S&P Global
Ratings

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Research Update:

U.K.-Based Lincolnshire Housing Partnership Ltd. Outlook Revised To Negative; 'A+' Rating Affirmed

March 4, 2021

Overview

- We forecast that Lincolnshire Housing Partnership (LHP) will make substantial additional investments in its asset base starting in the financial year ending March 31, 2022 (FY2022), which will weaken its financial metrics.
- A recent bond tap strengthened LHP's liquidity, but its effect on the group's debt metrics will depend on LHP's plans to use the related proceeds.
- We are revising our outlook on LHP to negative from stable, primarily reflecting risks that LHP's financial metrics may become weaker than we currently forecast.
- At the same time, we are affirming our 'A+' rating on LHP.

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Rating Action

On March 4, 2021, S&P Global Ratings revised its outlook on U.K.-based social housing provider LHP to negative from stable.

At the same time, we affirmed our 'A+' long-term issuer credit rating on LHP.

We also affirmed our 'A+' rating on the £150 million bond issued in September 2014 by Boston Mayflower Finance PLC, LHP's funding vehicle. Boston Mayflower Finance was set up for the sole purpose of issuing bonds and lending the proceeds to Boston Mayflower, which merged with Shoreline Housing Partnership to form LHP in 2018. We view Boston Mayflower Finance as a core subsidiary of LHP.

Rationale

The outlook revision reflects the risks that the weakening of LHP's financial indicators could persist. We expect LHP's operating and capitalized repairs program to be higher than previously anticipated, since it is now aiming to enhance the standard of its stock. LHP will ramp up these additional investments in FY2022, which will substantially weaken the group's S&P Global Ratings adjusted EBITDA, resulting in weaker margins and debt metrics. Although we understand some of these expenses would be nonrecurring, there is a risk such weaker ratios could persist. This could stem from additional spending pressure, such as regulatory requirements or the decarbonization agenda.

As for other English housing associations, we think there is a moderately high likelihood that LHP would receive extraordinary support in case of financial distress. This provides a one-notch uplift from the stand-alone credit profile. LHP's primary purpose is to provide affordable homes, supporting important policy objectives of the U.K. government. We consider that the Regulator of Social Housing (RSH), a government agency, regulates LHP to promote a viable, efficient, and well-governed social housing sector, and maintain lender confidence and low funding costs across the sector. It is therefore our view that the RSH would step in to prevent a default in the sector, based on its record of being willing and able to provide extraordinary support on a timely basis.

We forecast LHP's profitability will weaken over the coming two years because it will increase investments in existing properties, enhancing the standard of its stock beyond the required Decent Homes Standards. LHP will ramp up this spend in FY2022, resulting in weak adjusted EBITDA margins of just below 10% that year. These margins will also reflect our assumption of rent losses due to pandemic-related national lockdowns. We currently expect the weak performance in FY2022 to be an one-off, with adjusted EBITDA margins rebounding above 20% in the medium term.

LHP's debt levels are higher than we previously assumed. This, combined with lower adjusted EBITDA, will weaken LHP's debt metrics. During FY2021, LHP agreed to sell its £75 million retained bond, and we expect LHP to receive the proceeds in two tranches over FY2021 and FY2022. We project that LHP's adjusted debt to EBITDA will average just below 20x over a five-year period, while adjusted EBITDA-interest cover would likely average just under 1.5x. This is materially weaker than our previous base case, in which we forecasted five-year adjusted debt to EBITDA of 14x and adjusted EBITDA-interest cover of 1.7x.

LHP's development spend is also higher than in our previous base case, but we consider it to be still modest compared with peers and note it remains largely uncommitted. We expect LHP to only add about 150 units--after demolitions and disposals--to its stock from FY2021 to FY2023, mainly through acquisitions and Section 106 projects.

We think the changes in the investments and development programs, as well as the debt build-up, result in more volatility in the group's financial metrics than we previously anticipated. This has weakened our view of LHP's financial policies.

LHP's enterprise profile remains a credit strength. The group mainly operates in the East Midlands, and we expect continued population growth and regional dynamics will support strong demand for social housing, although its social-to-market-rent ratio could deteriorate due to market conditions. LHP owns and manages almost 12,000 units that focus mainly on traditional social housing activities. It has very limited exposure to sales risk, mainly through first-tranche sales of shared ownership units.

We think LHP's strategy remains risk averse, modest, and very much focused on traditional activities. We note there has been a shift in LHP's maintenance plan, but we think the organization's fundamentals remain consistent.

Liquidity

We think LHP's liquidity has improved, such that sources will cover uses by far more than 3x over the next 12 months. LHP's debt proceeds have improved the group's cash levels, which, together with the expected bond receipts and undrawn committed facilities, have strengthened LHP's liquidity position. We also continue to consider LHP's access to external liquidity as satisfactory.

We expect principal liquidity sources over the next 12 months will include:

- Cash flow from operations of just above £7 million;
- Cash and liquid investments of close to £45 million;
- Undrawn and available facility committed beyond the next 12 months that can be drawn by about £29 million;
- Bond issuance proceeds of £35 million; and
- Other cash inflows of about £15 million.

We expect principal liquidity uses over the same period will include:

- Capital expenditure of about £17 million; and
- Interest and principal repayment of about £7 million.

Key metrics

Table 1

Lincolnshire Housing Partnership -- Key Statistics

	--Year ended March 31--				
(Mil. £)	**2019a**	**2020a**	**2021bc**	**2022bc**	**2023bc**
Number of units owned or managed	12,566	12,489	12,406	12,516	12,611
Revenue*	52.0	52.4	53.1	50.8	54.9
Share of revenue from sales activities (%)	4.5	3.7	3.5	2.0	1.9
EBITDA*§	8.1	12.3	14.3	4.8	11.3
EBITDA/revenue*§(%)	15.6	23.4	26.9	9.4	20.6
Capital expense§	14.7	11.2	10.6	17.6	17.4
Debt	152.0	161.5	192.0	182.0	182.0
Debt/EBITDA*§(x)	18.7	13.2	13.4	38.0	16.1
Interest expense†	6.3	6.8	6.9	7.1	7.4
EBITDA/interest coverage*§† (x)	1.3	1.8	2.1	0.7	1.5
Cash and liquid assets	5.6	11.8	42.0	28.5	16.6

*Adjusted for grant amortization. §Adjusted for capitalized repairs. †Including capitalized interest. a--Actual. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. e--Estimate. N.A.--Not available.

Outlook

The negative outlook reflects our view that the LHP's financial metrics could weaken on a sustained basis.

Downside scenario

We could lower the rating in the next 24 months if adjusted EBITDA remains subdued post FY2022 due to cost pressure. This could stem from investments in existing properties, such that adjusted EBITDA margins remain below 20%, with debt exceeding adjusted EBITDA by 20x on a sustained basis. We could also lower the rating if LHP's liquidity position weakened or if we saw demand for services subsiding.

We could also downgrade LHP if we lowered our sovereign credit ratings on the U.K. or if we thought the likelihood of timely extraordinary support from the U.K. government to LHP had diminished.

Upside scenario

We could revise the outlook to stable if financial indicators performed in line with our base case, with adjusted EBITDA margins exceeding 20% and debt metrics improving, all else remaining equal.

Ratings Score Snapshot

Table 2

Lincolnshire Housing Partnership -- Ratings Score Snapshot

Industry Risk	2
Economic fundamentals and market dependencies	2
Strategy and management	3
Asset quality and operational performance	1
Enterprise profile	2
Financial performance	4
Debt profile	4
Liquidity	1
Financial policies	3
Financial profile	3

S&P Global Ratings bases its ratings on non-profit social housing providers on the eight main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on Dec. 17, 2014, summarizes how the eight factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating. For social housing providers generating more than a third of its consolidated revenues from open market sales, we also refer to the "Key Credit Factors For The Homebuilder And Real Estate Developer Industry."

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing

Providers, Dec. 17, 2014

- 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 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
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 23, 2020
- ESG Industry Report Card: Public And Nonprofit Social Housing Providers Outside The U.S., August 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

Ratings Affirmed; Outlook Action

	To	From
Lincolnshire Housing Partnership Ltd.		
Issuer Credit Rating	A+/Negative/--	A+/Stable/--
Boston Mayflower Finance PLC		
Senior Secured	A+	A+