



As the largest business in the South West (by turnover), Pennon Group owns a number of trading subsidiaries, the largest being South West Water, one of the original ten water and sewerage companies privatised in 1989. In 1993 Pennon purchased Haul Waste Limited, which was later renamed as Viridor Waste Management Ltd. As one of the largest environmental infrastructure groups in the UK, Pennon has assets of ca. £5.9bn and a workforce of 4,600<sup>1</sup> people. Other brands include Bournemouth Water and Pennon Water Services.

The merged water company of South West Water and Bournemouth Water provides **water and wastewater services** to ca. 1.7m customers in Cornwall, Devon and parts of Dorset and Somerset and water only services to ca. 0.5m customers in parts of Dorset, Hampshire and Wiltshire. Viridor is a leading UK recycling, energy recovery and **waste management** company, providing services to more than 150 local authorities and major corporate clients as well as over 32,000 customers across the UK. Viridor collects household waste, sorts it, then recycles as much as possible. The residual waste is incinerated in energy recovery facilities (ERFs) generating useable power.

Pennon's ERFs continued to drive growth with eight operational sites, operating at an average capacity of more than 90%. Another four remain under construction (Dunbar, South London, Glasgow and Avonmouth), however Glasgow has experienced significant delays with a new Engineering, Procurement and Construction contractor appointed. Viridor will receive contractual remedies after terminating the previous contract with Interserve. A new retail venture for business customers was established by **Pennon Water Services** and South Staffordshire Plc (incorporating South Staffs and Cambridge Water).

For the year ending March 2017, Pennon generated revenue of £1.4bn (+0.1%), adjusted EBITDA of £546m (+7.4%) and underlying PBT of £250m (+18.0%). This was supported by £107m in earnings from ERFs and return on regulated equity (RoRE) was 12.6%. The year also saw the continued integration of Bournemouth Water, with anticipated cumulative synergies of ca. £27m by 2020 and a strong cashflow generation, which enabled £385m of capex in sustainable growth projects.

Continued cost savings in their core water business has allowed Pennon to generate significant returns in a highly regulated business sector, while also exceeding the regulator's targets. Pennon's strategy is to expand its ERF estate in order to grow profits despite the lower recycle prices.

Pennon's long-established 10-year **dividend policy** of 4% yoy growth above RPI inflation to 2020 results in a doubling of dividends over 10 years (2010-2020). This reflects Pennon's confidence in the continued strong performance of the water industry and significant investment in waste.

Pennon also has sufficient liquidity on hand at £1.4bn with a mix of cash and undrawn committed facilities, through a mix of long-term and short-term committed facilities.

---

<sup>1</sup> Western Morning News, 2016 Annual Business Guide



This is designed to ensure the Group has sufficient available funds for operations and planned expansions equivalent to at least one year's forecast requirements at all times. Policy requires that no more than 20% of Group net borrowings should mature in any financial year.

Indebtedness includes a £100m PP maturing in 2022, a 2040 £150m bond, a 2057 £200m RPI index-linked bond issued by South West Water Finance Plc. Undrawn committed borrowing facilities total £785m.

The other two listed UK-listed water companies, United Utilities and Severn Trent's prospective yields are 4.3% and 3.6% respectively. They both aim to grow the dividend at least in line with RPI inflation until 2020. In a time of economic uncertainty and low interest rates, the Group's regulated revenues and generous dividend policy mean the shares are now trading almost 10% above their historic average P/E ratio at £7.99 equating with a £3.33bn **market cap**.<sup>2</sup>

---

<sup>2</sup> 25 May 2017

