S&P Global
Ratings

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Research Update:

DRAFT: Richmond Housing Partnership 'A+' Rating Affirmed; Outlook Stable

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S&PGR Affirms Richmond Housing Partnership At 'A+'

PRIMARY CREDIT ANALYST

Celia Franch Lopez
London
+ 44 20 7176 0100
celia.franch_lopez
@spglobal.com

SECONDARY CONTACT

Noa Fux
London
+ 44 2071 760730
noa.fux
@spglobal.com

Overview

- We expect Richmond Housing Partnership (RHP) will continue to focus on its core traditional affordable social housing activities.
- Increased investment to improve the energy efficiency of its existing stock will weaken profitability during the forecast period. This will be offset by the group's excellent liquidity position and solid interest coverage.
- We affirmed our 'A+' long-term issuer credit rating on RHP.
- The stable outlook indicates that we expect RHP's management to deliver its investment and development plan as per our base case without putting undue pressure on credit metrics.

Rating Action

On June XX, 2021, S&P Global Ratings affirmed its 'A+' long-term issuer credit rating on U.K.-based social housing provider Richmond Housing Partnership (RHP). The outlook is stable.

We also affirmed our 'A+' issue rating on the £275 million senior secured debt issued by RHP's funding vehicle, RHP Finance PLC.

Outlook

The stable outlook indicates that we expect RHP's management to deliver its investment and development plan as per our base case, without putting undue pressure on credit metrics. Under this scenario, we expect profitability to remain in line with our base case and that the group's debt intake will remain very moderate, with debt to non-sales adjusted EBITDA remaining structurally below 20x.

Downside scenario

We could lower the ratings on RHP should the group's investment and development program require more debt funding than we currently anticipate. Under such a scenario, we would likely observe a worsening of the liquidity position and a deterioration in interest coverage metrics.

Upside scenario

Conversely, we could raise the ratings if RHP improved its financial performance such that adjusted EBITDA margins structurally exceed 30%, while keeping debt metrics moderate.

Rationale

The affirmation reflects our view that RHP's management navigated the stresses of the pandemic adequately, and that it is well positioned to manage future challenges, especially in regard to its investments in energy efficiency.

The 'A+' rating is underpinned by the group's focus on low-risk traditional housing activities, its very strong market dependencies, and its highly experienced management team.

A key strength of the rating remains the group's consistent focus on traditional social housing tenures, which we view as having low industry risk, as these activities provide a predictable revenue stream. We expect that Richmond will continue to have no development for outright sales and modest shared-ownership targets in its development plan.

We consider that RHP benefits from very strong market dependencies, as it operates in an area of high demand for its affordable housing units. In its historical areas of operation (Richmond, Kingston, Hounslow, and Hillingdon), average social rent represents a low 39% of market rents, which speaks to the attractiveness of RHP's stock. In addition, vacancy rates are relatively low, averaging 1.1% over the past three years. We expect a small, but temporary, increase in arrears and drop in rent collection in the financial years ending March 31, 2021 and 2022, followed by a recovery. We also anticipate that vacancies will remain low, in line with the market average.

In our base case, we now forecast that S&P Global Ratings-adjusted EBITDA margins will structurally weaken to stand at 25% of revenue on average, compared with more than 35% historically. We expect profitability will come under pressure from increased investment to improve the energy efficiency of RHP's existing stock, and from the group's exposure to lower-margin shared ownership activities. In our previous base case, we incorporated a temporary weakening in profitability due to the cost of the fire safety upgrades, followed by a quick recovery in margins from FY2023; we no longer expect a quick recovery.

The group's investment in its existing stock is linked to its current carbon neutrality targets. Future changes to health and safety regulations could require additional investment and weigh more heavily on profitability than we currently expect. These additional costs are likely to be partially offset by the consumer price index (CPI) plus 1% rent settlement and new rental income from the group's ongoing development efforts.

The pandemic created delays to planning and development, in particular to new starts on site. Only 60 units were completed in FY2021. We expect that RHP will increase development over the three-year forecast period as it aims to complete 1,500 homes over the next 10 years. The group will continue to target development in its core geographies in West London, mainly in Richmond. We expect 60% of its planned developments will be in Richmond over the next five years. Exposure

to shared ownership sales is likely to remain very limited, at below 10% of total revenue on average, in line with last year's plan. Management still has no appetite for exposure to outright market sales.

We forecast that nominal debt will not increase materially over FY2022-FY2024, but that weakening profitability will put pressure on debt metrics. We expect that debt to nonsales EBITDA will deteriorate to an average of 18.6x over FY2022-FY2024, from 12.2x in FY2020. Despite this deterioration, we still forecast that the group's debt ratio will remain below 20x structurally. We also expect that RHP's non-sales interest coverage will remain solid on average 1.7x during FY2022 to FY2024. During FY2021, the group issued a £100 million tap on its existing bond. This allowed it to fix all of its debt; reducing its overall cost of debt and boosting its available undrawn facilities. We see this as evidence of the group's robust financial policies.

We assess the regulatory framework under which registered providers of social housing in England operate as strong, underpinned by their public policy mandate to provide affordable homes. We also consider that the sector benefits from solid ongoing oversight by the Regulator for Social Housing (RSH). These strengths are offset, in our view, by the relatively low levels of grant funding that the providers in England receive for the development of affordable homes. We consider that providers in England have the ability to develop homes for outright sale, using the proceeds as an alternative funding source, however, we think that this exposes them to risks and potential volatility compared with providers in other regions. Providers in England are also subjected to negative intervention from the U.K. government in the form of constraints on rent setting or additional spending responsibilities, without adequate additional funding. In our view, this weighs on the regulatory framework assessment.

We believe there is a moderately high likelihood that RHP would receive extraordinary support from the government via the RSH in case of financial distress. This is neutral to the rating on Richmond. As one of the key goals of the RSH is to maintain lender confidence and low funding costs across the sector, we believe the RSH is likely to step in to try and prevent a default in the sector. The RSH has a record of mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and we think this would apply to Richmond.

Liquidity

We assess RHP's liquidity position as excellent. We expect sources of liquidity to exceed planned uses by around 3.8x over the next 12 months. The development program to which the group is committed is fully funded in advance of RHP's needs. We view RHP'S access to external liquidity as satisfactory.

We forecast liquidity sources will comprise:

- Forecast cash generated from continuing operation: £21 million;
- Cash and liquid investments: £61 million;
- Proceeds from asset sales: £1 million;
- The undrawn, available portion of committed bank facilities or bank lines maturing beyond the next 12 months that can be drawn: £147 million; and
- Expected ongoing cash injections from a government: £3 million.

We forecast uses of liquidity will comprise:

- Expected capital expenditure: £53 million; and

- Interest: £9 million.

Key Statistics

Table 1

Richmond Housing Partnership--Key Statistics

	--Year ended March 31--				
Mil. £	**2020a**	**2021e**	**2022bc**	**2023bc**	**2024bc**
Number of units owned or managed	10,461	10,453	10,545	10,667	10,785
Adjusted operating revenue	57.63	61.56	60.20	70.36	66.77
Adjusted EBITDA	20.50	19.54	15.79	17.39	17.05
Nonsales adjusted EBITDA	19.75	19.08	15.11	15.55	16.32
Capital expense	22.24	28.90	46.27	66.98	59.00
Debt	240.32	273.00	273.00	283.45	319.45
Interest expense	9.36	8.24	8.74	8.91	9.70
Adjusted EBITDA/Adjusted operating revenue (%)	35.56	31.74	26.23	24.72	25.54
Debt/Nonsales adjusted EBITDA (x)	12.17	14.31	18.06	18.22	19.58
Nonsales adjusted EBITDA/interest coverage(x)	2.11	2.32	1.73	1.75	1.68

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Ratings Score Snapshot

Table 2

Richmond Housing Partnership--Ratings Score Snapshot

	Assessment
Enterprise risk profile	2
Industry risk	2
Regulatory framework	3
Market dependencies	2
Management and governance	2
Financial risk profile	3
Financial performance	4
Debt profile	4
Liquidity	1

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers Published, June 8, 2021
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 23, 2021
- Building Up Debt: U.K. Social Housing Sector Braces Itself For Borrowing, March 16, 2021
- Global Social Housing Ratings Score Snapshot: December 2020, Dec. 10, 2020
- Global Social Housing Ratings Risk Indicators: December 2020, Dec. 10, 2020
- Outlook 2021: Strong Liquidity Should Help Social Housing Providers Remain Resilient, Dec. 8, 2020
- ESG Industry Report Card: Public And Nonprofit Social Housing Providers Outside The U.S., Aug. 4, 2020
- U.K. Social Housing Providers Should Remain Largely Resilient To Short-Term Economic Difficulties From COVID-19, April 23, 2020
- COVID-19: Emerging Market Local Governments And Non-Profit Public-Sector Entities Face Rising Financial Strains, April 6, 2020
- U.K. Social Housing Ratings History: February 2020, March 3, 2020

Ratings List

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.