FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms VIVID Housing Limited's' Long-Term IDR 'A+': Outlook Negative

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Fitch Ratings - London - 02 Oct 2023: Fitch Ratings has affirmed VIVID Housing Limited's (VIVID) 'A+' Long-Term Issuer Default Rating (IDR) with Negative Outlook.

Fitch views VIVID as a UK government-related entity (GRE), which has a support score of 12.5. This leads to a bottom-up rating approach with a single-notch uplift to its 'a' Standalone Credit Profile (SCP) to arrive at the 'A+' IDR, which is capped at the UK sovereign's (AA-/Negative) minus one notch.

KEY RATING DRIVERS

Status, Ownership and Control: 'Strong'

VIVID is a private, not-for-profit, registered provider (RP) and as such, it is not under the ownership of the government due to its structure and status (in strict terms, it has no legal owner). We view the regulatory framework for English social housing as robust, under which the Regulator of Social Housing (RSH) controls and monitors RPs. The regulator's history of oversight and (non-financial) intervention in (rare) cases of distress is an important factor behind the sector's solidity.

Support Track Record: 'Moderate'

VIVID receives grants from Homes England for social and affordable development projects, but not to finance debt or prevent default. VIVID is a partner of Homes England, and will receive more than GBP100 million in funding in the latest affordable homes programme.

Socio-Political Implications of Default: 'Moderate'

Were VIVID to default, other RPs could act as substitutes with only minor or temporary disruption to its provision of services. VIVID's development plan can be scaled down to adapt to its new financing capacity, which limits its ability to provide housing in general.

Financial Implications of Default: 'Weaker'

Default would have a minimal impact on the availability or cost of domestic financing of other RPs. Fitch believes that a default would be treated as an isolated case of mismanagement or viability issues and should therefore not affect the sector at large.

Standalone Credit Profile

VIVID's 'a' SCP reflects a 'Stronger' assessment of both revenue defensibility and operating risk. It also reflects our forecast of net adjusted debt/EBITDA at around 11x across its rating case and comparison with peers in the sector.

Revenue Defensibility 'Stronger'

VIVID's regulated social housing rental income offers stable cash flow in a counter-cyclical environment. Demand for social and affordable housing is particularly high in areas where the ratio of average income to house value is highest, such as in London and the south east. Supply of affordable housing is also lower in these areas due to the high cost of development and limited return.

VIVID subsidises its social housing activities with market sales through Bargate Homes. This contributes around 200-300 homes a year, and offers VIVID pricing flexibility. VIVID 's shared ownership sales programme also provides high flexibility. VIVID has capped outright sales to 15% of new homes per year to limit its exposure to housing market fluctuations. We expect it to maintain compensation for services at a profitable level.

Operating Risk 'Stronger'

VIVID has a well-defined and stable cost structure. Staff costs are the most inflexible component of expenditure, and comprise around a quarter of operating costs, which is similar to that of strong peers in the sector.

Following the Grenfell Tower fire disaster in 2017, the Building Safety Act and Fire Safety Act require providers to improve safety standards and carry out remediation work on their stock, which will lead to significant costs. VIVID's costs are lower than that of peers in London with more high-rise buildings in need of extensive work, whereas VIVID has around 15. VIVID has included all expected costs within its business plan, along with a contingency.

Financial Profile 'Stronger'

VIVID has a strong financial profile, with historical and future net debt/EBITDA expected to be maintained around 12x through the rating case but closer to 11x across a 10-year horizon. This is a deterioration on prior years due to macro-economic pressures, and is underscored in its Negative Outlook.

We expect revenue to increase significantly to around GBP465 million in 2028 from GBP327 million in 2023, driven by increases in social rents and a strong rise in unit numbers for rental and sale, despite the government rent cap in FY23 (year-end March) and external economic pressures. We expect EBITDA to peak at around GBP191 million in FY28, up from GBP139 million in FY23, resulting in stable net debt/EBITDA despite an increase in net debt to GBP2.4 billion from around GBP1.5 billion.

Additional Risk Factors Assessment

Fitch assesses all asymmetric risk attributes as 'Neutral' due to a strong regulatory framework, transparent reporting of information, and a risk-averse debt structure.

Derivation Summary

Our GRE assessment results in a bottom-up approach, with a one-notch uplift to the SCP to arrive at the 'A+' IDR, which is capped by the sovereign rating minus one.

Short-Term Ratings

The Short-Term IDR is the higher of two possible outcomes mapping to VIVID's Long-Term IDR of 'A+', reflecting its strong liquidity metrics.

Debt Ratings

Fitch rates VIVID's debt issuance, which are unconditional, unsubordinated and rank equally with all other debt in the group, in line with its IDR, at 'A+'. These include private placement issuance and a GBP2 billion EMTN programme. The EMTN programme will be issued by a wholly owned subsidiary of VIVID, Peninsular Capital PLC.

All debt proceeds are used to develop new units, reinvest in existing units or refinance existing obligations.

Liquidity and Debt Structure

VIVID has very strong liquidity, with around GBP480 million in undrawn committed facilities at FYE23. It plans to maintain this liquidity, with no requirement to refinance in the near term. At present, 87% of VIVID's borrowing is fixed, limiting interest-rate risk.

Issuer Profile

VIVID is a RP of social housing in Southern England, primarily on the coast, of around 34,000 affordable homes.

RATING SENSITIVITIES

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

A sovereign downgrade, continued deterioration of net debt/EBITDA to above 11x on a sustained basis, or an adverse change to the assessment of the key rating factors could result in a downgrade.

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

A revision of the sovereign Outlook to Stable, or an upward revision of the SCP could result in a similar revision of the Outlook. An upgrade of the sovereign combined with net debt/EBITDA below 9x in our rating case could lead to an upgrade of the IDRs.

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The ratings are capped at the UK sovereign's minus one notch.

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 ⬍
PENINSULAR CAPITAL PLC		

senior unsecured	LT A+ Affirmed	A+
senior secured	LT A+ Affirmed	A+
VIVID Housing Limited	LT IDR A+ Rating Outlook Negative Affirmed	A+ Rating Outlook Negative
	ST IDR F1+ Affirmed	F1+
	LC LT IDR A+ Rating Outlook Negative Affirmed	A+ Rating Outlook Negative
	LC ST IDR F1+ Affirmed	F1+
senior secured	LT A+ Affirmed	A+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Apr 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

PENINSULAR CAPITAL PLC	UK Issued, EU Endorsed
VIVID Housing Limited	UK Issued, EU Endorsed

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