UK water company results: it never rains but it pours

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As temperatures continue to soar across Southern Europe,[1] UK headlines are once again dominated by the performance of water companies. **On 17 Jul 2023, South East Water reported a loss of £74m citing extreme weather events as contributing to £17m of additional costs.[2]**

Figure 1. My high street, Loughton (a Thames Water area), 16 Mar 2023.



While the focus has been on South East Water, in fact all UK water companies have reported their 2023 results, with half communicating an explicit cost increase due to extreme weather in their 2023 results (see Table 1). For these five companies, the cost totalled £106m compared to operating profit of £1bn.

The UK government has recently published its environmental assessment of the nine water and sewerage companies operating in England, stating that their performance in 2022 was ***"very disappointing".[3]*** The number of pollution incidents increased year-on-year, with minimal improvements in individual Environmental Performance Assessment ratings. This raises the following concerns for UK water investors:

- **Headwinds for the sector remain strong.**[4] The reported costs are another symptom of excess dividend payments resulting in historic underinvestment. Climate adaptation urgently requires additional capital. **This will increase leverage for existing debt investors alongside likely reduced operating profits**.
- **21% of outstanding debt in the sector is labelled green or sustainable** (full details in Table 2),[5] and still held by many ESG funds.[6] Green bond investors have exposure to the full operations of an issuer, and due diligence must consider the sustainability performance of the whole entity. **Recently reported climate costs raise sustainability concerns for the sector.**

[1] "Europe swept by blistering and potentially record-breaking temperatures", CNN, 14 Jul 2023.
[2] "South East Water reports £74m loss after year of extreme weather", The Guardian, 17 Jul 2023.
[3] "Water and sewerage companies in England: environmental performance report 2022", UK Environment Agency, 12 Jul 2023.
[4] "Thames Water's biggest investor cut value of its stake by 28%", FT, 18 Jul 2023.
[5] For our earlier analysis see "Thames Water green bonds: all in the same puddle", AFII, 4 Jul 2023.
[6] For example iShares € Green Bond UCITS ETF and iShares € Corp Bond ESG UCITS ETF both hold four Thames Water green bonds as of 14 Jul 2023, source iShares.

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Annual Report Details

Table 1. Water company 2023 debt outstanding and 2023 results. Source: Bloomberg, accessed 4 Jul 2023 and company reports.

Name	Ticker	Total debt outstanding (£bn)	Total green debt outstanding (£bn)	Total sustainability debt outstanding (£bn)	Date of results reported	Extreme Weather Cost (£mn)	Operating Profit (£mn)
Thames Water	THAMES	10.2	2.7	0.0	10-Jul-23		356.0
United Utilities (North West Water)	UU	5.8	0.0	1.0	25-May-23	20.0	441.0
Anglian Water	AWLN	5.2	2.0	0.0	08-Jun-23	22.0	424.0
Severn Trent Water	SVTLN	4.9	0.0	1.5	24-May-23		508.8
Yorkshire Water	KEL	3.8	0.0	1.6	14-Jul-23	25.0	236.7
Wessex Water	YTLPMK	3.1	0.0	0.3	11-Jul-23		111.3
Southern Water	SWSFIN	2.7	0.0	1.1	07-Jul-23	22.1	-18.4
Northumbrian Water	NWGLN	2.5	0.0	0.0	14-Jul-23		211.6
South West Water	PNNLN	0.4	0.0	0.0	31-Jan-23		212.4
South East Water	SEWLTD	0.4	0.0	0.0	17-Jul-23	17.0	-74.2

Thames Water

"Extreme weather had a major impact on our water metrics in 2022/23, including leakage and supply interruptions, as our network faced two weather events at opposite extremes in the space of months".[7]

United Utilities

"Extreme weather events adversely impacted not only our ODI (Outcome Delivery Incentives), but also drove an adverse operating cost impact of £20 million".[8]

Anglian Water

"We didn't achieve all of our Outcome Delivery Incentive (ODI) targets last year, largely as a result of extreme weather events, which has resulted in a year-end penalty of £22 million".[9]

Severn Trent

Severn Trent reduced leakage 3.5%, and reports to be increasing water resilience despite extreme weather events.[10]

Yorkshire Water

"The extremely tough external environment […] as well as unprecedented dry and hot weather in 2022 followed by a freeze-thaw event, means that we have faced a challenge improving performance in a sustainable and efficient way".[11]

[7] "Thames Water Annual Report 2022/23", Thames Water, accessed 17 Jul 2023.
[8] "Full year results", United Utilities, 25 May 2023.
[9] "Annual performance Report 2023", Anglian Water, 8 Jun 2023.
[10] "Full Year 2022/23 Results", Severn Trent, 24 May 2023.
[11] "Yorkshire Water Services Limited Annual Performance Report 2022/2023", Yorkshire Water, 14 Jul 2023.

Wessex Water

Wessex Water reported no increased cost due to weather, "our operating costs were affected by inflationary and global market pressures, including energy and chemicals costs".[12]

Southern Water

"We experienced loss of supply events in Kent and Hampshire […] which added £12.8mn to our operating costs. Since October 2022 we have experienced a prolonged period of extremely wet weather [which] cost a further £10.8mn".[13]

Northumbrian Water

"We had a mixed year weather-wise, with extreme conditions causing problems for our water network. The hot, dry summer saw record-breaking temperatures in mid-July 2022 resulting in a significant increase in burst mains and other asset failures. We then experienced a freeze/thaw event just prior to Christmas which caused further issues".[14]

South West Water

"Additional costs were incurred in our key operational focus areas such as pollutions and leakage".[15]

South East Water

"Extreme weather events have had a significant impact on our performance this year".[16]

Conclusions

Seven of the ten UK water companies have communicated that financials have been impacted as a result of extreme weather in 2022.

Capital is needed for climate adaptation, which will increase leverage in a sector already criticised for excess dividend payments and underinvestment.[17]

This also highlights sustainability concerns from issuers with a high proportion of ESG-labelled debt.

[12] "Wessex Water's Annual review summary 2022-23", Wessex Water, 11 Jul 2023.
[13] "Annual Report and Financial Statement for the year end 2023", Southern Water, 7 Jul 2023.
[14] "Financial Statements for the year ended 31 March 2023", Northumbrian Water, 14 Jul 2023.
[15] "Bringing water to life – Annual performance Report and Regulatory Reporting 2022", South West Water, 31 Jan 2023.
[16] "2022/2023 Group Annual Report and Financial Statement", South East Water, 17 Jul 2023.
[17] South East Water has paid an unchanged dividend YoY despite losses coming from extreme weather events.[2]

Appendix: ESG-labelled bond details

Table 2. ESG-labelled bond details in UK water sector. Source: Bloomberg, accessed 4 Jul 2023.

Issuer	Ticker	ISIN	Bond Type	Issue Date	Maturity	Amount Issued (bn)	Currency
ANGLIAN WAT FIN	AWLN	XS1659112616	Green	10-Aug-17	10-Aug-25	0.25	GBP
ANGLIAN WAT FIN	AWLN	XS1895640404	Green	26-Oct-18	26-Oct-29	0.30	GBP
ANGLIAN WAT FIN	AWLN	GB00BH0PBK08	Green	03-Dec-18	06-Feb-31	0.03	GBP
ANGLIAN WAT FIN	AWLN	GB00BH0PBL15	Green	03-Dec-18	06-Feb-29	0.05	USD
ANGLIAN WAT FIN	AWLN	GB00BH0PBJ92	Green	03-Dec-18	06-Feb-29	0.09	GBP
ANGLIAN WAT FIN	AWLN	XS2010166572	Green	20-Jun-19	20-Jun-39	7.00	JPY
ANGLIAN WAT FIN	AWLN	XS2151024598	Green	03-Apr-20	03-Apr-40	0.07	GBP
ANGLIAN WAT FIN	AWLN	XS2257836838	Green	13-Nov-20	13-Nov-35	0.05	GBP
ANGLIAN WAT FIN	AWLN	XS2275077308	Green	23-Dec-20	23-Dec-40	7.00	JPY
ANGLIAN WAT FIN	AWLN	XS2382155013	Green	15-Sep-21	15-Sep-26	0.04	USD
ANGLIAN WAT FIN	AWLN	CAG0372VCQ54	Green	26-Aug-22	26-Aug-32	0.35	CAD
ANGLIAN WAT FIN	AWLN	XS2638381819	Green	20-Jun-23	20-Jun-39	0.56	GBP
ANGLIAN WAT FIN	AWLN	XS2638380506	Green	20-Jun-23	20-Jun-31	0.30	GBP
YORKSHIRE WATER	KEL	XS1984257029	Sustainable	18-Apr-19	18-Apr-41	0.73	GBP
YORKSHIRE WATER	KEL	XS2084421713	Sustainable	26-Nov-19	18-Apr-41	0.10	GBP
YORKSHIRE WATER	KEL	XS2084420582	Sustainable	26-Nov-19	26-Nov-26	0.30	GBP
YORKSHIRE WATER	KEL	XS2333224314	Sustainable	27-Apr-21	27-Oct-32	0.35	GBP
YORKSHIRE WATER	KEL	XS2591021113	Sustainable	28-Feb-23	28-Apr-30	0.25	GBP
SEVERN TRENT FIN	SVTLN	XS2182065149	Sustainable	02-Jun-20	02-Jun-40	0.30	GBP
SEVERN TRENT FIN	SVTLN	XS2445344570	Sustainable	22-Feb-22	22-Feb-33	0.40	GBP
SEVERN TRENT FIN	SVTLN	XS2560756798	Sustainable	30-Nov-22	30-Nov-34	0.40	GBP
SEVERN TRENT FIN	SVTLN	XS2607194086	Sustainable	04-Apr-23	04-Apr-36	0.40	GBP
SOUTHERN WATER S	SWSFIN	XS2180916871	Sustainable	28-May-20	28-May-37	0.45	GBP
SOUTHERN WATER S	SWSFIN	XS2180916525	Sustainable	28-May-20	28-May-28	0.38	GBP
SOUTHERN WATER S	SWSFIN	XS2325617939	Sustainable	30-Mar-21	30-Mar-27	0.30	GBP
THAMES WATER UTI	THAMES	GB00BDC5BM20	Green	22-Mar-18	22-Mar-33	0.04	GBP
THAMES WATER UTI	THAMES	GB00BDC5BK06	Green	22-Mar-18	22-Apr-28	0.22	GBP
THAMES WATER UTL	THAMES	XS2254339331	Green	12-Nov-20	12-Nov-30	0.06	USD
THAMES WATER UTL	THAMES	XS2278588343	Green	23-Dec-20	23-Dec-27	0.04	USD
THAMES WATER UTL	THAMES	XS2438026366	Green	31-Jan-22	31-Jan-32	0.58	EUR
THAMES WATER UTL	THAMES	XS2438026440	Green	31-Jan-22	31-Jan-28	0.58	EUR
THAMES WATER UTL	THAMES	XS2576550672	Green	18-Jan-23	18-Jan-31	1.00	EUR
THAMES WATER UTL	THAMES	XS2576550326	Green	18-Jan-23	18-Apr-27	0.65	EUR
UNITED UTIL W FI	UU	XS2291328735	Sustainable	28-Jan-21	28-Oct-29	0.30	GBP
UNITED UTIL W FI	UU	XS2608701574	Sustainable	06-Apr-23	06-Oct-38	0.30	GBP
UNITED UTIL W FI	UU	XS2641168997	Sustainable	26-Jun-23	26-Jun-36	0.35	GBP
WESSEX WATER FIN	YTLPMK	XS2569776136	Sustainable	31-Mar-23	31-Oct-32	0.30	GBP

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