

Confidential Rating

Research Update

The Wrekin Housing Group Ltd.

U.K.–Based Housing Association The Wrekin Housing Group Ltd. Assigned 'A' Rating; Outlook Stable

Sept. 3, 2019

Confidential Rating

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Overview

- The Wrekin Housing Group Ltd. (Wrekin) benefits from a very strong enterprise profile, as it operates primarily in the traditional low-income social housing lettings sector, and operates a high-quality asset base.
- We expect that all of Wrekin's future development will be for social and affordable housing, supported by its asset-renewal strategy and refinancing plan.
- We are assigning our 'A' long-term issuer credit rating to Wrekin.
- The stable outlook reflects our view that management will continue to maintain its current strategy and will successfully manage its higher debt burden post refinancing.

Rating Action

On Sept. 3, 2019, S&P Global Ratings assigned its 'A' long-term issuer credit rating to U.K.-based social housing association The Wrekin Housing Group Ltd. (Wrekin). The outlook is stable.

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Rationale

Our rating on Wrekin is one notch higher than its 'a-' stand-alone credit profile, based on the moderately high likelihood that the U.K. government--working through the Regulator of Social Housing (RSH)--would provide timely and sufficient extraordinary support to the group in the event of financial distress.

We base this view on Wrekin's important role for the U.K. government due to its public policy mandate, and its strong link with the government. In our view, Wrekin, like other housing associations in England, plays an important role in providing housing and has a strong link with the RSH. This is demonstrated by the government's track record of providing robust credit support to the social housing sector in certain circumstances.

We assess Wrekin as having a very strong enterprise profile, underpinned by Wrekin's high proportion of revenues derived from traditional social housing lettings activities and our view of the social housing industry as low risk. Wrekin's strategy to focus on social housing lettings is credit-positive; however, economic fundamentals in the West Midlands are lower than in other U.K. regions. According to data published by the Office for National Statistics, the average social housing rent in the West Midlands is around 67% of the market rent, compared with 41% of market rent in London and 56% in the Southeast.

Wrekin's enterprise profile is also supported by an extremely strong asset quality, with a low average age of around 38 years, accomplished through its asset renewal strategy. Since 2005, Wrekin has adopted a consistent strategy for development and asset renewal. This involves selling low-demand stock that is cost-inefficient when it becomes void, with the goal of replacing it with new, higher-value units. This asset-renewal strategy has led to a better quality of stock, through letting go of unattractive and expensive assets, and has allowed Wrekin to reduce the ongoing cost of maintenance. The average age of the stock has improved significantly through this plan since 2008--at which point it was 45 years--as older units have been disposed of. Operational metrics, such as arrears and vacancies, remain low compared with those of Wrekin's peers, which supports the group's very strong asset-quality assessment.

We forecast that Wrekin will increase the number of units under management from around 13,000 in the fiscal year (FY) ending March 2019 to 14,600 at the end of our forecast period in FY2022. Future development is largely dependent on the number of fixed-asset sales achieved through Wrekin's asset-renewal strategy, and as such, future capital expenditure (capex) is largely uncommitted. Of the £265 million of capex (excluding capitalized repairs) that we forecast that Wrekin will achieve over FY2020-FY2022, only 19% of it is committed. This gives Wrekin a large degree of flexibility to scale back its development plan should fixed-asset sales not meet its forecasts.

We note that Wrekin's management has extensive experience in the social housing sector, and that the group's overall strategy is conservative and aligned with its capabilities. Additionally, we expect management to complete its refinancing by the end of the current year. In line with the proposed refinancing of its entire debt burden, management has updated its treasury policy to consider the new treasury risks introduced by the change in debt composition, and has established target metrics for every risk identified.

We view Wrekin's financial profile as adequate, supported by strong margins and liquidity following the refinancing, but nonetheless constrained by its increasing debt. Wrekin's business plan envisions savings from refinancing its entire debt structure to achieve lower interest rates and a longer average debt life. However, we also expect Wrekin to increase its debt burden and leverage significantly. The group currently has £379 million of drawn debt, and we forecast that

the nominal debt figure will increase to £636 million by FY2022. This figure incorporates our expectation that the group will refinance its current debt and issue a £300 million bond to cover its medium- to long-term financial needs. This will lead to debt to EBITDA increasing considerably from 14x in FY2019 to 20x in FY2022, while interest coverage remains on average 1.4x, which we believe constrains the rating.

Our financial performance assessment is underpinned by our expectation that Wrekin will continue to generate S&P Global Ratings-adjusted EBITDA of above 30% of revenues, supported by its strong social housing asset base. We forecast that Wrekin will have to carry out temporary higher capitalized repairs in FY2020 and FY2021 compared with historical levels; however, we expect these levels to decrease again. Supported by the rent settlement allowing social rents to increase at the same rate as the consumer price index plus 1% from FY2021, we forecast that Wrekin's adjusted margins will remain strong.

Liquidity

We expect Wrekin's liquidity position to be strong after considering the effect of the refinancing program. Over the next 12 months, we expect sources of liquidity of about £188 million to cover uses of £115 million, resulting in a sources-to-uses ratio of 1.6x.

Liquidity Sources

Sources of liquidity include:

- Our forecast of cash generated from continuing operation of close to £26 million;
- Cash and liquid investments of more than £16 million;
- Proceeds from asset sales of about £9 million;
- The undrawn, available portion of committed bank facilities or bank lines maturing beyond the next 12 months, and which can be drawn, totaling £116 million; and
- Government grant funding of about £21 million.

Liquidity Uses

Uses of liquidity include:

- Expected capex of about £96 million; and
- Debt service obligations totaling £19 million.

We view Wrekin's access to external liquidity as satisfactory.

Outlook/CreditWatch

The stable outlook on Wrekin reflects our view that following the refinancing, management will continue to maintain its current strategy focused on social housing lettings. The stable outlook also reflects that we expect management to successfully manage the higher debt burden post refinancing.

Upside scenario

We could raise the rating if we saw an overall improvement in the financial profile. In such a scenario, we would expect an intrinsically stronger liquidity position such that sources cover uses by 2x, combined with more robust financial policies post refinancing.

Downside scenario

We could lower the rating on Wrekin if we reassessed our view on management. Should its strategy deviate to incorporate more nontraditional activities, we could view the enterprise profile as bearing more risk.

We could also lower the rating if we believed that the likelihood of timely extraordinary support from the U.K. government to Wrekin had decreased.

Key Statistics

The Wrekin Housing Group Ltd.					
	--Year ended March 31--				
(Mil. £)	2018a	2019e	2020bc	2021bc	2022bc
Number of units owned or managed	12,897	13,008	13,106	13,798	14,575
Vacancy rates (%)*	1.3	1.7	N.A.	N.A.	N.A.
Arrears (%)*	2.1	2.1	N.A.	N.A.	N.A.
Revenue§	86.4	86.4	82.4	87.8	94.3
Share of revenue from nontraditional activities (%)	4.0	2.0	0.0	0.0	0.0
EBITDA§†	26.5	27.0	24.4	27.1	31.6
EBITDA/revenue §†(%)	30.7	31.3	29.6	30.9	33.6
Interest expense**	17.9	19.1	18.7	20.0	23.6
Debt/EBITDA §†(x)	13.9	14.0	18.6	20.0	20.1
EBITDA/interest coverage§†** (x)	1.5	1.4	1.3	1.4	1.3
Capital expense†	46.3	27.2	72.4	119.5	73.2
Debt	369.3	378.3	454.0	543.6	635.8
Housing properties (according to balance sheet valuation)	567.8	N.A.	N.A.	N.A.	N.A.
Loan to value of properties (%)	65.0	N.A.	N.A.	N.A.	N.A.
Cash and liquid assets	15.3	23.1	18.0	19.2	61.1
*Rent and service charge. §Adjusted for grant amortization. †Adjusted for capitalized repairs. **Including capitalized interest. a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.- -Not available.					

Ratings Score Snapshot

The Wrekin Housing Group Ltd.	
Industry Risk	2
Economic fundamentals and market dependencies	3
Strategy and management	3
Asset quality and operational performance	1
Enterprise profile	2
Financial performance	3
Debt profile	4
Liquidity	3
Financial policies	4
Financial profile	4
S&P Global Ratings bases its ratings on non-profit social housing providers on the eight main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on Dec. 17, 2014, summarizes how the eight factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating. For social housing providers generating more than a third of its consolidated revenues from open market sales, we also refer to the "Key Credit Factors For The Homebuilder And Real Estate Developer Industry."	

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Governments - General: Methodology For Rating Public And Nonprofit Social Housing Providers, Dec. 17, 2014
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- The State Of Social Housing: Is The English Model Catching On? July 25, 2019
- United Kingdom Ratings Affirmed At 'AA/A-1+'; Outlook Remains Negative, April 26, 2019
- A Push For New Homes Means U.K. Social Housing Providers Will Borrow £17 Billion Of New Debt By 2021, March 19, 2019

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant

criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

Ratings List

New Rating

The Wrekin Housing Group Ltd.

Issuer Credit Rating

A/Stable/--

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03 September 2019

The Wrekin Housing Group
Colliers Way
Old Park, Telford
TF3 4AW

Attention: Francis Best
Group Director of Finance

Re: Wrekin Housing Group Ltd.

Dear Mr. Best,

Pursuant to your request for a rating on the above-referenced entity, S&P Global Ratings has assigned an issuer credit rating of “A”, with a **Stable** Outlook.

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Analytical Contact: Celia Franch Lopez, +44 207 176 0100



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advisors make such information available to S&P Global Ratings, regardless if such terms and conditions are entered into before or after the date of this Agreement. Such terms and conditions shall be null and void as to S&P Global Ratings.

Limitation on Damages. (a) S&P Global Ratings does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a credit rating or the results obtained from the use of such information. S&P GLOBAL RATINGS GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR SATISFACTORY QUALITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE.

(b) Except to the extent the relevant damages or other amounts are finally determined by a court of competent jurisdiction in a proceeding in which you and S&P Global Ratings are parties to result from fraud, willful misconduct or negligence resulting in death or personal injury, of S&P Global Ratings, S&P Global Ratings, its affiliates or third party providers, or any of their officers, directors, shareholders, employees or agents shall not be liable to you, your affiliates, or any person asserting claims on your behalf, directly or indirectly, in respect of: (i) any decisions alleged to be made by you or any other person as a result of the issuance of the credit rating provided hereunder or the related analytic services provided by S&P Global Ratings hereunder or based on anything that may be perceived as advice or recommendations; (ii) any failure by S&P Global Ratings to comply with the provisions of any statutes, legislation, laws, rules or regulations; (iii) any negligence by S&P Global Ratings in the provision of Ratings or related analytic services; (iv) any costs, expenses, legal fees or losses that are consequential, indirect or incidental; (v) any lost income, lost profits or opportunity costs howsoever caused (whether caused directly or indirectly); (vi) any punitive or exemplary damages; and/or (vii) to the extent not already provided for in sub-paragraphs (b)(i)-(vi) above, any other actions, damages, claims, liabilities, costs, expenses, legal fees or losses whatsoever in any way arising out of or relating to the credit rating or the related analytic services (in each case regardless of cause, including alleged inaccuracies, errors, or omissions) even if advised of the possibility of such damages or other amounts.

(c) Notwithstanding the above, in no event shall S&P Global Ratings be liable in an aggregate amount in excess of seven times the aggregate fees paid to S&P Global Ratings for the credit rating giving rise to the cause of action up to a maximum of US\$5,000,000, except to the extent the relevant damages or other amounts directly result from fraud, willful misconduct or negligence resulting in death or personal injury.

(d) The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise.

(e) The invalidity, illegality or unenforceability of any provision of this paragraph does not affect or impair the continuation in force of the remainder of this paragraph.

(f) Neither party waives any protections, privileges, or defenses it may have under law, including but not limited to, laws relating to the freedom of expression.

Termination of Agreement. This Agreement may be terminated by either party at any time upon written notice to the other party. Except where expressly limited to the term of this Agreement, these Terms and Conditions shall survive the termination of this Agreement.

No Third Party Beneficiaries. Nothing in this Agreement, or the credit rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the credit rating. No person is intended as a third party beneficiary of this Agreement or of the credit rating when issued. A person who is not a party to this Agreement shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns. Subject to the limitations contained in this Agreement, S&P Global Ratings shall be liable for the conduct of its affiliates that would otherwise constitute a breach of the terms of this Agreement if S&P Global Ratings had engaged in such conduct itself.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Amendments. This Agreement may not be amended or superseded except by a writing that specifically refers to this Agreement and is executed manually or electronically by authorized representatives of both parties.

Governing Law. This Agreement and the credit rating letter shall be governed by the laws of England and Wales. The parties hereby submit to the exclusive jurisdiction of the English courts.

S&P Global Ratings – Data Protection Appendix to Terms and Conditions

1. **This Appendix:** This Data Protection Appendix (“**Appendix**”) is incorporated into the Engagement Letter and S&P Global Ratings Terms and Conditions (together the “**Agreement**”) between S&P Global Ratings and you. In the event of conflict, this Appendix takes priority over the provisions of the Agreement.

2. **Definitions:** All words, terms or phrases, the meaning of which are defined in the Agreement, shall have the same meaning where used in this Appendix. In this Appendix the following terms shall have the following meanings:

"**controller**", "**processor**", "**data subject**", "**personal data**", "**processing**", "**process**", "**special category personal data**" shall have the meanings given in Applicable Data Protection Law;

"**Analytical Data**" means underlying personal data contained within the information which is provided to S&P Global Ratings for the purposes of the provision of the Services, such as the personal data of individuals who have financial products in place which are relevant to the issuing of a rating;

"**Applicable Data Protection Law**" shall mean the **EU General Data Protection Regulation (Regulation 2016/679)** (as may be amended, superseded or replaced); and all other supplemental or implementing laws relating to data privacy in the relevant European member state including where applicable the guidance and codes of practice issued by the relevant supervisory authority and all analogous privacy laws of other countries;

"**Client Data**" means personal data of data subjects such as your employees or associates or partners, that is provided to S&P Global Ratings during the provision by S&P Global Ratings of the Services to you, such as name, job title, name of employer, office e-mail address, office physical address, internet protocol address, office telephone number and language selection (and excludes special category personal data);

"**Data**" means Analytical Data and Client Data;

"**Permitted Purpose**" means processing:

- (A) by employees, officers, consultants, agents and advisors of S&P Global Ratings or its affiliates of Data: (i) to provide ratings and other products and services (the “**Services**”) to you, (ii) to communicate with you regarding the Services that may be of interest to you, (iii) as described in the S&P Global Ratings’ Use of Information section of the Agreement and (iv) as otherwise permitted in the Agreement;
- (B) of personal data by you to access and use the Services;

"**Standard Contractual Clauses**" means standard contractual clauses (adopted by **European Commission Decision 2004/915/EC on 27 December 2004**) for the transfer of personal data from data **controllers** in the EU to data **controllers** in jurisdictions outside the European Economic Area, a copy of the current version of which is presently accessible at: https://ec.europa.eu/info/law/law-topic/data-protection/data-transfers-outside-eu/model-contracts-transfer-personal-data-third-countries_en and which shall be deemed to be incorporated into this Appendix by reference and within which you are the "**Data Exporter**" and S&P Global Ratings is the "**Data Importer**".

3. **Disclosure of data:** Each party will only disclose personal data to each other to process strictly for the Permitted Purpose.

4. **Relationship of the parties:** Except as may be specifically otherwise agreed, the parties acknowledge that you are a **controller** of the Data you disclose to S&P Global Ratings, and that S&P Global Ratings will process that Data as a separate and independent **controller** strictly for the Permitted Purpose. In no event will the parties process the Data as joint controllers. Each party shall be individually and separately responsible for complying with the obligations that apply to it as a controller under Applicable Data Protection Law.

Please see our **Customer Privacy Policy and Cookie Notice** available on <https://www.spglobal.com/corporate-privacy-policy> for further information regarding how personal data that you provide to S&P Global Ratings in connection with the Services will be used and maintained.

S&P Global Ratings – Data Protection Appendix to Terms and Conditions

5. **Investigations:** Except where and to the extent prohibited by applicable law, each party (“**Notifier**”) will inform the other promptly, and in any event within three (3) business days of any inquiry, communication, request or complaint relating to Notifier's processing of the personal data transferred to it under this Agreement by the other party which is received from: (i) any governmental, regulatory or supervisory authority, (ii) any data subject or (iii) any other person or entity.
6. **Use and Restrictions on Use:** Notwithstanding the information that you are entitled to use from the Services and distribute to third parties to the extent permitted by the Agreement, you shall not distribute or use any personal data to which you have had access when receiving the Services other than for the Permitted Purpose.
7. **Security:** The parties shall implement appropriate technical and organisational measures to protect the Data from: (i) accidental, unauthorized or unlawful destruction and (ii) loss, alteration, unauthorised disclosure of, or access to the Data.
8. **International Transfers of Data outside the EEA:**
 - 8.1 S&P Global Ratings may process (or permit to be processed) any Data transferred from you in the EEA to S&P Global Ratings and its affiliates in a territory outside of the EEA **provided that** such transfers shall be in accordance with the Standard Contractual Clauses deemed to be incorporated into this Appendix. In applying and interpreting the Standard Contractual Clauses it is agreed that **Annex A** will apply and **Annex B** thereto shall be populated as follows:
 - (1) **Data Subjects to whom the personal data relates:**
 - (i) *Persons who are employees, officers, contractors, agents or advisors of the Data Exporter and/or of companies affiliated with it who are engaged in the decision to enter into the Agreement and/or who enter into the Agreement with the Data Importer for the provision of the Data Importer's Services; and*
 - (ii) *persons in respect of whom the Data Exporter or its agents or advisors have provided personal data to the Data Importer to enable the Data Importer to provide the Services.*
 - (2) **Purposes for which the data transfer is made:**

The Permitted Purpose.
 - (3) **Categories of personal data transferred:**

Client Data and Analytical Data (excluding usage statistics).
 - (4) **Categories of recipients to whom the personal data is transferred or disclosed:**

Employees, officers, consultants, agents and advisors of the Data Importer or its affiliates and third parties, including public bodies, regulators and law enforcers, to the extent S&P Global Ratings is required to disclose Data by contract, regulation, litigation or law.
 - (5) **Sensitive data or categories of sensitive data to be transferred (special category personal data):**

Not applicable.
 - (6) **Contact Point for the Data Importer:**

RatingsGDPR@spglobal.com
 - 8.2 The parties agree that the following optional clause to the Standard Contractual Clauses shall apply as between them:
 - (1) *Each party shall perform its obligations under these clauses at its own cost.*
9. **Survival:** This Appendix shall survive termination or expiry of the Agreement. Upon termination or expiry of the Agreement, S&P Global Ratings may continue to process the Data provided that such processing complies with the requirements of this Appendix and Applicable Data Protection Law.