

Corporates Ratings Navigator			
Publish Date:	21-Aug-15		
Sector Details:			
Sector:	EMEA Regulated Utilities		
Region:	Developed Markets - Europe		
Country:	United Kingdom		
Country IDR:	AA+ Stable		
Country IDR Action:	Affirmed		
Country Action Date:	12-Jun-15		
Country Ceiling:	AAA		
Ratings History			
Date	IDR	Stable	Action
17-Jun-15	BB	Stable	Review - No Action
25-Feb-15	BB	Stable	Affirmed
27-Feb-14	BB	Stable	Affirmed
12-Dec-13	BB	Stable	Affirmed
28-Jan-13	BB	Stable	New Rating

Factor Levels	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Business Profile				Financial Profile			Issuer Default Rating
				Sector Positioning	Regulatory Environment	Asset Base	Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility	
aaa											AAA
aa+											AA+
aa											AA
aa-											AA-
a+											A+
a											A
a-											A-
bbb+											BBB+
bbb											BBB
bbb-											BBB-
bb+											BB+
bb											BB Stable
bb-											BB-
b+											B+
b											B
b-											B-
ccc											CCC
cc											CC
c											C
d or rd											D or RD

Bar Chart Legend:			
Vertical Bars = Range of Rating Factor			
Bar Colors =Relative Importance			
■	Higher Importance		
■	Average Importance		
■	Lower Importance		
Bar Arrows = Rating Factor Outlook			
↑	Positive	↓	Negative
↕	Evolving	□	Stable
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Relevant Criteria & References			
Introducing Ratings Navigators for Corporates			
Corporate Rating Methodology			
EMEA Regulated Utilities: Ratings Navigator Companion			

Direct Peer Group				
Company Name	IDR	Action	Action Date	
Greensands UK Ltd	B+ Stable	Upgrade	17-Jul-2015	
Kemble Water Finance Limited	BB- Stable	Affirmed	02-Apr-2015	
Osprey Acquisitions Limited	BB Stable	Review - No Action	17-Jun-2015	
Northumbrian Water Limited	BBB+ Stable	Review - No Action	17-Jun-2015	
Wessex Water Services Limited	BBB+ Stable	Review - No Action	17-Jun-2015	

Drivers & Sensitivities	
Adequate Dividend Cover	Fitch forecasts dividend cover at around 4x over the next price control starting April 2015 (AMP6), reflecting Yorkshire Water Services Limited (Opco)'s adequate dividend capacity in comparison with Kelda's debt service requirements.
Deflation Remains a Risk	If retail price inflation remains materially below 1.5% for an extended period of time, dividend stream from Opco would be reduced. This could lead to negative rating action for Kelda.
Credit Metrics Within Guidelines	We forecast consolidated net debt/regulatory asset value at below 85% and post-maintenance and post-tax interest cover at slightly above 1.1x. Incremental debt of GBP256m at Kelda represents less than 5% of RAV.
Operational Outperformance Expected	Yorkshire Water received an uplift of total expenditure (totex) allowances of around GBP70m compared with its business plan. Fitch's forecast assumes GBP50m of outperformance over AMP6.
Covenanted Structure and Additional Debt	The rating reflects the structurally and contractually subordinated nature of the holding-company financing and additional debt at the Kelda level.
Increased Business Risk	The rating also takes into account the efficiency challenge embedded in the final determination of tariffs for AMP6 related to the wholesale and retail price controls.
Negative Rating Triggers	A sustained drop in dividend cover below 2.5x, Opco's covenanted and secured financing going into lock-up, or a weakening of operational and regulatory performance at Opco.

Operating Environment

aa+	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	a	Strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc			

Sector Positioning

a	Operation Type	bbb	Local or regional monopoly asset owners, regional monopoly asset operators.
a-	Non-Regulated Earnings (% of Total Earnings)	a	up to 10%
bbb+			
bbb			
bbb-			

Asset Base

a	Diversification	bbb	Limited diversification by geography without regulatory diversification; regional utility.
a-	Critical Mass	a	Critical mass in one regulated asset; does not affect efficiency of operations (cost base, customer base, key personnel).
bbb+	Asset Quality	bbb	Mid-range asset quality not affecting opex and capex requirements compared with peers.
bbb			
bbb-			

Profitability and Cash Flow

bbb	Return on Capital	bbb	Return on capital comparable with the regulatory benchmark.
bbb-	Volatility of Profitability	bb	Less stability and predictability of profit than utility peers.
bb+	Investment Cycle	bbb	Investment cycle position contributing to negative free cash flow.
bb			
bb-			

Financial Flexibility

bbb	Financial Discipline	bbb	Financial policies less conservative than peers but generally applied consistently.
bbb-	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well spread debt maturity schedule but funding may be less diversified.
bb+	FFO Fixed-Charge Cover	bb	2.0x
bb	FX Exposure	aa	No material FX mismatch.
bb-	PMICR: (CFO - Maintenance Capex)/Interest	bb	1.1x

Management and Corporate Governance

a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	a	Experienced board exercising effective checks and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	a	Group structure has some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	a	High-quality and timely financial reporting.
bbb			

Regulatory Environment

a+	Independence, Transparency,	a	Transparent frameworks with strong track record and multi-year predictable tariffs set by independent regulators; little political risk.
a	Licensing, Ring-Fencing, Concessioning	a	Licensing includes effective ring-fencing provisions with creditworthiness requirements; limited concession renewal risk.
a-	Cost and Investment Recovery	bbb	Tariff setting with challenge mechanisms that may limit efficiently incurred cost and investment recovery, with moderate regulatory lag.
bbb+	Volume and Price Risk	a	High insulation from price and volume risk, little revenue under-recovery.
bbb			

Operations

a	Performance Measures	a	Key performance measures in line with or above sector average and/or regulatory target.
a-	Counterparty Risk	bbb	Medium counterparty risk. Less diversified, with high prepayment rates; medium collection rates for water suppliers.
bbb+	Revenue Profile and Market Risk	bbb	Medium revenue profile and market risk. Some exposure to cyclical industries and/or customers.
bbb			
bbb-			

Financial Structure

bb+	Lease-Adjusted FFO Gross Leverage	b	8.0x
bb	Lease-Adjusted FFO Net Leverage	b	7.5x
bb-	Net Debt/Asset Base	b	90%
b+			
b			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

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