The Wrekin Housing Group Ltd.

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This report does not constitute a rating action.

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Credit Highlights

Overview

Enterprise profile	Financial profile
The Wrekin Housing Group Ltd.'s (Wrekin's) focus on traditional social housing activities and robust management mitigate the volatility due to sector headwinds.	Wrekin's expanding rental revenue base, proactive management of its stock, and operational efficiency will help the group absorb the pressure from inflation and investment in its stock.
--Wrekin's social housing-focused business model remains a strength, since revenue from these activities is more predictable and less cyclical in nature than revenue from sales activities.	--We think that Wrekin's continued development of rental units, potential rent uplift, and reshaping of its care services will lessen the cost pressures on the group's financial performance.
--Wrekin's strategy and planning processes remain robust and it has an experienced management team.	--The gradual recovery of S&P Global Ratings-adjusted nonsales EBITDA should improve debt metrics.
--S&P Global Ratings expects that vacancy rates will improve after Wrekin completes its current plans regarding higher-level care services.	--Liquidity remains very strong, underpinned by the group's large undrawn facilities.

We expect Wrekin will continue to benefit from a highly predictable revenue stream from its core rental activities, alongside no sales exposure in the coming two-to-three years. We forecast that the group's adjusted EBITDA margin will remain solid, with a five-year average of about 25%, despite the inflationary pressure on the cost base and increasing investments in the existing stock.

In our view, Wrekin's continued focus on developing rental units will strengthen its adjusted nonsales EBITDA. This should improve the group's debt metrics, which we forecast will weaken due to rising inflation and increasing investment in both new and existing homes.

Outlook

The stable outlook reflects our view that the risks associated with higher cost pressures and Wrekin's need to invest in its existing and new stock are mitigated by its focus on traditional rental activities and robust management.

Downside scenario

We could lower the rating on Wrekin if management deviated substantially from its current strategy, including its plan to address the losses from its higher-level care facilities. Under this scenario, we would see the group's investments in its existing and new stock as putting greater pressure on its performance and liquidity than we currently envision. We could also lower the rating if we considered that Wrekin had become less likely to receive extraordinary government support through the Regulator of Social Housing (RSH).

Upside scenario

We could raise the ratings on Wrekin if it improved its operational efficiency such that vacancy rates stood significantly below market levels. We could also raise the ratings on Wrekin if management successfully contained the existing cost pressures and debt build-up, such that Wrekin's debt metrics improved, with debt to adjusted nonsales EBITDA falling toward 20x, or adjusted nonsales EBITDA interest coverage rising toward 1.75x. Under such a scenario, we would also expect the adjusted EBITDA margin to improve.

Rationale

Wrekin is a U.K.-based housing association benefiting from strong demand for its properties, although it operates across the West Midlands, where the economic fundamentals are less dynamic than in other U.K. regions. We estimate that the group's ratio of social to market rents is about 62%. In the fiscal year ending March 31, 2022 (fiscal 2022), we noted a temporary increase in Wrekin's void losses due to a care facility. The group has ongoing plans to deal with those losses in the coming 12 months. We expect that Wrekin's vacancy rates will improve after the completion of those plans regarding higher-level care services and stay in line with the sector average.

Our rating on Wrekin reflects our view that the group continues to benefit from a highly predictable revenue stream from its core rental activities, alongside our expectation of no sales exposure in the coming two-to-three years. We forecast that the group's adjusted EBITDA margin will remain solid, with a five-year average of about 25%, despite the inflationary pressure on the cost base and increasing investments in the existing stock. We assume that the group will not increase its rents fully up to the cap of 1% above the consumer price index allowed under the rent regime. However, we think that the margin will remain resilient, supported by Wrekin's ambition to develop more rental units to expand its rental revenue base. We also anticipate that the group's plans regarding its costly higher-level care facilities will have a positive impact on its financial performance.

We expect that Wrekin's continued focus on developing rental units will strengthen its adjusted nonsales EBITDA. This should improve the group's debt metrics, which we forecast will weaken due to rising inflation and increasing investment in both new and existing homes. Furthermore, Wrekin will continue to carry out asset-renewal strategies to dispose of uneconomical homes, with the proceeds subsidizing the development program in addition to grant income and new debt issuance. We also expect that the group will maintain a very strong liquidity position underpinned by its large undrawn facilities.

We continue to assess Wrekin's management positively, which reflects our view of the group's experienced management team and strategic planning, including a strong focus on stock quality. The latter is evident from about 88% of Wrekin's homes achieving Energy Performance Certificate C standards or above, which is slightly ahead of its peers in the sector. Financially, we believe that the group's reduced exposure to costly operations and asset disposals should mitigate the impacts of its rising cost base and debt intake. Furthermore, about 50% of the units in Wrekin's development program remain uncommitted in fiscal 2024 and fiscal 2025. We think that these factors give the group sufficient flexibility to maintain its financial position in the face of the current inflationary pressure.

We believe there is a moderately high likelihood that Wrekin would receive timely extraordinary government support in case of financial distress. This provides one notch of uplift from the stand-alone credit profile. As one of the RSH's key goals 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 instances of the RSH mediating in mergers or arranging liquidity support from other registered social housing providers in cases of financial distress, and think this would also apply to Wrekin. 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, on RatingsDirect).

Liquidity

We assess Wrekin's liquidity as very strong. We estimate that sources of liquidity will cover uses by about 1.85x over the next 12 months. We view Wrekin's access to external liquidity as satisfactory.

Liquidity sources include:

- Cash and liquid investments of more than £30 million;
- Cash from operations of more than £20 million;
- Proceeds from asset sales of nearly £20 million;
- Available facilities maturing beyond the next 12 months of more than £110 million; and
- Proceeds from grant receipts of nearly £20 million.

Liquidity uses include:

- Capital expenditure of nearly £90 million; and
- Interest and principal repayments of close to £18 million.

Environmental, Social, And Governance

Wrekin's performance on ESG indicators is broadly in line with that of its sector peers. We think that social housing providers face social risks stemming from higher inflation and slower economic growth. However, the focus on the core business of traditional social housing, which provides predictable and relatively stable earnings, should help mitigate some of these risks, as is the case for Wrekin.

We think that environmental factors due to enhanced building and fire safety standards and a government agenda to improve energy efficiency in the sector could weaken social housing providers' profitability and put further pressure on their debt-servicing capacity. In the near-to-medium term, this focus on increasing investments in existing homes could stress Wrekin's performance. However, the current high quality of its assets makes the group relatively more resilient than its sector peers.

Key Statistics

The Wrekin Housing Group Ltd.--Key Statistics

			--Year ended March 31--		
Mil. £	**2021a**	**2022e**	**2023bc**	**2024bc**	**2025bc**
Number of units owned or managed	13,689	13,600	13,837	14,155	14,498
Adjusted operating revenue	88.8	89.8	90.4	96.6	104.4
Adjusted EBITDA	27.5	22.2	19.8	22.1	26.8
Adjusted nonsales EBITDA	27.0	21.7	19.8	22.1	26.8
Capital expense	46.2	50.4	96.4	68.2	42.1
Debt	492.2	505.0	550.0	600.0	615.0
Interest expense	13.6	15.5	16.8	19.2	21.2
Adjusted EBITDA/adjusted operating revenue (%)	31.0	24.8	21.9	22.9	25.7
Debt/adjusted nonsales EBITDA (x)	18.2	23.3	27.8	27.1	22.9
Adjusted nonsales EBITDA/interest coverage(x)	2.0	1.4	1.2	1.2	1.3

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

The Wrekin Housing Group Ltd.--Ratings Score Snapshot

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

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: 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

- 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 Risk Indicators, July 27, 2022
- Non-U.S. Social Housing Providers Ratings Score Snapshot, July 27, 2022
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 22, 2022
- U.K. Social Housing Sector Borrowing Needs To Rise To Fund Investment In New Homes, March 31, 2022

Ratings Detail (as of August 15, 2022)*

Wrekin Housing Group Ltd.

Issuer Credit Rating	A/Stable/--
Senior Secured	A

Issuer Credit Ratings History

07-Oct-2019	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.

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