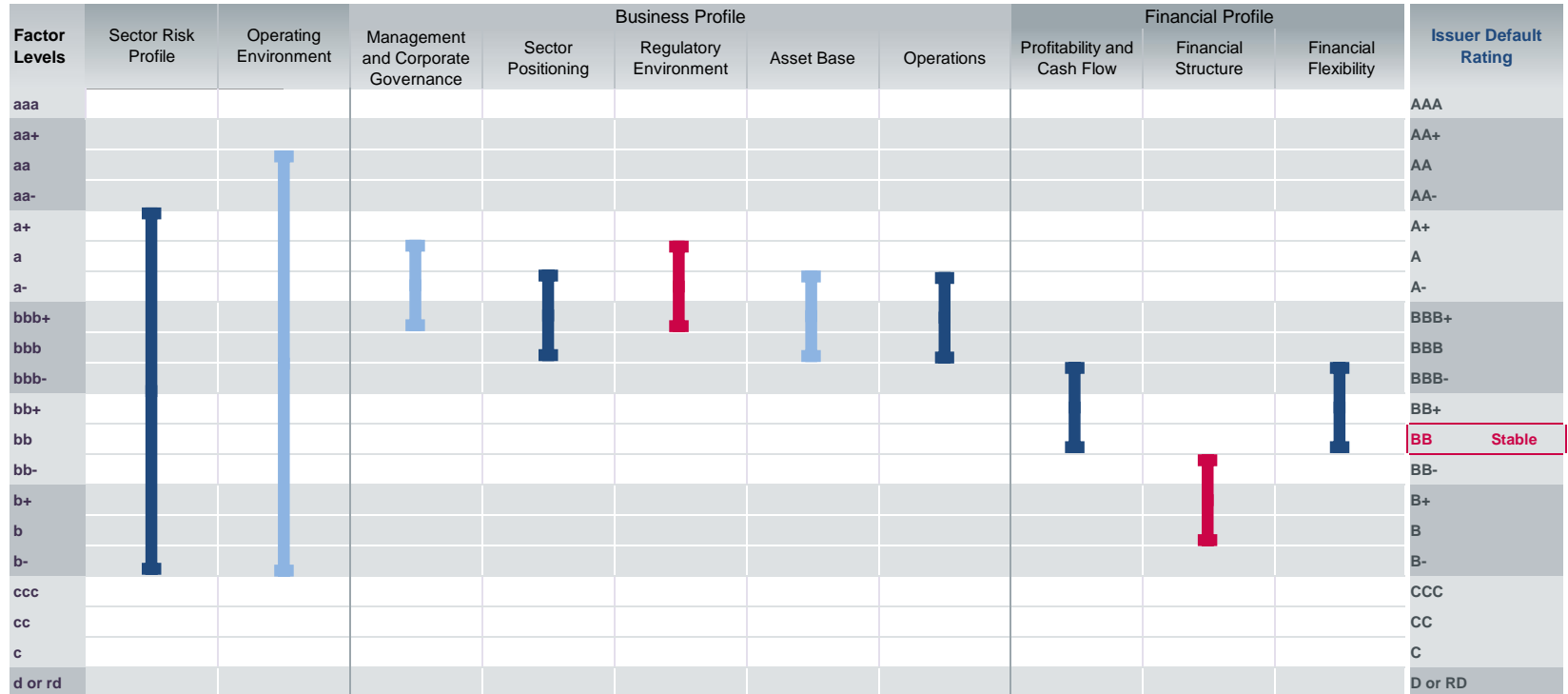


Corporates Ratings Navigator			
Publish Date:	03-Nov-16		
Sector Details:			
Sector:	EMEA Regulated Utilities		
Region:	Developed Markets - Europe		
Country:	United Kingdom		
Country IDR:	AA Negative		
Country IDR Action:	Downgrade		
Country Action Date:	27-Jun-16		
Country Ceiling:	AAA		
Ratings History			
Date	IDR		Action
26-Oct-16	BB	Stable	Review - No Action
23-Feb-16	BB	Stable	Affirmed
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



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
Analysts			
1st	Paul Lund		
	+44 203 530 1244		
	paul.lund@fitchratings.com		
2nd	Victoria Munarriz		
	+44 203 530 1419		
	victoria.munarriz@fitchratings.com		
Relevant Criteria & References			
Introducing Ratings Navigators for Corporates			
Criteria for Rating Non-Financial Corporates			
EMEA Regulated Utilities: Ratings Navigator Companion			

Direct Peer Group				
Company Name	IDR	Action	Action Date	
Greensands UK Ltd	B+ Stable	Affirmed	19-Jul-2016	
Kemble Water Finance Limited	BB- Stable	Affirmed	11-Oct-2016	
Osprey Acquisitions Limited	BB Stable	Affirmed	19-Apr-2016	
Wessex Water Services Limited	BBB+ Stable	Review - No Action	07-Mar-2016	
United Utilities Water Limited	BBB+ Stable	Review - No Action	26-Oct-2016	

Drivers & Sensitivities	
Adequate Dividend Cover at Kelda	Fitch forecasts the Kelda group's dividend cover at around 5.0x, consolidated net debt/regulatory asset value (RAV) below 85%, and post-maintenance and post-tax interest cover (PMICR) at 1.2x from April 2015 to March 2020 (AMP6).
Incremental Debt at Kelda Level	The reduced dividend stream from Yorkshire Water expected for AMP6 will still allow comfortable servicing of the debt given the GBP265m of incremental debt at Kelda, which incurs an annual finance charge of GBP15m-18m.
Operational Outperformance Expected at Opco	Fitch expects Kelda's opco, Yorkshire Water, to achieve operating cost outperformance of GBP50m and capex outperformance of GBP130m, in nominal terms over the five-year period.
Solid Regulatory Performance	Yorkshire Water improved its regulatory performance over the last four years of AMP5. However, as other water companies have also been improving their performance, Yorkshire Water is still a middle-ranking performer in the sector.
Positive Rating Guidelines	Upside is limited unless Yorkshire Water materially reduces its regulatory gearing.
Negative Rating Guidelines	A sustained decline of dividend cover below 2.5x, group gearing sustained above 85%, a marked deterioration in operating and regulatory performance of Yorkshire Water or a material change in business risk of the UK water sector would be rating negative.

Operating Environment

aa+	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very 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, Licensing, Ring-Fencing, Concessioning	a	Transparent frameworks with strong track record and multi-year predictable tariffs set by independent regulators; little political risk.
a		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
b+	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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