

Research Update:

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

July 20, 2023

Overview

- We project that additional capital grant funding and the use of accumulated cash buffers will keep the debt build-up of U.K. social housing provider Accent Group Ltd. (Accent) at contained levels, despite an increase in capital expenditure (capex).
- We expect the group's growing asset base and focus on traditional housing activities will support a gradual recovery in S&P Global Ratings-adjusted nonsales EBITDA.
- In combination with the group's favorable cost of debt, we expect the interest coverage will remain relatively solid.
- We therefore affirmed our 'A' long-term issuer credit rating on Accent. The outlook remains stable.

Rating Action

On July 20, 2023, 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 for the sole purpose of issuing bonds and lending the proceeds to Accent Housing Ltd., and we view it as a core subsidiary of the group.

Outlook

The stable outlook reflects our view that Accent is adequately positioned to maintain its key credit indicators as projected under our base case, despite the current operating challenges.

Downside scenario

We could lower the rating on Accent if a significant increase in its cost base weighed on the

PRIMARY CREDIT ANALYST

Mahek Bhojani
London
+44 2071760846
mahek.bhojani
@spglobal.com

SECONDARY CONTACT

Abril A Canizares
London
+ 44 20 7176 0161
abril.canizares
@spglobal.com

ADDITIONAL CONTACT

Sovereign and IPF EMEA
SOVIPF
@spglobal.com

group's adjusted EBITDA beyond our current projections. Along with an increase in debt-funded capital spending and rising interest rates, this could weaken the group's debt metrics on a sustained basis.

Upside scenario

We could raise the rating on Accent if the management is able to contain the cost increases such that adjusted EBITDA improved beyond our base-case expectations. Together with a lower debt build-up, this will support an accelerated recovery in the group's debt metrics.

Rationale

The rating affirmation reflects our view that a gradual recovery in EBITDA and an increase in capital grant receipts to fund development will help Accent absorb the current sector pressures associated with inflation, tightened funding conditions, and the group's increasing investment in existing and new homes.

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

Accent owns and manages close to 21,000 homes spread across north, east, and south England. We think the group's relatively low social and affordable needs rent, which we estimate to be just under 60% of the average market rent across its area of operations, supports demand for Accent's properties. The high demand is also demonstrated by vacancy rates of about 1.2% on average over the past three years, which we estimate are slightly below the sector's average of 1.6%.

We continue to think that Accent's management has adequate skills and expertise to manage the group's diversity and scale of operations.

The group's strategy remains focused on improving the quality of its existing and new homes. This is evidenced in about 82% of the stock already meeting or exceeding Energy Performance Certificate (EPC) C standards, which is relatively more favorable than sector peers, and the group's commitment to deliver all new land-led home developments to EPC A standards.

We expect the group will deliver close to 560 homes annually on average over financial years 2024-2026 (financial year ends March 31), which is almost 30% higher than our previously projected annual target. This ramp-up in Accent's development program is a result of the catch-up following the delayed completions in financial year 2022, along with the group's delivery commitments in relation to its strategic partnership with Homes England. We anticipate that Accent will receive some additional capital grant funding to support these development targets.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (for more information see "Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers," published on June 8, 2021).

Financial profile: Solid liquidity, additional capital grant funding, and growing rental income will support Accent's financial metrics

Compared with our previous assumptions and based on the near completion of the group's stock condition survey and updated asset data, we expect Accent's investment in existing homes will

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

increase. However, with the group's expanding asset base and growing rental income, we project the adjusted EBITDA margins will remain above 20%, on average, through to financial year 2026.

In our view, the increase in capital grants and the use of accumulated cash buffers will help offset the funding pressure from the projected growth in Accent's capital program somewhat. In combination with the expected recovery in nonsales adjusted EBITDA, we think the group's interest coverage ratio will continue to stand at about 1.5x and its debt ratio will hover around 20x on average over financial years 2024-2026, despite the rising interest rates.

We forecast Accent's liquidity position will be very strong, with sources covering uses by close to 2.2x in the next 12 months. This is based on our forecast of liquidity sources of about £306 million (mainly comprising cash and undrawn available facilities, grant receipts, and cash from operations after adding back the noncash cost of sales), compared with liquidity uses of about £142 million (primarily capex, interest, and principal repayments). We also consider that Accent has satisfactory access to external funding when needed.

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 stand-alone credit profile. Since maintaining lender confidence and low funding costs across the sector is one of the Regulator of Social Housing's (RSH) key goals, we think it is likely that the RSH would try to prevent a default in the sector if necessary. We base this view on previous records of 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

Accent Group Ltd.--Key statistics

(Mil. £)	--Year ended March 31--				
	2022a	2023e	2024bc	2025bc	2026bc
Number of units owned or managed	20,651	20,692	21,198	21,739	22,369
Adjusted operating revenue	103.9	111.4	122.2	147.6	157.0
Adjusted EBITDA	23.4	29.6	24.2	31.0	34.7
Non-sales adjusted EBITDA	21.8	26.5	22.3	26.8	29.9
Capital expense	42.7	78.0	114.9	131.7	141.5
Debt	485.3	494.5	488.8	524.2	592.5
Interest expense	14.8	15.2	16.3	17.0	19.4
Adjusted EBITDA/adjusted operating revenue (%)	22.5	26.5	19.8	21.0	22.1
Debt/non-sales adjusted EBITDA (x)	22.3	18.7	21.9	19.5	19.8
Non-sales adjusted EBITDA/interest coverage (x)	1.5	1.7	1.4	1.6	1.5

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

Ratings Score Snapshot

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

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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- United Kingdom Outlook Revised To Stable From Negative On Moderating Fiscal Risks; 'AA/A-1+' Ratings Affirmed, April 21, 2023
- U.K. Social Housing Borrowing 2023: On Pause, March 28, 2023
- Non-U.S. Social Housing Providers Ratings Score Snapshot: March 2023, March 27, 2023
- Non-U.S. Social Housing Providers Ratings Risk Indicators: March 2023, March 27, 2023
- Non-U.S. Social Housing Providers Ratings History: March 2023, March 27, 2023
- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022
- Non-U.S. Social Housing Sector Outlook 2023: The Most Negative Bias Since 2018 Implies Significant Pressure On Ratings, Dec. 1, 2022
- Inflation To Erode The Performance Of U.K. Public Finance Sectors, Nov. 29, 2022

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

- Cap On Rent Increases Is Consistent With Our Base Case For English Social Housing Providers, Nov. 17, 2022
- The U.K. Social Housing Sector Now Displays A More Pronounced Negative Bias In Its Creditworthiness, Oct. 11, 2022
- Launch Of Rent Cap Consultation Adds Uncertainty To Creditworthiness Across English Housing Sector, Sept. 1, 2022
- Rated U.K. Social Housing Providers' Creditworthiness Could Suffer If The Gap Between Rent And Cost Increases Persists, Aug. 1, 2022
- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers, June 8, 2021

Ratings List

Ratings Affirmed

Accent Group Ltd.

Accent Capital PLC

Issuer Credit Rating A/Stable/--

Accent Capital PLC

Senior Secured A

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.