Friday the 13th – Drowning in Thames Water

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Sometimes Friday The 13th comes around and it's hard to find something truly horrifying in the market to point a trembling finger at. Not this time. This time there's a humdinger that'll have you cowering behind the sofa.

The scene is set in London and Thames Valley. The victim is the largest water and wastewater services company in the UK. And the villain of the piece… well, presumably that's the private sector with a strong support role from the regulator.

For those who haven't been scoffing popcorn as the story unfolds – or puckering from its impact as an investor – this blockbuster has played out in the most public manner possible… through the unforgiving UK media, and that of the investors' home nations.

Setting the scene further (black-and-white montage) – Thames Water was privatised in 1989 and [acquired by RWE in 2001.](#) The German utility sold Kemble Water Holding (Thames Water holding company) to [Macquarie in 2006 for £8 billion.](#)

Since then, the Thames Water shareholder team on the utility – much of which was built in Victorian times and underinvested since – has shifted over the years in what turned out to be a high-stakes game of pass-the-parcel.

During its tenure, Macquarie oversaw significant investment in Kemble, leveraging the asset up (as is its wont) and artfully managing its gradual exit, achieving entire divestment in March 2017 with the [sale of a 26.3% stake](#) to OMERS and Wren House.

However, on the operations side rumour has it that the relationship between shareholders and management has never been good, leading to limited information for investors to have influence over the business.

But – as a regulated asset – the regulator (Ofwat) has had a rare old time of late, kicking the private sector, while gloriously failing to involve itself in such a crucial infrastructure company that impacts some 15 million people.

Talking to folk around the industry this week, there's a sense that on Thames Water everyone was more comfortable with financial engineering, and that they all forgot they were working on a sprawling business that was leaking in more ways than one.

Thames Water… waving?

Many have pointed the finger of blame squarely at Macquarie for the lamentable state of Thames Water and the fund manager has been vigorous in its defence, insisting there was a "record investment in the network, which was financed with both debt and equity".

According to a Macquarie document – that can be found here – the final paragraph states: "To fund this investment programme, Thames Water's debt grew from approximately £6 billion in 2006 to approximately £11 billion in 2017.

"The growth of Thames Water's debt was proportionate to the growth of the regulated asset base and the regulated company maintained an investment-grade credit rating in excess of the minimum threshold set by Ofwat.

"Following the Global Financial Crisis, Macquarie supported Thames Water as it reduced the ratio of its debt to the value of its assets."

The shareholding (including those that have written down to zero, or almost zero) during earlier reporting is (ordered by stake size… even if they've walked away, cursing mightily):

- OMERS – 31.777% – written down to zero (June 2024)
- USS – 19.711% – written down to a "minimal" amount (July 2024)
- ADIA via Infinity Investments – 9.900%
- British Columbia Investment Management Corporation – 8.706%
- Hermes GPE – 8.699%
- China Investment Corporation – 8.688%
- QIC – 5.532% – written down to zero (July 2024)
- Fiera Infrastructure via Aquila GP – 4.99%
- Stichting Pensioenfonds Zorg en Welzijn – 2.172%

According to the Thames Water investor relations report from the end of March (2024), scroll through to page 29 if you have the stomach for it. Kemble Water has OpCo debt of £17.303 billion:

- Class A – £15.938 billion
- Class B – £1.365 billion

It has been reported that Thames Water will run out of money in May 2025 and all efforts to plug the leaking vessel have so far failed.

Thames Water life raft

So, the taps run dry (metaphorically) in May and any rescue attempt to date has been stymied. For some curious reason, nobody seems to want to inject capital into this glorious asset. Go figure.

US activist investor Elliott Management (the one of Argentine fame) has sniffed out an opportunity and is wading into Thames Water. As one infra chum says: "Elliot has a track record of litigating, so this will get messy. But we don't live in Argentina and observe the rule of law."

And Elliott's not alone – according to reports – it is joined by the likes of Anchorage Capital, Apollo, DE Shaw, King Street, Pricoa and Sona.

As one industry luminary says: "The only winners will be the lawyers (*Ed: they always say that*). Equity and HoldCo will be wiped out for sure. Class B probably too. Class A gets a solid recovery, potentially 100% with no make-whole. It will be a lot worse if there is a not-for-profit fudge, as equity funding goes to proceeds."

As an aside, the source added: "It would be nice to see Elliot lose badly."

Not everyone has been idle, though. Earlier this week there was a meeting hosted by the Global Infrastructure Investor

Association (GIIA) and the Department for Environment, Food and Rural Affairs (Defra). It was attended by a good number of investors where one source says the "mood was grim" and that "there is a risk of lack of investment across the sector if government doesn't get a grip of Ofwat".

And suddenly the water's getting muddied as to where blame lies. As already alluded to, blaming Macquarie, the management and shareholders don't carry the blame alone – Ofwat is increasingly being cast in a dark light.

One veteran of the infra persuasion says: "Thames Water has been out looking for new equity, but who is going to give them that? The people who have equity are going to have to take some pain. What's going to happen going forward? Not a hell of a lot.

"However, as that happens, focus will start to go on to the regulator. Ofwat has done a good job kicking the company and the shareholders, but at some point someone's going to point out they have been doing assurance and monitoring of this company for the last 20 or 40 years.

"So, is it in such bad shape? And why doesn't Ofwat know about it? They are doing a very good job in the media of saying we have to start paying for water because we're not paying for water properly on such a complex asset.

"It's going to swing round at some point and the focus will fall on the regulator."

As to what Ofwat should do, another says: "The regulator should do what it does in agreeing a plan in accordance with its rules. This will likely render Thames insolvent and it goes into a special administration.

"The business should be split in 2 – London and not-London – and be floated on the stock exchange. Politics may make this go Welsh, resulting in a lower recovery than a float, leading to more litigation."

The consensus was complete that the British taxpayer must not bail out Thames Water. One says: "The water will keep flowing. The system was designed with safeguards, let them work."

On the debt front, with Elliott et al buying up OpCo debt, Class A looks set to "take a small haircut", while Class B "is not looking great" and HoldCo is a "zombie".

Meanwhile, one infra lag says: "The government and regulator must absolutely refuse the argument that capital must be preserved to avoid harming the appeal of investing in the UK. This is total nonsense. You take your risk, you earn your money, you live with the consequences."

So there you have it – the solution for Thames Water is to carve it up, flog it on, let it stand as a cautionary tale… and someone please hoof Ofwat up the bum.

Damn you Friday the 13th…