Thames Valley Housing Association

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This report does not constitute a rating action.

Primary contact

Noa Fux
London
44-20-7176-0730
noa.fux
@spglobal.com

Secondary contacts

Natalia Legeeva
London
44-20-7176-0618
natalia.legeeva
@spglobal.com

Karin Erlander
London
44-20-7176-3584
karin.erlander
@spglobal.com

Analytical group contact

Sovereign and IPF EMEA
SOVIPF
@spglobal.com

Credit Highlights

Overview

Enterprise profile	Financial profile
A large asset base, affordability levels, and contained sales risk support MTVH's enterprise risk profile.	sizeable investment plan in existing homes will hinder improvements in financial performance.
-- We project MTVH will remain primarily focused on low-risk social housing activities, which provide predictable revenue streams.	--Following a weak fiscal 2024 (ending March 31), which included a large non-cash provision for fire and building safety works, we expect stable but modest financial performance.
-- Operational metrics and a low social-to-market rent ratio support strong demand.	--Debt metrics will remain weak but stable, despite debt build-up through fiscal 2027.
-- Strategic decisions and proactive management should help contain risks associated with the group's large investment needs in housing stock.	--The liquidity ratio remains a credit strength, with sources covering uses by about 1.9x.

The 'A-' Rating on Thames Valley Housing Association (Trading name: Metropolitan Thames Valley Housing; MTVH) reflects our projections for relatively modest but stable key financial indicators. We project over the next few years MTVH will progress with its large investment program in existing homes, a big share of which will address fire and building safety works across its stock. We project key financial metrics will stabilize in the coming two-three years, following a weak fiscal 2024, reflecting a large non-cash provision for part of the building safety costs. The rest of the costs will be spread over several years, which will hinder improvements in the group's financial performance. That said, we expect management to handle these costs prudently, having gained clarity on the scope of the required works, which has resulted in a clear execution strategy. We further expect MTVH's development aspirations will remain contained to balance the investment needs in existing homes.

Outlook

The stable outlook reflects our view that MTVH will be able to manage risks associated with its large investment program in existing stock through effective grant negotiations and cost management, while maintaining a contained development program.

Downside scenario

We could lower the rating if investments in existing stock exceed our expectations or if the group increases its debt-funded development on new homes. We think this would weaken the group's financial metrics.

We could also lower the rating if we were to revise downward our view of the likelihood of extraordinary support to MTVH from the U.K. government in the event of financial distress.

Upside scenario

We would consider an upgrade if management's actions and improvements in the operating environment led to substantially better credit metrics than our current expectations on a sustained basis.

Rationale

Enterprise profile: Supported by a large asset base, affordability levels, and contained sales risk

MTVH's affordability levels in its main areas of operations and its large stock support our view of its creditworthiness. The group owns and manages about 57,000 units, and we consider its substantial size and geographic footprint in the U.K. enable it to achieve economies of scale in its operations. The majority of MTVH's stock, 75%, is in and around London, which benefits from higher demand and market rent compared to the national average. On average, we assume the group's social and affordable rent levels are about half of the prevailing market rents. Although the group's vacancy rates over the past three years--1.7% of rent receivable and service charges—are higher than historical levels, they remain broadly in line with the sector average of 1.7%.

We think MTVH is making strategic decisions and taking proactive measures to contain the impact of macroeconomic and regulatory pressures on its financials. We consider the group's fire and building safety investments plan is detailed and within its operational and financial capacity. This is thanks to management's prudent planning and cost controls, including pursuing grant funding and negotiations for additional external funding for investments in existing homes. Nonetheless, we consider that a program of this size carries risks of overspend and therefore limits the group's financial flexibility.

We expect the group's sales exposure will be largely contained to first-tranche sales of shared ownership units, while open market sales will be delivered through joint ventures (JVs). We project the group's revenues from sales activities, including those from JVs, will be contained below one-third of its total S&P Global Ratings-adjusted operating revenue over the coming years.

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: Underpinned by modest but stable financial metrics

We anticipate adjusted EBITDA margins will remain slightly above 20% in the coming three years, similar to our previous forecast and the group's historical performance. Our projections reflect an improvement from a very weak fiscal 2024 when the group expensed a large non-cash provision of costs for remedial work required on leaseholder properties. We understand the provision, which we considered a cost in fiscal 2024, will be released over several years and will have a cash flow impact. Our projections are based on our expectation that MTVH will use grants to fund investments in existing homes and exercise cost controls, while rent growth will outpace cost inflation in the coming years. Nonetheless, we think the size of the fire and safety program remains significant and is likely to hinder improvement in the group's adjusted EBITDA margins.

We project the group's debt metrics will remain very weak, at a similar level to our previous forecast. Despite grant funding from the group's partnerships with Homes England and the Greater London Authority, as well as proceeds from the sale of fixed assets, we expect MTVH will still need to secure new borrowing to fund its development program. A steady and modest improvement in adjusted nonsales EBITDA will support our expectation of stable debt metrics, despite the debt build-up and still generally high interest rate environment.

We view MTVH's liquidity as very strong. This is based on our expectation that the group's sources of liquidity will exceed uses by about 1.9x over the next 12 months, and our view that it has satisfactory access to external liquidity. We forecast liquidity sources of about £1 billion, mainly from cash generated by operations after adding back the noncash cost of sales, as well as cash and undrawn available facilities, grant receipts, and proceeds from fixed asset sales. This contrasts with liquidity uses of about £540 million, which are primarily for capital expenditure, interest, and principal repayments.

Government-related entity analysis

We think there is a moderately high likelihood that MTVH would receive timely extraordinary government-related support in the event of financial distress. This provides a two-notch uplift from the stand-alone credit profile. Since one of the Regulator of Social Housing (RSH)'s 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 to 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 MTVH.

Key Statistics

Metropolitan Thames Valley Housing--Financial statistics

	--Year ended March 31--				
Mil £	2023a	2024a	2025bc	2026bc	2027bc
Number of units owned or managed	56,947	56,614	56,662	57,199	57,639
Adjusted operating revenue	383	415	447	465	502
Adjusted EBITDA	84	17	96	105	113
Nonsales adjusted EBITDA	81	12	85	93	100
Capital expense	188	273	418	307	411
Debt	1,947	1,919	2,177	2,283	2,492
Interest expense	85	93	101	107	114
Adjusted EBITDA/Adjusted operating revenue (%)	22.0	4.0	21.5	22.6	22.5
Debt/Nonsales adjusted EBITDA (x)	24.0	155.1	25.7	24.5	25.0

Metropolitan Thames Valley Housing--Financial statistics

	--Year ended March 31--				
Nonsales adjusted EBITDA/interest coverage(x)	1.0	0.1	0.8	0.9	0.9

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

Rating Component Scores

Metropolitan Thames Valley Housing--Ratings Score Snapshot

	Assessment
Enterprise risk profile	3
Industry risk	2
Regulatory framework	3
Market dependencies	2
Management and governance	3
Financial risk profile	4
Financial performance	4
Debt profile	6
Liquidity	2
Stand-alone credit profile	bbb
Issuer credit rating	A-

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "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
- European Housing Markets: Better Days Ahead, July 17, 2024
- U.K. Social Housing Borrowing 2024: Borrowing capacity remains constrained, March 6, 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

Ratings Detail (as of December 19, 2024)*

Metropolitan Thames Valley	
Metropolitan Housing Trust Ltd.	
Issuer Credit Rating	A-/Stable/--
Metropolitan Funding PLC	
Senior Secured	A-
Metropolitan Housing Trust Ltd.	
Senior Secured	A-
Senior Unsecured	A-
Issuer Credit Ratings History	
19-Dec-2023	A-/Stable/--
07-Oct-2022	A-/Negative/--
19-Dec-2018	A-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.