

Research Update:

U.K.-Based Social Housing Providers MHT And TVHA 'A-' Ratings Affirmed Following Group Restructure

January 6, 2025

Overview

- On Jan. 2, 2025, Metropolitan Thames Valley Housing (MTVH) announced a reorganization of the group's corporate structure. Thames Valley Housing Association (TVHA)--previously the group's parent--will now operate as a subsidiary under the Metropolitan Housing Trust (MHT), which will become the new parent company.
- Following the change, we consider the ratings on MHT and TVHA to reflect the creditworthiness of the group, with TVHA considered a core entity.
- We continue to project the rating on MTVH will be heavily affected by the large investment plan for existing homes, particularly related to fire and safety remediation works needed for its stock. We project financials will remain weak, albeit stable.
- We affirmed our 'A-' long-term issuer credit ratings on MHT (trading name: MTVH) and TVHA. The outlook on both is stable.

Rating Action

On Jan. 6, 2025, S&P Global Ratings affirmed its 'A-' long-term issuer credit rating on Metropolitan Housing Trust (MTVH). The outlook is stable. We also affirmed our 'A-' rating on MHT's £2 billion senior secured and unsecured medium-term notes program, as well as the £250 million senior secured bond.

Simultaneously, we affirmed our 'A-' long-term issuer credit rating on Thames Valley Housing Association. The outlook is stable. We consider TVHA to be a core subsidiary of MTVH since it has been integral to the organization, having been the parent until the recent change. Its goals, activities, and main functions are integrated within the wider MTVH group.

Moreover, we affirmed our issue rating on Metropolitan Funding PLC's £250 million senior secured bond at 'A-'. Metropolitan Funding PLC is 100% owned subsidiary of MHT, established solely for the purpose of issuing bonds and lending the proceeds to the group. We therefore continue to view it as a core subsidiary of the group.

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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 successful 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 of 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 result in substantially better credit metrics than our current expectations on a sustained basis.

Rationale

On Jan. 2, 2025, MTVH announced a change to its corporate structure, with MHT becoming the parent of TVHA, which had served as the group's parent since the 2018 merger of the two entities. We think this change will better reflect the importance of MHT within the MTVH group. MHT holds the majority of the group's housing stock and generates the vast majority of consolidated turnover. We understand both entities will remain registered providers of social housing with the regulator. This contributes to our view that TVHA's mission and activities remain aligned with those of the group. Furthermore, having been the parent of MTVH since the merger, retaining part of its trading name, and being fully integrated into the group, we think TVHA continues to constitute an integral part of the group.

The 'A-' rating on 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.

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.

For the most recent key statistics and rating score snapshot for MTVH, see the analysis published Dec. 20, 2024, on RatingsDirect.

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 List

Ratings Affirmed

Metropolitan Housing Trust Ltd.

Thames Valley Housing Association Ltd

Issuer Credit Rating

A-/Stable/--

Ratings Affirmed

Metropolitan Housing Trust Ltd.

Senior Secured	A-
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Metropolitan Funding PLC

Senior Secured	A-
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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/sourceld/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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