

Thames Water Update: Can It Stay above Water?

Introduction

Thames Water, the UK's largest water and wastewater utility, enters the final quarter of 2025 burdened with more than £20bn of debt, limited liquidity, and a credit rating deep in non-investment-grade territory. The company, responsible for supplying water and wastewater services to approximately 15 million customers (roughly a quarter of the UK population) and employing around 8,000 people, has been under severe pressure. This includes the refinancing of its liabilities as well as addressing persistent operational failures such as leaks and sewage spills and ensuring compliance with the regulator Ofwat's environmental mandates. In May 2025, Thames Water received the largest fine ever imposed by Ofwat, £122.7m, for breaches related to its wastewater operations.

When Thames Water was privatised in 1989 under Margaret Thatcher, it was debt-free. In just over three decades, the debt burden has grown to more than £20bn, reflecting an aggressive financial-engineering approach of high dividend extraction and securitised leverage that has now reached its structural limit. Despite earlier government claims (well into 2024) that the firm remained "financially stable", contingency planning for a potential Special Administration Regime (SAR) had already begun, underlining the systemic risk posed by default in the UK's largest water utility. Since the situation became public in 2023, we have written several times about the case, most recently in October 2024. We now continue our analysis, reviewing the new developments of the past year and offering a forward-looking perspective.

In late October 2024, Thames Water had its credit rating downgraded to junk status and the Abu Dhabi Investment Authority fully wrote down its 9.9% equity stake - key events that continue to weigh on investor confidence. Ofwat's draft determination in June 2024 had already prevented utilities from implementing the 50% price rises they sought, approving increases of only around 35% for the 2025-2030 regulatory period. The decision, intended to shield households from higher bills, simultaneously darkened the industry's investment outlook, particularly given the UK's ambition to attract further foreign capital.

This article examines in detail the sequence of events that reshaped Thames Water's financial position over the past year: the £3bn high-cost rescue loan approved by the London High Court in February 2025; the subsequent equity-bidding process, including KKR's [NYSE:KKR] withdrawal; and the prospects for restructuring or renationalisation as the company approaches another critical regulatory review.

A Rescue Loan from the Top-ranking Creditors

In February 2025, the company received the green light for a high-cost borrowing to avoid insolvency after the London High Court signed off on a controversial creditor bailout. The plan authorised £3bn of new senior-secured debt to be issued by top-ranking creditors, principally Elliott Management and Silver Point Capital, acting as anchor investors. The court ruled that the plan met the necessary criteria under English corporate law and was not unfair to lower-ranking creditors, as the facility would provide time to raise equity and renegotiate the existing debt structure.

The principal amounts to £3bn with an interest rate of 9.75% annum and includes an issuance discount of 3%. An initial tranche of £1.5bn was provided through September 2025 to prevent Thames Water from running out of cash, with a further £1.5bn in two tranches of £750m each to extend liquidity until May 2026, if required. The debt ranks super-senior, above all existing Class A and Class B notes. The total estimated interest and advisory costs are approximately £800m over the next 15 months.

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions, and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.

The interest rate was benchmarked partly against comparable emergency financings, such as that of energy supplier Bulb Energy (according to consulting firm Teneo, around 9.37%) when it entered special administration in 2021. However, critics have pointed out that Bulb's risk profile was significantly higher, as the energy firm's only major asset was its customer book, and it collapsed amid extreme market volatility and limited hedging capacity. Existing Thames Water bonds carry an average coupon of 9.67%, underscoring the company's elevated cost of capital.

Judicial Review

The London High Court sanctioned the plan using the cross-class cram-down provisions, finding that the dissenting Class B creditors would not be worse off than in the "relevant alternative", identified as administration under the SAR. They also found that the condition of fairness and necessity was kept, as at least one class of creditors with a genuine economic interest (the senior debt holders) voted in favour, satisfying the statutory majority.

The ruling followed opposition by junior debtholders and environmental campaigners led by Liberal Democrat MP Charlie Maynard, who argued that placing the company into special administration would save millions in fees and prevent the additional burden of high interest rates. Thames Water is already paying around £15m per month to advisers, lawyers, and consultants. The junior creditors' counterproposal (an 8% subordinated facility) was rejected by both the company and the court on grounds of execution risk and insufficient certainty of funding. MP Maynard's group also argued that it would be in the country's interest to renationalise the company. However, the senior creditors opposed this, stating it would signal "regulatory failure and impose billions in additional costs on UK taxpayers".

The court held that the rescue plan was not unfairly prejudicial to lower-ranking creditors, as their recovery prospects under the alternative (SAR) were near-zero due to the subordination waterfall. It also considered the significant public-interest dimension, noting that any insolvency event would interrupt essential public services for their 15 million customers and likely impose multi-billion-pound fiscal costs on taxpayers.

Implications and Market Reaction

The approval immediately prevented an event of default under the company's financing arrangements and provided a liquidity runway of approximately 15 months. Critics argue the facility merely postpones insolvency, as the proceeds are expected to fund operational expenditure and advisory costs rather than materially deleverage the balance sheet.

Notably, Southern Water, about which we also wrote last year, announced a £900m equity injection from funds led by its majority shareholder, Macquarie Asset Management, part of Macquarie Group Ltd [ASX: MQG] at the same time in February 2025. This shows that although we previously examined whether Southern Water might follow Thames Water's trajectory, it has instead pursued an approach that avoided further debt layering and regulatory conflict.

Thames Water's creditor-led plan stands in contrast, relying on expensive senior-secured borrowing to maintain liquidity until new equity investors can be secured. The subsequent months focused on identifying new equity sponsors and assessing potential regulatory reforms.

Equity Bids

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions, and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.

In early 2025, Thames Water became the subject of an intense bidding process after years of financial instability and growing regulatory pressure. The company received six non-binding offers between February and March 2025. The process, which was overseen by Rothschild, revealed deep divisions between Thames Water's prospective equity investors and its existing creditors. After a thorough evaluation of the six bidders, four of them were deemed particularly competitive: KKR [NYSE: KKR], CK Infrastructure [SEHK: 1038], Castle Water and Covalis Capital. In February 2025, KKR submitted a preliminary £4bn equity offer with the aim of acquiring a majority stake. The proposed measures were intended to preserve the integrity of Thames Water, avoid actions that could lead to the dissolution or sale of assets, and prevent the company from being placed under special government administration. KKR sought an amicable restructuring of the company's significant debt and presented itself as a long-term, stable owner willing to operate within the regulatory framework.

CK Infrastructure, a subsidiary of the Hong Kong-based CK Hutchison Group [SEHK: 0001], submitted a £7bn bid. However, the company's existing 75% stake in Northumbrian Water, with KKR holding the remaining 25%, raised potential competition concerns. CK Infrastructure's proposal required significant write-downs on Thames Water's debt, a condition that was intensely opposed by senior bondholders, including Elliott Management, who were unwilling to accept significant losses. This led to tensions between the potential buyer and creditors.

Covalis Capital, an investment fund specialising in infrastructure, submitted a £5bn bid that differed from KKR's approach. The proposal involved dissolving Thames Water and selling off parts of the company to raise funds. As Covalis also held some of Thames Water's Class B subordinated bonds, the bid raised potential conflict of interest. Castle Water, a major independent water supplier with 16 million business customers, also participated in the process, but its bid appeared less binding and lacked the necessary details.

Two other bidders, Stonepeak and FitzWalter Capital, were considered less significant competitors. Stonepeak, a US-based infrastructure investor managing assets of over \$70bn, had expressed interest in the transaction but had not shown any definitive intention to complete a deal. FitzWalter, a London-based distressed debt fund, sought a minority stake and held some subordinated bonds in Thames Water, giving it closer ties to creditors than other bidders.

At the same time, senior Class A creditors, including companies such as Elliott Management, Silver Point and PIMCO, began preparing their own bid, as they believed the Rothschild process would fail. The aim of these measures was to protect their bond holdings from the write-downs that the bidders were demanding for their stake in the company to restructure its balance sheet. This growing rift between lenders and investors underscored the complexity of the process.

In March 2025, Thames Water selected KKR as the preferred bidder for the second phase of due diligence, thereby excluding Covalis, CK Infrastructure and Castle Water. KKR's proposal included write-downs of at least 25% for senior Class A debt, combined with the complete write-off of approximately £1bn in subordinated Class B bonds. To overcome resistance, KKR offered certain bondholders the option to exchange their debt for shares, giving them the prospect of acquiring up to 50% of the company's shares. Prior to this announcement, Thames Water's finance director, Alastair Cochran, resigned unexpectedly, which was seen as a sign of the prevailing internal uncertainty. Moreover, in May 2025, the regulator imposed a £123m fine on Thames Water for repeated sewage spills and the distribution of dividends despite its poor environmental record. Since 2017, it has been clear that the company has neglected its duty of care to properly maintain and monitor its wastewater treatment facilities.

KKR's strategy was characterised by its long-term focus and comparatively modest return targets, which were below the usual standards for private equity funds. The restructuring was expected to take seven to twelve years,

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions, and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.

after which an initial public offering would be considered. However, significant debt obligations, regulatory controls and creditor resistance hampered progress.

This ultimately prompted KKR to withdraw its offer in June 2025, leaving Thames Water on the brink of renationalisation. This followed last-minute talks between Keir Starmer's economic adviser and KKR's co-founder, which ended without agreement. KKR's withdrawal reflected growing concerns about potential political interference in Thames Water's management. The announcement coincided with the release of a government study recommending tighter regulation of the water sector, further fuelling KKR's concerns about the potential scope of future policy changes under a Starmer government or subsequent administrations. Given the lengthy process required to stabilise and reform Thames Water, the company feared that changing political priorities could jeopardise its turnaround strategy and undermine investor confidence.

People familiar with the matter also pointed to operational and regulatory factors that contributed to this decision. KKR's due diligence process, which involved more than a hundred specialists and included visits to several water and wastewater treatment plants in the London area, revealed the full extent of the company's challenges and the ambitious expectations for improvement. The findings underscored the technical and financial complexity of restoring the utility's performance within regulatory constraints. KKR had also hoped to persuade the UK Water Regulator to reduce fines imposed for past environmental violations while maintaining current prices of water bills, but such concessions appeared unlikely. Subsequently, the combination of tighter regulations, political influence and the scale of the required remediation ultimately caused the investment to fall through.

What Is on the Table Now?

Given the failed equity bidding round, Thames Water is left with almost no options. Although some of the previous bidders, including Castle Water, have stated they are ready to provide financial support to the company, the turnaround plan proposed by the Class A creditors is widely regarded as the only viable option to prevent Thames Water's renationalisation. Indeed, KKR has already engaged in a thorough due diligence process, which would be impossible to replicate within a shortened timeframe.

A crucial question therefore arises: is Thames Water still investable at all? Theoretically, yes. For the purpose of this exercise, we will assume that the company holds around £21bn in regulated assets and approximately £20bn in debt. Over the next five years, its expenses are expected to grow faster than its revenues, resulting in negative free cash flow of about £5bn. However, planned capital projects should increase its regulated asset base to roughly £32bn. If investors inject £3bn of new equity and impose a 20% haircut on existing debt, Thames Water would be left with £16bn of debt and £11bn of future equity value ($32 - 16 - 5$). This implies a MOIC of 1.8x and an IRR of around 13%, assuming 50% ownership. That is a reasonable return on investment, given the underlying risk. Of course, these assumptions are highly simplified, and the calculations are approximate, omitting many key factors. Nevertheless, the purpose of this exercise is to demonstrate that Thames Water could still be saved, provided that credible investors present a convincing and executable turnaround plan.

And that is exactly what top-ranking creditors did. In June, after KKR walked away, the class A bondholders, including Apollo Global Management, Elliot Management, Silver Point Capital, and Aberdeen, submitted their own rescue plan, proposing to provide equity of almost £4bn to the struggling utility in addition to an earlier approved £3bn emergency loan. The plan also includes write-downs to existing debt and, in general, resembles KKR's proposal. The senior creditors, who own a majority of the £17bn of debt that sits at the top of Thames Water's almost £20bn debt pile, also ran an intensive due-diligence process alongside KKR and received access to KKR's DD package. The bondholder consortium, which established a vehicle named London & Valley Water to

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions, and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.

pursue the deal, initially met resistance from regulators after seeking waivers that would exempt the company from certain environmental regulations and substantial penalties. However, Thames Water reached an agreement with Ofwat allowing the deferral of nearly £100m in fines owed by the company until 2030.

In October 2025, the same creditors group has submitted a new plan, promising more investment to receive an approval from Ofwat. They promised to inject £3.15bn in equity and £2.25bn in new debt, on condition that Ofwat will set Thames Water lower targets for sewage spills and water leaks, resulting in less fines. The creditors also said they would write off about £4bn of debt, which would give them a stake of at least 10%, and that they also want to list Thames Water on the stock market by 2030. While the company itself sees the offer as the only credible one, and government prefers a “market-led” solution, there are some opposing parties who are in favour of renationalisation.

Notably, Hong Kong investor CK Infrastructure, whose equity bid was earlier turned down in favour of KKR’s one, has filed a complaint to Ofwat in October, calling on the UK to renationalise Thames Water. CKI criticised the creditors’ plan as a “high-risk proposition that gives rise to unnecessary risk of further failures”. The Hong Kong firm said in their complaint: “Only a single consortium is allowed to take part in the rescue process, including distressed debt hedge funds who lack tangible operating experience in the water sector and who so far appear to be aiming for an early exit and payout in March 2030, with Thames Water’s future then passed to someone else”. Moreover, CKI claims that creditors are providing too little fresh equity and that the new debt carries high interest rates, meaning an even greater share of customers’ payments will likely be used to cover debt servicing costs. Finally, CKI stated that it would like to invest in Thames Water if the government temporarily renationalises the company.

However, government said multiple times that it prefers “market-led” solution and we believe it will consider any possible option to avoid the Special Administration Regime (SAR), which is intended to guarantee the continued operations of vital utilities. Under this framework a private firm would be appointed as a special administrator to stabilise and restructure the business before it is either sold to new owners or returned to public ownership. Although renationalisation is not the preferred option for now, as it would transfer the financial burden to taxpayers, the likelihood of it happening has never been higher. If Ofwat and the High Court do not approve the creditors’ proposed turnaround plan in upcoming months, renationalisation may become unavoidable.

TAGS: UK, Infrastructure, Public Utility, Nationalization, Thames Water, Water

All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions, and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.