

Research Update:

U.K.-Based Lincolnshire Housing Partnership Ltd. Downgraded To 'A-' On Weaker Financial Performance; Outlook Negative

November 23, 2022

Overview

- We forecast that Lincolnshire Housing Partnership Ltd.'s (LHP's) financial performance may come under pressure due to the effect of rising inflation on its cost base.
- We also think that LHP will continue to invest substantially in improving the quality of its asset base, which should weaken its financial metrics beyond our previous expectations.
- We therefore lowered our long-term issuer credit rating on LHP to 'A-' from 'A'.
- The negative outlook reflects the outlook on the U.K., as well as the possibility of a further deterioration of LHP's financials.

Rating Action

On Nov. 23, 2022, S&P Global Ratings lowered its long-term issuer credit rating on U.K.-based social housing provider LHP to 'A-' from 'A'. The outlook remains negative.

At the same time, we lowered our rating on the £150 million bond issued in September 2014 by Boston Mayflower Finance PLC, LHP's funding vehicle, to 'A-' from 'A'. 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.

Outlook

The negative outlook reflects that on the U.K., as well as the possibility of LHP having a weaker financial performance than we currently expect.

PRIMARY CREDIT ANALYST

Tim Chow
London
+44 2071760684
tim.chow
@spglobal.com

SECONDARY CONTACT

Noa Fux
London
+44 2071760730
noa.fux
@spglobal.com

ADDITIONAL CONTACT

Sovereign and IPF EMEA
SOVIPF
@spglobal.com

Downside scenario

We could lower the rating if, over the next 24 months, we were to lower the sovereign credit rating on the U.K., or if we revise downward our view of the likelihood of extraordinary support to LHP from the U.K. government in the event of financial distress.

We could lower the rating if LHP's S&P Global Ratings-adjusted EBITDA significantly weakens beyond our forecast due to continued cost pressure or lower revenue. This would likely depress the group's debt interest coverage and liquidity position.

Upside scenario

We could revise the outlook to stable if over the next 24 months we did the same on the sovereign, as long as LHP performs largely in line with our base-case expectations. We could also revise the outlook to stable if LHP's financial management adopted a more conservative approach to investments, leading to a materially stronger financial performance despite current inflationary cost pressures.

Rationale

The downgrade is based on our forecast that LHP's plan to maintain elevated investments in its existing stock, in addition to higher inflation than we previously forecast, will likely weaken the group's financial indicators. LHP is dedicated to improving the quality of its stock beyond the minimum regulatory requirements. However, this will become more challenging due to the current inflationary environment, which heightens the group's cost base. We expect this will put a heavier burden on LHP's financials, which will likely not improve as fast as in our previous forecasts.

We expect the group will continue to focus on its low-risk operations in traditional social housing lettings with limited exposure to sales. The group's sales exposure is restricted to first-tranche shared ownership sales, which we estimate will make up less than 5% of total revenue in the coming two to three years. LHP plans to carry out new developments of about 120 units per year, which will be primarily social rented, through fiscal year ending March 31, 2025 (fiscal 2025), and its capital expenditure (capex) is largely uncommitted beyond the current year. In our view, expanding rental revenue from the new units will partly mitigate the weaker adjusted EBITDA, despite a modest increase of debt to fund capex.

LHP owns and manages over 12,000 units, mainly in Boston and Grimsby in Lincolnshire, East Midlands, which is the group's center of operations. We think that LHP's low average social- and affordable-to-market rent ratio, which we calculate at about 70%, will support strong demand for its services. This is also reflected in the group's void levels, which we assess as on par with the sector. Void levels have returned to historical levels at about 1.6% in fiscal 2022, after an increase to 2.7% in fiscal 2021.

We consider that LHP's strategy to maintain high spending on existing assets during a time of rising inflation will stretch its financials. We forecast the group will pursue its existing plan for its repairs program, which has elevated spending since last year--and will remain at similar levels in the coming two to three years--pressuring the group's adjusted EBITDA. LHP aims to enhance the standard of its housing stock beyond the required Decent Homes Standards. Also, the group targets to have all properties meeting EPC C standards by 2030, in line with the government's target for the sector. Although LHP aspires to achieve better housing quality, this will create an additional strain on its financial metrics, which are already under pressure from inflation.

Like for other English housing associations, we think there is a moderately high likelihood that LHP would receive extraordinary support from the U.K. government in case of financial distress. As one of the Regulator of Social Housing's (RSH) key goals is to maintain lender confidence and low funding costs across the sector, we think it is likely that the RSH would step in to try and prevent a default in the sector. We base this view on previous records of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to LHP. This currently provides two notches of uplift from the stand-alone credit profile. If we were to lower our unsolicited rating on the U.K. government by one notch, we would only factor one notch of uplift into the rating on LHP.

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 June 8, 2021).

Liquidity

LHP's liquidity position remains a credit strength. We expect the group's liquidity sources to cover uses by about 2.9x over the next 12 months. This is largely due to the group's undrawn committed facilities, which will sufficiently cover capex, including an increased level of investment in the group's existing stock. We also consider LHP's access to external liquidity to be satisfactory.

We estimate liquidity sources over the next 12 months will include:

- Cash flow from operations, adding back noncash cost of sales, of close to £7.5 million;
- Cash and liquid investments of close to £20 million;
- The undrawn, available portion of committed facilities maturing beyond the next 12 months, totaling about £90 million; and
- Receipts from fixed asset sales of more than £1 million.

We expect liquidity uses over the same period will include:

- Capex of more than £33 million; and
- Interest payments of about £7 million.

Table 1

Lincolnshire Housing Partnership--Key Statistics

Mil. £	--Year ended March 31--				
	2021a	2022a	2023bc	2024bc	2025bc
Number of units owned or managed	12,456	12,516	12,629	12,682	12,773
Adjusted operating revenue	53.9	54.2	57.7	61.8	65.7
Adjusted EBITDA	13.6	6.9	6.9	5.5	9.2
Nonsales adjusted EBITDA	13.2	6.7	6.4	5.2	8.9
Capital expense	9.5	9.9	15.8	18.3	11.3
Debt	192	165	165	181	188
Interest expense	5.5	6.4	7.1	7.5	8.0
Adjusted EBITDA/adjusted operating revenue (%)	25.2	12.8	11.9	8.9	13.9
Debt/nonsales adjusted EBITDA (x)	14.5	24.7	25.7	34.7	21.2

Table 1

Lincolnshire Housing Partnership--Key Statistics (cont.)

Mil. £	--Year ended March 31--				
	2021a	2022a	2023bc	2024bc	2025bc
Nonsales adjusted EBITDA/interest coverage(x)	2.4	1.1	0.9	0.7	1.1

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

Ratings Score Snapshot

Table 2

Lincolnshire Housing Partnership--Ratings Score Snapshot

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

- The U.K. Social Housing Sector Now Displays A More Pronounced Negative Bias In Its Creditworthiness, Oct. 11, 2022
- United Kingdom Outlook Revised To Negative On Rising Fiscal Risks; 'AA/A-1+' Ratings Affirmed, Sept. 30, 2022
- Bulletin: 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
- Non-U.S. Social Housing Providers Ratings Score Snapshot: July 2022, July 27, 2022
- Non-U.S. Social Housing Providers Ratings Risk Indicators: July 2022, July 27, 2022
- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers, June 8, 2021

Ratings List

Downgraded

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

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; or Stockholm (46) 8-440-5914

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