Research Update:

U.K.-Based Richmond Housing Partnership 'A+' Rating Affirmed; Outlook Remains Negative

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Overview

- We expect Richmond Housing Partnership Ltd. (RHP) to invest materially in its existing properties, which, alongside inflationary cost pressures, will continue to strain its financial performance over the next three years, with a gradual recovery toward fiscal year 2026.
- We forecast that RHP's debt will not increase materially although weaker S&P Global Ratings-adjusted EBITDA will pressure debt metrics.
- We affirmed our 'A+' long-term issuer credit rating on RHP. The outlook remains negative.

Rating Action

On June 21, 2023, S&P Global Ratings affirmed its 'A+' long-term issuer credit rating on U.K.-based social housing provider Richmond Housing Partnership Ltd. (RHP). The outlook remains negative.

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 negative outlook reflects the risk that higher-than-anticipated costs, coupled with inflationary pressures, could weaken RHP's financial metrics beyond our current forecast.

Downside scenario

We could lower the rating on RHP over the next 12 months if rising costs keep management from improving its financial performance in the medium term, leading to financial metrics materially weaker than our current projections; for example, adjusted EBITDA margins remaining structurally below 20%. In our view, such a scenario could also weigh on the group's liquidity position.

Upside scenario

We could revise the outlook back to stable if RHP improved its financial performance, such that adjusted EBITDA margins structurally exceeded 20%, while also financing its development program with only moderate debt accumulation.

Rationale

The rating on RHP reflects our view that the group benefits from cautious debt and liquidity management and low exposure to sales risk. These factors, alongside exceptional liquidity and a solid market position, support our rating. Nevertheless, we forecast that high investment in existing stock relating to fire safety and energy efficiency will continue to squeeze the group's financial indicators and debt metrics.

Enterprise profile: Supported by strong debt and liquidity policies and the group's focus on non-risky social housing activities

In our view, RHP' management is experienced and has adequate expertise in the housing sector. The group focuses on low-risk traditional housing activities, with sales exposure remaining below 10% of total revenue. In our view, RHP actively managed its pre-funding needs and secured relatively low interest rates, limiting its borrowing needs under the unfavorable market conditions. Additionally, RHP follows an extensive set of risk standards and internal golden rules. We understand that the group has updated its strategy regarding investments in existing assets to address stock quality requirements. This resulted in higher investment costs related to fire safety than previously forecast and added pressure on financial metrics. Anticipating this, management loosened its internal golden rules to allow the additional investment and hence the weakening of financials. Though we acknowledge management's efforts to adjust the plans to investment requirements and deteriorated market conditions, we consider that this step is stretching the group's financial capacity.

RHP operates in West London, mainly Richmond, which has high demand for affordable housing units. The group's vacancy rates averaged 1.4% over the past three years, in line with the sector average. The strong demand is supported by RHP's low average social and affordable rent, which is only about 45% of market rent in the areas where it operates.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (for more information, see "Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers," published on June 8, 2021).

Financial profile: Financial and debt metrics will remain pressured, but improve over the next three years

We expect Richmond's financial metrics to remain under pressure over the next three years, but gradually recover toward the fiscal year 2026 (ending Mach 31). Under our updated projections, adjusted EBITDA margins will remain close to 20% of revenue on average over FY2024-FY2026. The main pressure stems from the increased investment in existing assets, which is linked to fire safety works and the group's target for all its social housing properties to achieve Energy Performance Certificate C levels by 2030. In addition, inflation will further aggravate the forecast strain on the cost base, but we expect it to reduce over the medium term, alleviating the pressure from financial indicators.

We don't expect nominal debt to increase materially over FY2024-FY2026, but weaker adjusted EBITDA will squeeze RHP's debt metrics. We expect the debt to S&P Global Ratings-adjusted non-sales EBITDA ratio to remain around 20x and interest coverage to average about 1.6x over our forecast horizon. All RHP's drawn debt is at fixed rates, which reduces the group's exposure to the interest-rate volatility.

We view RHP's liquidity position as extremely strong, with sources covering uses by 5x over the coming 12 months. Sources include £225 million, mainly cash and undrawn available facilities, as well as cash from operations, adding back the noncash cost of sales. The group's liquidity uses of about £45 million primarily comprise capital expenditure and interest and principal payments. We also view RHP's access to external liquidity as satisfactory and consider that the group has a track record of securing funding ahead of time.

Government-related entity analysis

We believe that there is a moderately high likelihood that RHP would receive extraordinary support from the government via the Regulator for Social Housing (RSH) in case of financial distress. This leads us to apply one notch of uplift to the stand-alone credit profile. 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.

Key Financial Indicators

Table 1

Richmond Housing Partnership--Key Statistics

	--Year ended March 31--				
(Mil. £)	**2022a**	**2023e**	**2024bc**	**2025bc**	**2026bc**
Number of units owned or managed	10,995	11,133	11,316	11,371	11,456
Adjusted operating revenue	62.4	66.4	75.0	72.6	75.7
Adjusted EBITDA	12.9	12.8	13.1	14.4	15.3
Non-sales adjusted EBITDA	12.0	12.8	12.9	14.4	15.3
Capital expense	23.9	15.4	30.9	28.5	17.3
Debt	273.2	273.1	273.0	270.0	277.0
Interest expense	8.1	8.1	9.1	9.1	9.3
Adjusted EBITDA/Adjusted operating revenue (%)	20.6	19.3	17.5	19.8	20.2
Debt/Non-sales adjusted EBITDA (x)	22.7	21.3	21.2	18.8	18.1
Non-sales adjusted EBITDA/interest coverage(x)	1.5	1.6	1.4	1.6	1.6

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

Ratings Score Snapshot

Table 2

Richmond Housing Partnership--Ratings Score Snapshot

	Assessment
Enterprise risk profile	3
Industry risk	2
Regulatory framework	3
Market dependencies	2
Management and Governance	3
Financial risk profile	3
Financial performance	4
Debt profile	5
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

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- 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

- United Kingdom Outlook Revised To Stable From Negative On Moderating Fiscal Risks; 'AA/A-1+' Ratings Affirmed, April 21, 2023
- U.K. Social Housing Borrowing 2023: On Pause, March 28, 2023
- Economic Outlook U.K. Q2 2023: Growth Eludes This Year Even As Inflation Eases, March 27, 2023
- Non-U.S. Social Housing Providers Ratings Risk Indicators: March 2023, March 27, 2023
- Non-U.S. Social Housing Providers Ratings History: March 2023, March 27, 2023

- Non-U.S. Social Housing Providers Ratings Score Snapshot: March 2023, March 27, 2023
- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022
- Non-U.S. Social Housing Sector Outlook 2023: The Most Negative Bias Since 2018 Implies Significant Pressure On Ratings, Dec. 1, 2022
- Inflation To Erode The Performance Of U.K. Public Finance Sectors, Nov. 29, 2022
- Cap On Rent Increases Is Consistent With Our Base Case For English Social Housing Providers, Nov. 17, 2022
- The U.K. Social Housing Sector Now Displays A More Pronounced Negative Bias In Its Creditworthiness, Oct. 11, 2022
- Launch Of Rent Cap Consultation Adds Uncertainty To Creditworthiness Across English Housing Sector, Sept. 1, 2022
- Rated U.K. Social Housing Providers' Creditworthiness Could Suffer If The Gap Between Rent And Cost Increases Persists, Aug. 1, 2022
- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers June 8, 2021

Ratings List

Ratings Affirmed	
Richmond Housing Partnership	
Issuer Credit Rating	A+/Negative/--
Richmond Housing Partnership	
Senior Secured	A+
RHP Finance PLC	
Senior Secured	A+