

RATING ACTION COMMENTARY

Fitch Downgrades Metropolitan Thames Valley Housing Group (MTVH) to 'A-'; Outlook Stable

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Fitch Ratings - London - 27 Sep 2024: Fitch Ratings has downgraded Metropolitan Thames Valley Housing Group's (MTVH) Long-Term Issuer Default Rating (IDR) to 'A-' from 'A'. The Outlook is Stable. Fitch has also downgraded the Short-Term IDR to 'F1' from 'F1+'.

The downgrade reflects MTVH's worsening financial leverage metrics.

Fitch views MTVH as a government-related entity (GRE) of the United Kingdom (AA-/Stable). We have 'Strong Expectations' of support from the state for MTVH. This leads to a one-notch uplift from the 'bbb+' Standalone Credit Profile (SCP), which is four notches below the sovereign. Continuing high demand for social and affordable housing and ongoing cash flow from rented properties continue to support MTVH's credit, despite the challenging economic environment.

KEY RATING DRIVERS

Support Score Assessment 'Strong expectations'

We have 'Strong expectations' of extraordinary support for MTVH in case of need, reflecting a support score of 20 (out of a maximum 60) under Fitch's GRE criteria. This reflects a combination of responsibility to support and incentive to support factors assessment as below.

Responsibility to Support

Decision Making and Oversight 'Strong'

As a private, not-for-profit social housing registered provider (RP) in the UK, MTVH is not owned by the UK government due to its structure and status. In strict terms there is no legal owner, with all surpluses reinvested to provide social housing. We consider the

regulatory framework for English social housing as having a robust legal basis, and the Regulator of Social Housing as maintaining sound control and tight monitoring of RPs. The regulator's history of oversight and (non-financial) intervention in (rare) cases of distress is a key factor behind the sector's solidity.

Precedents of Support 'Strong'

MTVH receives financial support through grants from Homes England and the Greater London Authority at varying levels for social, affordable and shared ownership development. This is ongoing to support additional subsidised housing, not to finance debt or prevent default.

Fitch takes into account the support mechanisms the issuer can benefit from, or have benefited from, via its sponsor, the UK. Policy influence is supportive of the financial stability of RPs, with very few entering financial difficulties and none reaching a default scenario. Regulatory restrictions on government support are unlikely to prevent timely intervention in exceptional circumstances.

Incentives to Support

Preservation of Government Policy Role 'Strong'

Social housing is a key public service. There would be no immediate impact on the service in case of default, but there would be a medium-term impact on the provision of service as RPs rely on external financing to finance their maintenance capex and new investments. In the unlikely event of financial default, other RPs could act as substitutes, with only temporary disruption to the service offered by the RP and diminished medium-term service provision due to reduced financial resilience and access to finance.

Contagion Risk 'N/A'

Default would have a minimal impact on either the availability or cost of domestic financing of the UK. Fitch considers that a default would be treated as an isolated case of mismanagement or viability concerns. Consequently, this should not affect the sector at large. However, it could cause questions about the role of the regulator and sponsor.

Standalone Credit Profile

MTVH's 'bbb+' SCP reflects a combination of a 'Stronger' risk profile and a financial profile assessed in the 'bb' category, with forecast leverage expected to return to around 13x by FY29 (FY24: 15.3x)

Risk Profile: 'Stronger'

Fitch assesses MTVH's risk profile at 'Stronger', reflecting the combination of assessments:

Revenue Risk: 'Stronger'

The overall revenue risk assessment of 'Stronger' is based on 'Stronger' demand and pricing characteristics. Revenue risk is driven by the high demand for social and affordable housing in the UK, and factors in MTVH's market-rate activity with high prices in the region it operates in and revenue from care activities. MTVH anticipates cross-subsidisation through market and shared ownership sales, which should offer some flexibility on pricing.

Expenditure Risk: 'Stronger'

This assessment reflects 'Stronger' operating costs and supply risk and 'Stronger' investment planning.

MTVH's costs are well-identified and show low volatility. MTVH also has high flexibility on its investment and maintenance programmes, if needed. MTVH has new stock in comparison with others in the sector, with over 70% less than 40 years old, and almost 50% less than 20 years old. Newer stock limits the costs of maintenance required to meet its duty to provide quality housing for tenants. In total, 892 new homes were delivered in FY24 (657 in FY23), including 480 for general needs and 278 shared ownership. MTVH has 5,556 new homes in its five-year pipeline.

Liabilities and Liquidity Risk: 'Stronger'

Fitch assesses debt and liquidity characteristics for MTVH at 'Stronger', driven by its low-risk, long-dated debt portfolio and strong access to finance and liquidity.

MTVH currently has around GBP1.9 billion debt. It operates in a fully developed financial market with full access to banks, Debt Capital Markets and Private Placements. Around 90% of net debt (87%) is fixed rate, limiting exposure to fluctuations in the capital markets. Overall, MTVH has a strong debt profile with smooth and long-term repayment profile (average life of debt is over six years) with little short-term debt.

At end-FY24, MTVH had GBP807 million (2023: GBP725 million) undrawn committed credit lines from revolving credit facilities. It also held around GBP93 million in cash, providing adequate liquidity to support its business plan in the medium term.

Financial Profile

Fitch assess MTVH's financial profile at 'bb' and views its performance as adequate, but deteriorating due to challenges in recent years and those expected in the near term caused by external macroeconomic pressures. MTVH's net adjusted debt/EBITDA has been increasing in recent years, but we expect that it peaked in FY24 as a result of non-recurring expenditure related to fire and building safety costs.

We expect leverage to improve over the rating case as these costs diminish. However, we expect it to average around 13.5x across the three years to FY29. Reduced development across the rating case limits fluctuations in cash flow, but also limits EBITDA generation, resulting in elevated leverage metrics.

Fitch stresses management's expectations to achieve its rating-case scenario. We expect MTVH's operating revenue to average about GBP493 million between FY25 and FY29, with EBITDA averaging GBP161 million a year. As a result of the material capex plan, we expect net adjusted debt to EBITDA to improve towards around 13x, in line with high 'bbb' category SCP peers. In FY24, MTVH reported operating revenue of GBP421 million (FY23: GBP390 million), with EBITDA of GBP121 million (FY23: GBP112 million). Net debt at end-FY24 was GBP1,817 million (FY23: GBP1,744 million).

Additional Risk Factors Considerations

Asymmetric risk attributes are all assessed as 'Neutral' due to a strong regulatory framework, transparent reporting of information and a risk averse debt structure. Debt is mostly fixed rate and vanilla in nature (sterling bonds and bank debt). Governance and management are assessed by the regulator and most RPs have compliant ratings of either G1 or G2. They operate under English law, which is considered strong, and their Country Ceiling is 'AAA'. Information quality is strong, with external publications internally and externally audited.

Derivation Summary

MTVH's rating is driven by its SCP, which we have revised to 'bbb+' from 'a-'. MTVH's 'bbb+' SCP is driven by the assessment of a 'Stronger' risk profile and a 'bb' financial profile, and comparison with peers in the sector. We view MTVH as a government-related entity in the UK, with a support score of 20 points. This results in a bottom-up approach, with a one-notch uplift from the SCP to the 'A-' Long-Term IDR.

Short-Term Ratings

The Short-Term IDR is at the higher of two possible outcomes, 'F1', as a result of the 'A-' Long-Term IDR and strong liquidity metrics.

Issuer Profile

MTVH is a social housingRP based primarily in London and the south-east, providing around 57,000 affordable homes. MTVH is one of the largest RPs in the UK and a constituent member of the G15, the biggest RPs in London.

KEY ASSUMPTIONS

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on FY20-FY24 historical figures and FY25-FY29 scenario assumptions:

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Sustained deterioration of net debt/EBITDA above 18x on a sustained basis, or an adverse change to our assessment of key rating factors.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

A sustained improvement in net debt/EBITDA below 12x in the medium term, could lead to an upgrade.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
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Metropolitan Housing Trust Limited				
senior secured	LT	A-	Downgrade	A
Metropolitan Thames Valley Housing Group	LT IDR	A- Rating Outlook Stable		A Rating Outlook Negative
	Downgrade			
	ST IDR	F1	Downgrade	F1+
	LC LT IDR	A- Rating Outlook Stable		A Rating Outlook Negative
	Downgrade			
	LC ST IDR	F1	Downgrade	F1+
senior unsecured	LT	A-	Downgrade	A
senior secured	LT	A-	Downgrade	A

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Public Policy Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

[Government-Related Entities Rating Criteria \(pub. 09 Jul 2024\)](#)

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Metropolitan Thames Valley Housing Group

UK Issued, EU Endorsed

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