

Tear Sheet:

United Utilities Water Ltd.

October 3, 2025

This report does not constitute a rating action.

We forecast United Utilities Water's (UUV's) credit metrics will remain comfortably above our 9% downside threshold over the current regulatory period. UUV has an investment program of more than £13 billion over the current regulatory period (AMP8, running from April 2025 to March 2030). This is more than double the investment during AMP7 and will translate into a compound annual growth rate of about 7% in UUV's asset base, resulting in a regulatory capital value of over £21 billion by the end of AMP8. The program prioritizes sizable reductions in spills, leakages, sewer flooding, and pollution incidents whilst improving water quality and reducing supply interruptions.

UUV does not intend to raise any further equity over the AMP, relying instead on internal cash flow generation and borrowings to finance capital expenditure (capex), alongside bill increases of 32% on average over the five-year regulatory period. The group intends to maintain its inflation-linked dividend policy. Despite this, we expect UUV will maintain funds from operations (FFO) to net debt comfortably above our 9% downside threshold over AMP8.

The planned abolition of Ofwat and the creation of a single, consolidated water regulator will likely reduce fragmented oversight. Following the recommendations of the Independent Water Commission (the Cunliffe review), the U.K. government, in July 2025, confirmed it will abolish Ofwat and establish a new regulator to oversee England's water sector. This major reform--the most significant since the industry's privatization in 1989--aims to streamline governance and improve fragmented oversight by merging the regulatory functions of Ofwat, the Environment Agency, Natural England, and the Drinking Water Inspectorate. Ofwat will remain operational during the transition under new leadership.

A water reform bill is expected following a public consultation in the autumn of 2025. In our view, any resultant changes in oversight or even regulatory parameters are likely to be most relevant from the next regulatory period (AMP9, starting April 2030). There could however be implications for planning as companies will start work on their business models for AMP9 already in 2028, if not earlier. We already consider U.K. water companies operate in a less supportive regulatory environment, and had lowered our preliminary regulatory advantage for water companies in England and Wales to strong/adequate from strong in February 2025.

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Recent Research

- [U.K. Water Regulatory Framework Support, Low Financial Flexibility In Coming Regulatory Period Drive Rating Actions](#), Feb. 18, 2025

Company Description

With a regulatory capital value of £15 billion as of March 31, 2025, [United Utilities Water](#) is the second-largest water and sewerage company in the U.K. after Thames Water. Its parent, United Utilities Group PLC, is listed on the London Stock Exchange. It is a monopoly supplier of water and wastewater services to about 8 million customers and businesses in northwest England and generates annual EBITDA of about £1.1 billion. UU has a joint venture with Severn Trent to operate in the competitive non-household retail business segment. It has minimal unregulated activity.

Outlook

The stable outlook is based on UUW's strong operational record and that the company will achieve credit metrics above our 9% threshold for AMP8. UU received a total expenditure (totex) allowance of £13.3 billion, which represents a 5% cut to the company's business plan. With the cuts mainly being made on enhancement expenditure, we expect UU to achieve some efficiency to operate in line with the totex allowance. We also believe the company will continue to achieve solid operating performance and will execute its business plan, with expectations of achieving some outcome delivery incentives (ODIs): rewards despite the tougher targets.

Downside scenario

We could lower the ratings on UU and UUW if we see the group's delivery of its AMP8 business plan as more challenging than anticipated, with either significant cost underperformance or ODI penalties. If this were the case, we would likely raise our rating thresholds to reflect the increased risk perception for the U.K. water sector, which could result in a downgrade should the group not achieve credit metric headroom at that level.

We could also downgrade the company if we believe FFO to debt would not remain sustainably above 9% on average over AMP8.

A negative rating action could also be linked to a significant negative financial or reputational impact on the group due to the ongoing investigation by Ofwat and the EA into how the company manages its wastewater treatment works.

Upside scenario

We currently see limited upside potential for AMP8 based on the significant increase in the group's investment program over the period. We could consider raising the ratings if the group's adjusted FFO to debt sustainably exceeded 12%, and UUW demonstrated continued sector-leading operational performance during the rest of AMP7 and were also committed to maintaining a higher rating level.

Key Metrics

United Utilities Water--Forecast summary

Period ending	Mar-31-2022	Mar-31-2023	Mar-31-2024	Mar-31-2025	Mar-31-2026	Mar-31-2027
(Mil. GBP)	2021a	2022a	2023a	2024a	2025e	2026f
EBITDA	1,024	860	910	1,089	1,550-1,600	1,750-1,800
Funds from operations (FFO)	637	229	487	670	1,050-1,100	1,300-1,350
Capital expenditure (capex)	627	689	736	990	1,900-1,950	1,950-2,000
Dividends	296	301	320	344	350-380	360-390
Debt	7,556	8,182	8,751	9,409	10,300-10,400	11,250-11,350
Adjusted ratios						
Debt/EBITDA (x)	7.4	9.5	9.6	8.6	6.0-7.0	6.0-7.0
FFO/debt (%)	8.4	2.8	5.6	7.1	10.0-11.0	11.0-13.0
DCF/debt (%)	0.1	(2.6)	(3.6)	(4.5)	(9.5-10.5)	(7.0-8.0)

a--Actual. e--Estimate. f--Forecast.

Financial Summary

United Utilities Water--Financial Summary

Period ending	Mar-31-2020	Mar-31-2021	Mar-31-2022	Mar-31-2023	Mar-31-2024	Mar-31-2025
Reporting period	2019a	2020a	2021a	2022a	2023a	2024a
Display currency (mil.)	GBP	GBP	GBP	GBP	GBP	GBP
Revenues	1,859	1,808	1,863	1,824	1,950	2,145
EBITDA	1,126	1,034	1,024	860	910	1,089
Funds from operations (FFO)	820	795	637	229	487	670
Interest expense	256	189	379	650	457	459
Cash interest paid	149	137	122	118	176	264
Operating cash flow (OCF)	815	866	934	788	745	918
Capital expenditure	645	639	627	689	736	990
Free operating cash flow (FOCF)	170	227	308	99	9	(72)
Discretionary cash flow (DCF)	(117)	(69)	6	(209)	(315)	(421)
Cash and short-term investments	528	744	241	340	1,399	1,673
Gross available cash	528	744	241	340	1,399	1,673
Debt	7,241	7,285	7,556	8,182	8,751	9,409
Common equity	2,962	3,031	2,957	2,509	2,056	2,000
Adjusted ratios						
EBITDA margin (%)	60.5	57.2	55.0	47.1	46.7	50.8
Return on capital (%)	6.0	5.8	5.8	4.2	4.8	6.3
EBITDA interest coverage (x)	4.4	5.5	2.7	1.3	2.0	2.4
FFO cash interest coverage (x)	6.5	6.8	6.2	2.9	3.8	3.5
Debt/EBITDA (x)	6.4	7.0	7.4	9.5	9.6	8.6
FFO/debt (%)	11.3	10.9	8.4	2.8	5.6	7.1
OCF/debt (%)	11.3	11.9	12.4	9.6	8.5	9.8

United Utilities Water Ltd.

United Utilities Water--Financial Summary

FOCF/debt (%)	2.3	3.1	4.1	1.2	0.1	(0.8)
DCF/debt (%)	(1.6)	(0.9)	0.1	(2.6)	(3.6)	(4.5)

Peer Comparison

United Utilities Water --Peer Comparisons

	United Utilities PLC	Severn Trent PLC	Anglian Water Services Financing PLC	Southern Water Services (Finance) Ltd.	Yorkshire Water Services Finance Ltd.
Issuer credit rating	BBB+/Stable	BBB+/Stable			
Ratings on Class A debt			BBB/Stable	BBB-/WatchNeg	BBB+/Stable
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2025-03-31	2025-03-31	2025-03-31	2025-03-31	2025-03-31
Mil.	GBP	GBP	GBP	GBP	GBP
Revenue	2,145	2,427	1,660	993	1,299
EBITDA	1,089	1,069	770	351	690
Funds from operations (FFO)	670	745	272	10	527
Interest	459	400	432	331	310
Cash interest paid	264	312	347	342	233
Operating cash flow (OCF)	918	614	395	(42)	417
Capital expenditure	990	1,549	870	742	696
Free operating cash flow (FOCF)	(72)	(935)	(475)	(784)	(279)
Discretionary cash flow (DCF)	(421)	(1,291)	(563)	(784)	(331)
Cash and short-term investments	1,673	1,014	1,019	557	491
Debt	9,409	8,801	7,794	5,191	6,859
Equity	2,000	1,771	2,402	936	1,474
EBITDA margin (%)	50.8	44.0	46.4	35.4	53.1
Return on capital (%)	6.3	6.5	4.2	0.2	4.7
EBITDA interest coverage (x)	2.4	2.7	1.8	1.1	2.2
FFO cash interest coverage (x)	3.5	3.4	1.8	1.0	3.3
Debt/EBITDA (x)	8.6	8.2	10.1	14.8	9.9
FFO/debt (%)	7.1	8.5	3.5	0.2	7.7
OCF/debt (%)	9.8	7.0	5.1	(0.8)	6.1
FOCF/debt (%)	(0.8)	(10.6)	(6.1)	(15.1)	(4.1)
DCF/debt (%)	(4.5)	(14.7)	(7.2)	(15.1)	(4.8)

Environmental, Social, And Governance

Social factors are a moderately negative consideration in our credit rating analysis of UU. As one of the U.K.'s water and wastewater network operators, the company provides a key service with a significant social impact. This exposes UU to additional scrutiny from regulators and the government to ensure high quality, reliability, and affordable costs for customers, as the most recent price review indicates.

Environmental and governance factors are a neutral consideration. The company has shown strong performance in both water and waste, achieving good metrics, in line with regulatory targets, and delivering significant outperformance in the first year of the regulatory period. We expect UU will continue to invest to make its network more sustainable by reducing leakage and pollution incidents. The group's geographical monopoly covers 47% of the U.K.'s most deprived areas and it has therefore implemented a large social tariff scheme. UU has also set a target to reach net zero across the three emissions scopes by 2050. Since October 2021, it has purchased all of its electricity from renewable sources.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/NR
Local currency issuer credit rating	BBB+/Stable/NR
Business risk	Excellent
Country risk	Low
Industry risk	Very Low
Competitive position	Excellent
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bbb
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	bbb+
Group credit profile	bbb+
Entity status within group	Core (no impact)

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021

- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

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