

Research Update:

U.K. Social Housing Provider Lincolnshire Housing Partnership Ltd. 'A-' Rating Affirmed; Outlook Stable

November 20, 2024

Overview

- We forecast that Lincolnshire Housing Partnership's (LHP's) financial performance will recover following cost pressures in fiscal 2025 (ending March 31, 2025) as management enhances cost controls over investments in existing homes.
- We believe management has aligned the business to prioritize investments in existing assets and continues to limit new homes development, which will contain debt.
- We therefore affirmed our 'A-' long-term issuer credit rating on LHP and maintained the stable outlook.

Rating Action

On Nov. 20, 2024, S&P Global Ratings affirmed its 'A-' long-term issuer credit rating on Lincolnshire Housing Partnership Ltd. (LHP). The outlook is stable.

We also affirmed our 'A-' issue rating on the £150 million bond issued in September 2014 by Boston Mayflower Finance PLC, LHP's funding vehicle. We view Boston Mayflower Finance as a core subsidiary of LHP.

Outlook

The stable outlook reflects our view that LHP will address inefficiencies in voids and repairs and contain development to improve metrics after the 2025 fiscal year-end (March 31, 2025).

Downside scenario

We could lower the rating on LHP if management cannot contain costs or adopts a more aggressive strategy on investments in existing assets and debt-funding of new homes. We think that this could lead to materially weaker financial metrics than our current projections.

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Upside scenario

We could raise the rating on LHP if management effectively contains costs, resulting in S&P Global Ratings-adjusted EBITDA margins improving closer to 20%. Absent a material resumption of new homes development, this could result in stronger debt metrics. An upgrade would also be dependent on a track record of management consistently implementing comprehensive plans.

Rationale

The affirmation reflects our view that LHP will implement its investment program and fill gaps in asset teams to address inefficiencies around voids and repairs. We project credit metrics will improve through fiscal 2027 based on our assumption that LHP will contain costs and rents will grow faster than inflation. We forecast LHP will report S&P Global Ratings-adjusted EBITDA margins in excess of 10% with interest coverage above 1.0x on a sustained basis. This has led us to revise our assessment of LHP's stand-alone credit profile (SACP) to 'bbb+' from 'bbb'.

Enterprise profile: Underpinned by predictable earnings, with limited exposure to sales risk and strong demand for services.

LHP benefits from generating most of its earnings in the predictable and countercyclical English social housing sector, with less than 5% of adjusted operating income from shared-ownership-related sales. LHP owns and manages over 12,500 units, mainly in Boston and Grimsby in Lincolnshire, and we expect the group to remain focused within its area of operations. We believe LHP benefits from a solid stock profile, considering that, as of March 31, 2024, 89% of its existing stock had an Energy Performance Certificate of level C or above; no properties were taller than 18 meters; and all stock met the Decent Homes Standards.

We think that LHP's low average social- and affordable-to-market rent ratio, which we calculate at about 70%, will continue to support strong demand for its services. We attribute the group's upward trend in void levels over the first six months of fiscal 2025 to gaps in operations from vacant positions rather than signify a shift in demand. We assess void levels as being on par with those in the sector, averaging approximately 1.9% over the past three fiscal years.

Our assessment of LHP's management and governance remains weaker than that of many rated peers. We consider LHP's track record of consistently implementing plans as limited and understand some inefficiencies have surfaced over the last year as positions were held pending merger discussions with Ongo Homes. With the fallout of merger discussions, we view LHP to be in a transitional period while the group moves forward to solidify plans. We believe, though, that LHP has capacity to complete investments in existing assets as budgeted as highlighted by LHP hitting fiscal 2024 targeted volumes in spite of slow contractor mobilization and sectorwide challenges. In the event of pressure from inefficiencies in voids, we believe LHP has flexibility to reallocate spending. We think LHP is managing risks and maintaining flexibility in its investment and development plans to contain additional pressure on metrics and limit the need for new debt.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published Oct. 23, 2023, on RatingsDirect).

Financial profile: Modest adjusted EBITDA to strengthen, supporting improving debt metrics

We project S&P Global Ratings-adjusted EBITDA margins will be weaker in fiscal 2025 as LHP combats inefficiencies in voids and cost pressures. We expect financial performance to then recover as management focuses on controlling costs and addressing backlog in its repairs program. The pipeline of investments in existing assets over the next three years remains high, although we consider levels to be steady, supported by social housing decarbonization grants in the current year. Alongside expectations of rent growth to outpace inflation this will result in improvement in EBITDA margins after fiscal 2025.

We expect LHP's debt metrics to improve with EBITDA expansion. Despite no funding needs, given reprofiling of uncommitted development and no upcoming maturities, we project debt levels will grow by contractual mandatory drawdowns through fiscal 2027. We anticipate LHP will carry cash over the forecast period as management resumes modest development. We expect the group's priority to continue to be existing assets and project development of new homes to be funded through cash on hand.

LHP's liquidity position remains a credit strength. We expect LHP's liquidity sources to cover its uses by about 8.6x over the next 12 months. This is largely due to the group's curtailed development program. We expect liquidity sources of about £109 million: mainly cash and undrawn available facilities; grant receipts; and cash from operations, adding back the noncash cost of sales, will more than sufficiently cover liquidity uses of about £13 million (capital expenditure and interest payments). We also consider LHP's access to external liquidity to be satisfactory.

Government-related entity analysis

We think there is a moderately high likelihood that LHP would receive timely extraordinary government-related support in case of financial distress. This provides a one-notch uplift in the SACP. Given that one of the key goals of the Regulator of Social Housing (RSH) is to maintain lender confidence and low funding costs across the sector, we believe 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.

Selected Indicators

Table 1

Lincolnshire Housing Partnership Ltd.--Key statistics

Mil. £	--Year ended March 31--				
	2023a	2024a	2025bc	2026bc	2027bc
Number of units owned or managed	12,648	12,639	12,649	12,684	12,714
Adjusted operating revenue	56.9	61.5	65.0	67.0	68.8
Adjusted EBITDA	7.9	7.4	6.1	8.4	9.0
Non-sales adjusted EBITDA	7.5	7.0	5.9	8.2	9.0
Capital expense	6.3	1.1	4.2	6.1	6.4

Table 1

Lincolnshire Housing Partnership Ltd.--Key statistics (cont.)

Mil. £	--Year ended March 31--				
	2023a	2024a	2025bc	2026bc	2027bc
Debt	165.0	168.0	171.0	174.0	180.0
Interest expense	7.1	7.2	7.3	7.4	7.5
Adjusted EBITDA/Adjusted operating revenue (%)	13.9	12.0	9.3	12.5	13.1
Debt/Non-sales adjusted EBITDA (x)	22.1	24.2	28.9	21.2	20.0
Non-sales adjusted EBITDA/interest coverage(x)	1.1	1.0	0.8	1.1	1.2

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

Ratings Score Snapshot

Table 2

Lincolnshire Housing Partnership Ltd.--Ratings Score Snapshot

Assessment	Score
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
Stand-alone credit profile	bbb+
Issuer credit rating	A-

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

Related Research

- The Autumn Budget Kicks Off A Funding Regime Revision For U.K. Public Sector Entities, Nov. 5, 2024
- U.K. Social Housing Providers' Financial Capacity Shrinks On Investment Needs, Nov. 4, 2024
- Non-U.S. Social Housing Providers Ratings Risk Indicators: Ratings Pressure Has Eased, Oct. 31, 2024
- Non-U.S. Social Housing Providers Ratings History: October 2024, Oct. 31, 2024
- Cyber Risk Brief: U.K. Public Sector Is Increasingly Under Threat, Oct. 24, 2024
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 18, 2024
- U.K. Social Housing Borrowing 2024: Borrowing capacity remains constrained, March 6, 2024
- European Housing Markets: Forecast Brightens Amid Ongoing Correction, Jan. 25, 2024
- Non-U.S. Social Housing Sector Outlook 2024: At A Turning Point?, Nov. 29, 2023
- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023
- U.K. Social Housing Providers' Credit Headroom Could Tighten If The Operating Environment Deteriorates, Oct. 4, 2023

Ratings List

Ratings Affirmed

Lincolnshire Housing Partnership Ltd.

Issuer Credit Rating A-/Stable/--

Boston Mayflower Finance PLC

Senior Secured 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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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