FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades VIVID Housing Limited to 'A'; Outlook Stable

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Fitch Ratings - London - 27 Sep 2024: Fitch Ratings has downgraded VIVID Housing Limited's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to 'A' from 'A+'. The Outlooks are Stable.

The downgrade reflects the deterioration in VIVIDs financial position. VIVID's rating is driven by its Standalone Credit Profile (SCP), which we have revised to 'a-' from 'a'. The SCP reflects a 'Stronger' risk profile and 'bbb' financial profile. Continuing high demand for social and affordable housing and ongoing cashflow from rented properties support VIVID's rating, despite the challenging economic backdrop within the sector. VIVID remains one of the strongest credits in our English social housing portfolio: with high liquidity, experienced management and sector-leading operating margins. It has flexibility over the pace it rolls out the major development programme and associated debt requirements.

KEY RATING DRIVERS

Support Score Assessment 'Strong expectations'

We have 'Strong expectations' of extraordinary support for VIVID from the UK (AA-/Stable) in case of need, reflecting a support score of 20 (out of a maximum 60) under Fitch's Government-Related Entities (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'

Providers of social housing in the UK hold a special legal status, with no shareholders. They are effectively charitable organisations set up for the sole purpose of social housing provision, and regulated by the UK government. Registered providers (RP) are not owned by the UK government due to their 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'

RPs receive ongoing financial support through grants from Homes England and the Greater London Authority for social, affordable and shared ownership development. This is to support additional subsidised housing, not to finance debt or prevent default. Fitch takes into account the support mechanisms the issuers can benefit from, or have benefited from, via their sponsor, the UK. Policy influence is supportive of the financial stability of RPs. Regulatory restrictions on government support are unlikely to prevent timely intervention in exceptional circumstances. VIVID has received around GBP280 million in grant funding across its current development plan.

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 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 the availability or cost of domestic financing of the UK, or other GREs in general. It could have an impact on the cost of financing for the sector. However, Fitch considers that a default would likely be treated as an isolated case of mismanagement or viability concerns.

Standalone Credit Profile

Risk Profile: 'Stronger'

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

Revenue Risk: 'Stronger'

This assessment is based on 'Stronger' demand and pricing characteristics. VIVID is supported by consistent affordable and social rent income, with a shared-ownership sale portfolio in a large and profitable market. These socially regulated activities offer stable cash flow in a counter-cyclical environment.

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 exposure at 15% of revenue, limiting any potential effects from the medium-term macroeconomic impact on the housing market.

In the financial year ending 31 March 2024 (FY24) VIVID received 64% of revenue from social housing lettings (limited by the rent standard), 17% of revenue from shared ownership sales and other social activities, and 19% from non-social activities (including market sales). This diversity of revenue streams, with a strong social core, allows for a 'Stronger' assessment. We expect VIVID to maintain compensation for services at a profitable level.

Expenditure Risk: 'Stronger'

VIVID has well-identified cost drivers and low potential volatility in major items. Staff costs are the most inflexible element of expenditure, and comprise around a quarter of operating costs (26%), similar to strong peers. VIVID is ahead of peers in fire safety remediation, which considerably limits risk to cost inflation in this area. VIVID has consistently demonstrated its ability to control costs, with sector-leading operating margins for social housing lettings of over 40%.

VIVID has strong development and investment controls in place, with a consistent record of delivery. With the current adverse economic environment, VIVID has tempered its development plans from around 1,800 homes per year to around 1,400. This reduction focuses primarily on grant funded projects, with a limited amount of cross-subsidy from market/shared-ownership sales.

Liabilities and Liquidity Risk: 'Stronger'

VIVID currently has around GBP1.9 billion in net debt. It operates in a fully developed financial market (UK), in a reserve currency (sterling) with full access, and strong relationships with banks, debt capital markets and private placement investors. 95% of net debt is fixed rate, limiting exposure to fluctuations in the capital markets. The weighted average life of debt is around 13 years, due to long-dated bonds and loans.

VIVID has very strong liquidity, with around GBP385 million in undrawn committed facilities at FYE24 from revolving credit facilities, as well as GBP400 million of shelf facilities (unpriced loans with investors, terms agreed). VIVID has also set up a GBP2billion EMTN programme, with over GBP600 million secured and available to issue.

Financial Profile

VIVID has a stable financial profile. We expect net debt/EBITDA to be maintained around 12x through the rating case and closer to 11.5x across the 10-year horizon. This is similar to the previous year's assessment, where we observed a deterioration on previous years with limited recovery. We consider this a result of macro-economic pressures, but its leads to ratios more in line with peers at the lower end of the 'a' category.

We expect revenue to increase significantly to around GBP474 million in FY29from GBP351 million in FY24, driven by increases in social rents and a strong rise in unit numbers for rental and sale, despite the rent cap in FY23 and external economic pressures. We expect EBITDA to peak at around GBP224 million in FY29, a significant increase from GBP145 million in FY24. This results in a relatively stable net debt/EBITDA ratio, despite an increase in net debt to GBP2.9 billion from around GBP1.9 billion.

Additional Risk Factors Considerations

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

The 'a-' SCP is driven by our assessment of a 'Stronger' risk profile and 'bbb' financial profile, and comparison with peers in the sector. We view VIVID as a GRE in the UK, with a support score of 20 points, based on our assessments. This results in a bottom-up approach, with a one-notch uplift from the SCP to the 'A' Long-Term IDR.

VIVID's Short-Term 'F1+' IDR reflects the combination of a 'Stronger' revenue risk and a strong liquidity ratios.

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 obligations 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.

Issuer Profile

VIVID is a RP of social housing in Southern England, primarily on the coast, of around 36,000 affordable homes.

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 FY20-24 historical figures and FY25-29 scenario assumptions:

RATING SENSITIVITIES

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

A multi-notch sovereign downgrade, which we consider unlikely, deterioration of net debt/EBITDA to above 12x 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

An improvement in net debt/EBITDA below structurally below 11x 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.

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

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)

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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