# Southern Water seeks £370 million debt relief amid sector turmoil as Elliott targets Phillips 66 governance



Macquarie-controlled Southern Water has requested around £370 million in debt write-offs from Ares Management and other lenders as part of a strategic overhaul aimed at injecting much-needed equity into its beleaguered operating company. This request surfaces amid a broader context of financial distress that has come under scrutiny following the downgrade of Thames Water, a similar entity previously owned by Macquarie, reflecting systemic issues within the sector.

Southern Water's financial situation is precarious, with overall debts surpassing £6 billion. The company has cited the need to borrow an additional £4 billion over the next five years to navigate its debt burdens. Echoing alarming trends, recent short-dated bond yields for the utility soared to an extraordinary 13.5%, further accentuating its fiscal challenges. The company’s management has indicated an intention to raise £3.8 billion in debt alongside £650 million in equity, but the prospect of increasing household water bills to £734 annually poses additional concerns for customers and stakeholders alike. Addressing ongoing operational difficulties, including sewage pollution and the looming threat of water shortages, underscores the urgency for financial recalibration.

In contrast to Southern Water's tumultuous landscape, the world of corporate governance is heating up as Elliott Management has gained traction in its campaign against Phillips 66. The activist investor, wielding a $2.5 billion stake, has secured the backing of the influential proxy adviser Institutional Shareholder Services (ISS) for all four of its nominated board members. This endorsement comes as Elliott criticises the company’s performance and highlights the inadequacies of its corporate governance. Echoing these sentiments, ISS has pointedly addressed the problems associated with the dual roles of CEO Mark Lashier, asserting the necessity for fresh oversight and strategic direction. Analysts have noted that the structural governance changes proposed by Elliott could serve as a catalyst for improving Phillips 66’s performance, especially against the backdrop of its recent stock lag compared to competitors such as Valero Energy.

While Phillips 66 aims to implement a performance improvement plan designed to enhance shareholder returns, signs of potential discontent persist as analysts remain sceptical. Although Elliott has agreed to support the plan, concerns linger over its execution, particularly as management has yet to fulfil commitments regarding board composition and accountability. The apparent disconnect between operational targets and market performance creates a charged atmosphere as stakeholders await tangible results.

As corporate entities grapple with governance and fiscal challenges, another narrative unfolds with broader implications for international relations. US President Donald Trump’s upcoming visit to the Middle East promises significant transactions and deal-making opportunities. Against this backdrop, Qatari officials have reportedly offered Trump a $400 million luxury Boeing 747-8 replacement for Air Force One, marking a gesture of goodwill that sets the stage for discussions on normalising relations between Israel and Saudi Arabia, as well as securing investment commitments from the oil-rich Gulf states.

The convergence of these diverse yet interconnected financial narratives highlights the complexities facing companies across multiple sectors—and raises pressing questions about governance, financial health, and international investment flows in an increasingly interconnected world. As stakeholders navigate these turbulent waters, it remains essential to scrutinise how these dynamics will shape the future of corporate finance and governance.

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Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

* <https://www.ft.com/content/e034f11f-f6b8-4fef-93d8-1d57447a4c9b> - Please view link - unable to able to access data
* <https://www.ft.com/content/2af3b639-13da-4296-85ef-e37b742cae5e> - Southern Water, owned by Macquarie, is seeking to borrow £4bn over the next five years to manage its heavy debts, currently exceeding £6bn. The utility's financial situation has come under closer scrutiny following the downgrade of Thames Water, another former Macquarie-owned entity. Southern Water's credit ratings and debt covenants are under pressure, with recent short-dated bond yields soaring to 13.5%. The company aims to raise £3.8bn in debt and £650mn in equity to support its operations, which face challenges such as sewage pollution and potential water shortages. Southern Water’s request to water regulator Ofwat includes increasing household water bills to £734 annually. Macquarie's additional capital injections could alleviate some financial stress, although further contributions are uncertain. Despite maintaining an "excellent liquidity position," Southern Water's operating and holding companies face significant gearing and debt obligations.
* <https://www.ft.com/content/f77cb835-b107-47ba-a987-f0e758529590> - Activist investor Elliott Management has received full support from influential proxy adviser Institutional Shareholder Services (ISS) for its four board nominees in an ongoing campaign against oil refiner Phillips 66. This endorsement gives Elliott a critical advantage ahead of Phillips 66’s annual shareholder meeting on May 21, where four of 14 board seats are up for election. Elliott, holding a $2.5 billion stake in Phillips 66, has criticized the refiner’s underperformance, lackluster corporate governance, and the board’s failure to deliver on promises of greater independence. ISS echoed these concerns, highlighting issues such as the dual CEO-chair role of Mark Lashier and inadequate board oversight. Elliott's nominees include seasoned energy executives and analysts, who ISS believes can bring necessary industry expertise and oversight. Another proxy firm, Glass Lewis, has also supported three of Elliott’s nominees. The situation underscores mounting pressure on Phillips 66 to enact governance reforms and improve operational performance, especially after lagging behind peers like Valero Energy and Marathon Petroleum. Elliott emphasized that the endorsements reflect a strong demand for change within Phillips 66’s leadership structure.
* <https://www.reuters.com/markets/commodities/activist-elliott-has-accepted-phillips-66s-performance-goals-ceo-lashier-2024-03-26/> - Elliott Investment Management has agreed to the performance improvement plan proposed by Phillips 66 to increase shareholder returns and share price, according to CEO Mark Lashier. Elliott, which disclosed a $1 billion stake last fall and urged the addition of board members with refining experience, is supportive of the company's targets but emphasizes the need for substantial execution to achieve these goals. Despite a 32% rise in Phillips 66's shares since Elliott's recommendations, the stock still lags behind rivals Marathon Petroleum and Valero. Phillips 66, having improved its performance in the fourth quarter of 2023, is advanced in its share repurchase plan and committed to significant shareholder returns by 2024's end. The company is converting a California refinery to produce sustainable aviation fuel and renewable diesel, aiming for full operation by the end of the second quarter. Discussions are ongoing for asset sales to raise $3 billion.
* <https://www.reuters.com/markets/deals/elliott-builds-25-billion-stake-phillips-66-pushes-midstream-business-sale-2025-02-11/> - Elliott Investment Management has increased its stake in Phillips 66 to over $2.5 billion, prompting a 3.3% rise in the refiner's shares. Elliott plans to push for significant operational changes, including the sale or spin-off of the midstream business, interests in CPChem, and JET retail operations in Germany and Austria. Despite a performance improvement plan motivated by Elliott's previous $1 billion stake, the firm's management and shares have not met expectations, lagging behind competitors. Elliott suggests that selling the midstream business could bring a valuation exceeding $60 billion but also calls for new independent directors to enhance accountability. Analysts express that selling the midstream assets might not address the core issue of refining underperformance and could result in more volatile earnings for Phillips 66. The company's market capitalization was recorded at $51.09 billion recently.
* <https://www.reuters.com/markets/deals/activist-elliott-builds-over-25-billion-stake-phillips-66-wsj-reports-2025-02-11/> - Elliott Investment Management has acquired over a $2.5 billion stake in Phillips 66, a U.S. oil refiner, and is advocating for operational changes to increase stock value, according to a source speaking to Reuters. Elliott is urging Phillips 66 to sell or spin off its midstream business. Previously, Elliott had agreed to Phillips 66's performance improvement plan aimed at enhancing shareholder returns, after initially revealing a $1 billion stake. Despite Phillips 66 appointing Robert Pease to its board and planning to add another director, Elliott remains concerned about unmet commitments to further board adjustments. Phillips 66's stock has decreased from $163.34 in March 2024 to $123.71 recently. Elliott's new significant stake positions it as one of Phillips 66's top five investors. Phillips 66 has yet to comment. Elliott has a history of pursuing changes in other companies, including BP and Honeywell.
* <https://www.ft.com/content/8534e4cc-7961-4df0-8993-8e7f21625c6f> - Thames Water is facing significant issues, including large-scale water shortages in South London due to a burst pipe and the incapacity of its sewage plants to process waste water. The utility has appealed for customer bills to be raised more than the already approved 35% by 2030, while also dealing with a proposed £3 billion bailout to address its nearly £19 billion debt. A High Court decision on this bailout is pending, but the company risks running out of cash by March 24. There are calls for Thames Water to be placed into special administration, a form of temporary renationalisation to restructure its finances, given the debt and operation issues exacerbated by regulatory failures and financial mismanagement. This administration would aim at stabilising the company and eventually returning it to the private market, despite concerns about the cost and impact on future investments. The move is seen by some as necessary to protect the public interest and ensure long-term viability.