Research Update:

U.K. Social Housing Provider Accent Group Ltd. 'A' Rating Affirmed; Outlook Stable

July 12, 2024

Overview

- In our view, Accent Group Ltd.'s tight control on investments in existing and new homes will support the recovery in the group's financial indicators.
- We expect Accent's debt to grow more slowly than anticipated, underpinned by lower new home deliveries and higher capital grant funding secured.
- Combined with the projected recovery in S&P Global Ratings- nonsales adjusted EBITDA, we expect debt metrics to gradually strengthen.
- We therefore affirmed our 'A' long-term issuer credit rating, on Accent. The outlook remains stable.

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Rating Action

On July 12, 2024, S&P Global Ratings affirmed its 'A' long-term issuer credit rating on Accent Group Ltd. The outlook is stable.

At the same time, we affirmed our 'A' issuer rating on Accent Capital PLC and our 'A' issue rating on the £350 million bond Accent Capital issued in 2019. Accent Capital was set up to issue bonds and lend proceeds to Accent Housing Ltd., and we view it as a core subsidiary of the group.

Outlook

The stable outlook reflects our view that strong demand for Accent's properties, steady increase in rental revenue, and flexibility in plans would help mitigate cost and investment pressure.

Downside scenario

We could lower the rating on Accent if management cannot control costs such that adjusted EBITDA weakened to below 20% structurally. This, along with an increase in debt-funded capital spending, could materially hamper the projected recovery in the group's interest coverage.

Upside scenario

We could raise the rating if management's prudent actions, like tight control costs, result in an accelerated recovery in the group's adjusted EBITDA and debt metrics, outpacing our base-case expectations.

Rationale

The affirmation reflects our view that Accent's prudent cost planning and the expected improvement in economic conditions will support the projected recovery in the group's financial indicators.

We expect Accent's financial performance to strengthen through to fiscal 2027 (year ended March 31). This is due to rents expected to increase faster than inflation and relatively controlled growth in investments in existing homes, underpinned by the group's solid asset quality. Furthermore, we understand that to better manage cost pressures and using the flexibility in its plans, Accent has scaled back its development targets over fiscal years 2025-2027, with higher new home deliveries pushed back beyond our base-case period. In our view, this reprofiling of Accent's development program, along with higher capital grants secured for investment in new homes, will result in a lower debt buildup than previously projected.

Enterprise profile: Accent's operational metrics will continue to benefit from strong demand and contained exposure to sales activities

We view Accent as a traditional social housing provider, with solid demand for its properties. It owns and manages close to 21,000 homes across north, east, and south England. We think the group's relatively low social and affordable needs rents, which we estimate to be just over 60% of the average market rent across its area of operations, points to affordability of its services, supporting demand. This is also seen in the group's vacancy rates of about 1.3% on average over the past three years, which we estimate at slightly below the sector's average.

We think Accent's management has strong experience in the social housing sector, along with a good understanding of its business opportunities and challenges. This is also demonstrated in the group using the flexibility in its capital program (with over 50% of its capital spending on average being uncommitted) and scaling back on new home deliveries over fiscal years 2025-2027. In our view, this development target replanning should help balance out cost pressures from investments in existing homes.

In our view, the group's strategy remains focused on improving the quality of its existing homes and ensuring high quality standards for new homes. About 82% of the stock already meets or exceeds Energy Performance Certificate (EPC) C standards, which is relatively more favorable than sector peers, and the group is committed to deliver all new land-led home developments to EPC A standards.

We expect most of the development program will continue to constitute social and affordable homes, keeping the group's exposure to sales activities at less than 15% of revenue on average.

We expect Accent to continue investing in its IT infrastructure and digital platforms, in line with its focus on enhancing tenant satisfaction and wellbeing. Although the group will incur additional costs associated with these investments, in the next few years, we expect these web-based solutions will help generate cost efficiencies.

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: Solid liquidity, lower debt buildup, and growing rental income will support Accent's financial metrics

We project Accent's adjusted EBITDA margins to strengthen to above 20% by the end of our base-case period. We think the group's expanding asset base and increasing rental income, combined with the relatively modest growth in repairs costs, which is backed by the group's solid asset quality in terms of energy efficiency, will support the projected recovery in margins. We estimate that the planned acceleration in repair works and cost inflation pressure are behind the dip in margins in fiscal 2024.

We project debt metrics to improve following an estimated weakening in fiscal 2024, with debt to nonsales adjusted EBITDA expected to hover near 20x through to fiscal 2027. We think the lower funding needs, underpinned by higher grants and reduced capital expenditure, and the expected recovery in nonsales adjusted EBITDA, will keep the interest coverage relatively solid, at about 1.4x on average over fiscal years 2025-2027.

We assess Accent's liquidity as very strong, underpinned by high levels of cash and undrawn committed facilities. We estimate sources of liquidity will cover uses by about 2.5x over the next 12 months but expect this to slightly weaken thereafter, as some of the cash buffers and credit facilities will fund its capital program. We forecast liquidity sources of just over £375 million (mainly constituting cash and undrawn available facilities, grant receipts, and cash from operations after adding the noncash cost of sales) compared with liquidity uses of about £148 million (primarily capital expenditure, interest, and principal repayments). We continue to view Accent's access to external liquidity as satisfactory.

Government-related entity analysis

We believe there is a moderately high likelihood that Accent would receive timely extraordinary government support in case of financial distress. This provides one notch of uplift from the 'a-' stand-alone credit profile to reach the final 'A' rating. Since maintaining lender confidence and low funding costs across the sector is one of the Regulator of Social Housing's (RSH's) key goals, we think it is likely the RSH would try to prevent a default in the sector if necessary. We base this view on the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would apply to Accent as well.

Selected Indicators

Table 1

Accent Group Ltd.--Key Statistics

	--Year ended March 31--				
Mil. £	**2023a**	**2024e**	**2025bc**	**2026bc**	**2027bc**
Number of units owned or managed	20,689	21,602	22,017	22,662	22,930
Adjusted operating revenue	111.4	122.7	141.9	160.0	152.8

Table 1

Accent Group Ltd.--Key Statistics (cont.)

	--Year ended March 31--				
Mil. £	2023a	2024e	2025bc	2026bc	2027bc
Adjusted EBITDA	29.6	21.9	26.4	31.3	33.9
Nonsales adjusted EBITDA	26.5	19.9	23.7	27.0	31.8
Capital expense	78.0	84.9	124.1	121.4	86.2
Debt	494.5	498.8	514.2	562.5	621.6
Interest expense	15.2	17.4	18.1	19.7	22.0
Adjusted EBITDA/adjusted operating revenue (%)	26.5	17.9	18.6	19.6	22.2
Debt/nonsales adjusted EBITDA (x)	18.7	25.1	21.7	20.8	19.5
Nonsales adjusted EBITDA/interest coverage(x)	1.7	1.1	1.3	1.4	1.4

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Ratings Score Snapshot

Table 2

Accent Group Ltd.--Ratings Score Snapshot

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

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: 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

- United Kingdom, April 22, 2024
- Non-U.S. Social Housing Providers Ratings Score Snapshot: March 2024, March 11, 2024
- Non-U.S. Social Housing Providers Ratings Risk Indicators: March 2024, March 11, 2024
- Non-U.S. Social Housing Providers Ratings History: March 2024, March 11, 2024
- U.K. Social Housing Borrowing 2024: Borrowing Capacity Remains Constrained, March 6, 2024
- European Housing Markets: Forecast Brightens Amid Ongoing Correction, Jan. 25, 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
- U.K. Social Housing Providers' Credit Headroom Could Tighten If The Operating Environment Deteriorates, Oct. 4, 2023
- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022

Ratings List

Ratings Affirmed	
Accent Group Ltd.	
Accent Capital PLC	
Issuer Credit Rating	A/Stable/--
Accent Capital PLC	
Senior Secured	A