622	663	695
Indexation of debt	(e)	138	115	106	89	78
Nominal PMICR (x)	d/(b+e)	1.9	1.7	1.8	1.7	1.8
Net debt to RCV						
Net debt	(a)	5,165	5,640	6,190	6,709	6,992
Shadow RCV	(b)	8,193	8,908	9,724	10,492	11,048
Net debt to RCV (%)	a/b	63	63	64	64	63
Other Financial Data						
CPIH forecast (%)		3.3	2.8	2.7	2.7	2.5
FCF positive/(negative) funded by debt		-176	-359	-444	-429	-205
Totex out/(under) performance						
Refinancing needs		300	720	220	590	80
Average cost of new debt a year (%)		5.8	5.7	5.6	5.6	5.6
Dividends						
Equity						
Rating Sensitivities				Negative	Positive	DWR
Closing net debt to RCV (%)				70	65	63
Average cash PMICR (x)				1.5	1.7	1.5
Average nominal PMICR (x)				1.8	1.9	1.8

Source: Fitch Ratings, Fitch Solutions, Ofwat, companies

Simplified Group Structure Diagram



Source: Fitch Ratings, Dwr Cymru. As at March 2024

Peer Financial Summary

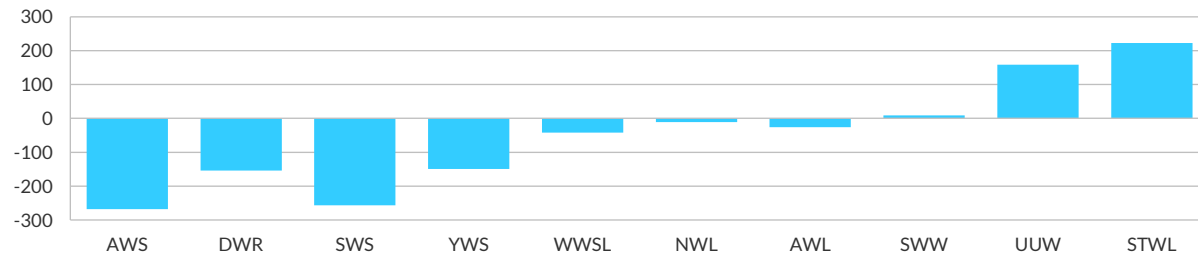
Company	Senior Class A Debt Rating	Financial statement date	EBITDA (GBPm)	Total Interest (GBPm)	Cash PMICR (x)	Nominal PMICR (x)	Net Debt/RCV (%)
Anglian Water Services Ltd.	A-	2030	1,467	605	1.9	1.9	65
		2029	1,354	573	1.9	1.9	66
		2028	1,226	532	1.9	1.9	67
		2027	1,077	473	1.8	1.8	68
		2026	999	452	1.8	1.9	68
Dwr Cymru (Financing) UK Plc	A-	2030	880	378	1.4	1.8	63
		2029	809	384	1.3	1.7	64
		2028	753	344	1.5	1.8	64
		2027	697	332	1.5	1.7	63
		2026	638	297	1.9	1.9	63
Yorkshire Water Services Limited	BBB+	2030	1,218	504	1.7	1.8	70
		2029	1,167	490	1.7	1.8	71
		2028	1,082	436	1.9	1.9	71
		2027	976	380	2.0	1.9	71
		2026	888	357	2.0	2.0	77
Affinity Water Limited	BBB+	2030	239	93	2.0	2.0	72
		2029	225	95	1.9	1.9	73
		2028	212	85	2.1	2.1	73
		2027	197	91	2.1	1.8	72
		2026	176	84	2.3	1.9	71
Southern Water Services Limited	BBB-	2030	1,046	550	1.1	1.5	77
		2029	971	522	1.1	1.5	76
		2028	859	427	1.2	1.6	73
		2027	792	347	1.4	1.9	71
		2026	782	305	1.8	2.3	73

Source: Fitch Ratings, Fitch Solutions, Ofwat, companies

The table below compares Fitch’s assumptions for DWR’s cash ODIs across the rated portfolio. These penalties and rewards have a cash impact that materialises with a two-year lag. We forecast DWR to have net cash ODI penalties of GBP156 million in AMP8, including the final two years of AMP7.

Cash ODIs in AMP8

Fitch (nominal terms)
(GBPm)



Source: Fitch Ratings, Fitch Solutions, Ofwat, companies data

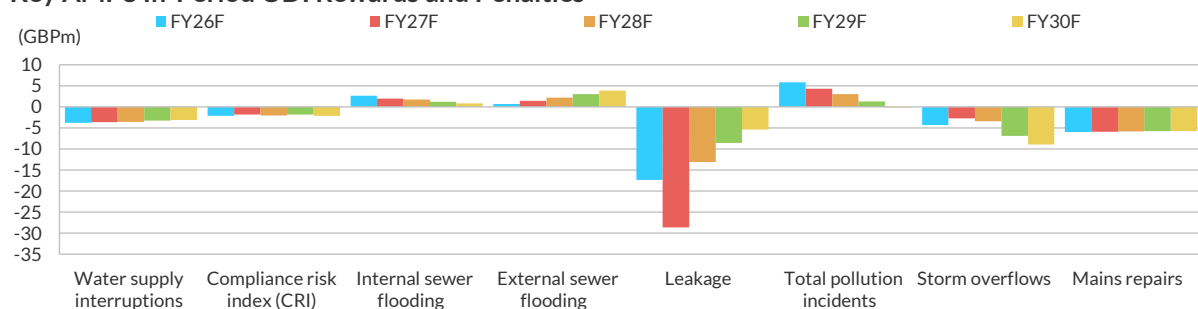
Key

AWS	Anglian Water Services Limited
DWR	Dwr Cymru (Financing) UK Ltd
SWS	Southern Water Services Limited
U UW	United Utilities Water Limited
WWSL	Wessex Water Services Limited
YWS	Yorkshire Water Services Limited
AWL	Affinity Water Limited
STWL	Severn Trent Water Limited
NWL	Northumbrian Water Limited
SWW	South West Water Limited

Source: Fitch Ratings, Fitch Solutions

The table below presents a year-by-year breakdown of the most significant ODI rewards and penalties for DWR. We forecast cumulative net in-period ODI penalties of GBP150 million for AMP8. In AMP8, DWR is set to incur penalties primarily related to leakages, water supply interruptions, storm overflows and main repairs.

Key AMP8 In-Period ODI Rewards and Penalties



Source: Fitch Ratings, Fitch Solutions, Ofwat, Dwr Cymru

Fitch Adjusted Financials

Reconciliation of Key Financial Metrics for Dwr Cymru

(GBPm)	Notes and formulas	31 Mar 2024
Post-maintenance cash flow		
Fitch EBITDA		533
Regulatory depreciation		-315
Cash tax		0
Pension deficit repair		0
PAYG adjustment		-51
Post-maintenance cash flow	(a)	167
Net cash interest (after interest received)	(b)	104
Cash PMICR (x)	a/b	1.6
Indexation of debt	(c)	216
RCV yoy indexation	(d)	464
Nominal PMICR (x)	(a+d)/(b+c)	2.0
Net debt to RCV		
Interest-bearing loans and borrowing		4,652
Cash and equivalents (unrestricted)		-149
Net debt	(a)	4,503
RCV	(b)	7,494
Net debt to RCV (%)	a/b	60

Source: Fitch Ratings, Fitch Solutions, Ofwat, Dwr Cymru Cyfyngedig

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