S&P Global
Ratings

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VIVID Housing Limited

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This report does not constitute a rating action.

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Credit Highlights

Overview

Enterprise profile	Financial profile
VIVID Housing Limited's (VIVID's) very strong management and governance policies offset the group's relatively high exposure to sales risk.	VIVID's financial indicators remain relatively strong, compared with many peers, thanks to efficient operations and moderately increasing investments in existing homes.
--VIVID's flexible development plans and extensive stress testing against key performance and financial indicators help it withstand macroeconomic and regulatory pressures better than many peers.	--We project that rent increases will exceed cost inflation and that VIVID's investments in existing homes will increase at a more modest pace, leading to our forecast that VIVID's financial performance will strengthen through fiscal year 2027 (ends March 31, 2027).
--Demand for VIVID's properties remains strong, evidenced by solid operational metrics, including social and affordable rents at just below 60% of the prevailing market rent.	--We expect VIVID's debt metrics will remain stable, with S&P Global Ratings-adjusted debt to nonsales EBITDA below 20x and adjusted EBITDA interest coverage at about 1.5x through fiscal year 2027.
--The rating on VIVID is constrained by the group's relatively large exposure to sales risk, with about one-third of the group's operating income stemming from the development of homes that are sold on the open market.	--As of June 30, 2024, VIVID's liquidity ratio was 1.2x, but we understand that forthcoming credit facilities in July 2024 will strengthen the group's liquidity position to 1.6x.

The rating on VIVID is underpinned by our view that the group's strong management and governance policies offset its relatively high exposure to sales risk. We also consider that the group's efficient operations and flexible development plans helped it contain cost increases and withstand macroeconomic and regulatory pressures better than many peers. We therefore expect VIVID's financial performance will gradually strengthen through fiscal year 2027. This is further underpinned by our expectations that rent increases will exceed cost inflation and that VIVID's investments in its existing homes will increase at a moderate pace, leading to steadily improving adjusted EBITDA. We project that VIVID's debt will increase through fiscal year 2027 because the group continues to develop homes that require funding. However, we project that gradually increasing adjusted nonsales EBITDA will mitigate the negative effect from the group's projected debt increase such that VIVID's debt metrics will remain stable over our forecast horizon.

Outlook

The stable outlook reflects our view that a steady increase in rental revenues and relatively stable investments in existing homes will mitigate the effect of inflation on VIVID's financial performance. We also consider that the group's debt metrics will gradually improve from the relatively weak levels in fiscal year 2024, thanks to a more contained need for debt funding through fiscal year 2027.

Downside scenario

We could lower the rating on VIVID if cost inflation or higher-than-expected investments in existing homes reduce the group's adjusted EBITDA margins, or if management deviates from its strategy such that new home developments increase significantly above our current expectations, leading to an even higher exposure to sales risk or the need to raise more debt. We could also lower the rating if we assess that the likelihood of support from the U.K. government, via the Regulator of Social Housing (RSH), reduces.

Upside scenario

We could raise the rating on VIVID if its exposure to sales risk has reduced. In combination with the prudent control of operating costs and investments in existing homes, this could result in materially stronger adjusted EBITDA margins. We could also consider an upgrade if VIVID's debt metrics strengthen, all else being equal.

Rationale

Enterprise profile: Strong management and solid operational metrics mitigate the relatively high exposure to sales risk

VIVID benefits from generating most earnings in the predictable and countercyclical social housing sector. The group owns and manages about 35,000 homes in southeast England, which is relatively affluent, compared with the rest of the country. Demand for VIVID's properties remains strong, evidenced by solid operational metrics. The group's average social and affordable rents are relatively low, at just below 60% of the average market rent in the region. VIVID's vacancy rates remain just below the sector average and averaged 1.1% over the past three years.

We consider that VIVID's strong management and its solid business planning, which includes flexible development plans and extensive stress testing against key performance and financial indicators, means that it can withstand external economic factors better than many peers. For instance, we consider that the group's relatively large proportion of home developments for sale constrains its financial performance and exposes it to potential market volatility, fluctuating selling prices, and higher construction costs. But even though about one-third of the group's adjusted operating revenues stem from the initial sale of shared ownership and outright sales units, we continue to project gradually strengthening adjusted EBITDA margins, underpinned by the group's solid management of sales risk.

Similar to its peers, VIVID is investing in its existing stock to reach an Energy Performance Certificate (EPC) of C on all its homes by 2030. Currently, over 85% of the group's stock has to obtain an EPC of C or above, thus exceeding the sector average. We understand that new builds must have an EPC of B, with the capacity to achieve an EPC of A. Although we think investments in energy efficiency will continue to weigh on the group's financial performance over the next two years, we think VIVID's high-quality housing stock contains the pressure.

We assess the regulatory framework, under which registered social housing providers in England operate, as strong (for more information see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published Oct. 23, 2023).

Financial profile: Strong due to continuous investments in existing homes and reduced exposure to floating-rate debt

We forecast VIVID's adjusted EBITDA margins will strengthen through fiscal year 2027, from a low level in fiscal year 2023. Our base-case scenario is underpinned by our assumptions that rental income will increase faster than costs, that VIVID manages to maintain relatively solid margins in its development-for-sale activities, and that investments in existing homes will increase at a moderate pace and be partially funded by grants from the Social Housing Decarbonization Fund.

We continue to view VIVID's debt metrics as solid and forecast the adjusted nonsales EBITDA interest coverage will gradually strengthen through fiscal year 2027, from a relatively low level in fiscal year 2024. We understand that VIVID reduced its exposure to floating-rate debt, which should improve the stability and visibility of the group's interest costs. At the same time, we assume VIVID would need to raise debt to fund new home developments. Since we expect funding costs will increase from fiscal year 2024, we consider a material recovery in the group's adjusted nonsales EBITDA interest coverage unlikely and expect the ratio will remain at about 1.5x through fiscal year 2027. This is still positive, considering that we project a debt increase.

Although VIVID secured grant funding through its strategic partnership with Homes England and lowered its aspirations to develop new homes, we still expect it will need to raise debt to fund new home developments. We think VIVID will aim to deliver the homes agreed under its strategic partnership. Hence, we project that the group's capital expenditure (capex) will remain high over the next three years. Considering VIVID's debt funding needs, this would gradually increase debt. However, we forecast that the group's adjusted debt to nonsales EBITDA will recover from the relatively weak level in fiscal year 2023, when it exceeded 20x. In our view, adjusted debt to nonsales EBITDA will steadily improve through fiscal year 2027 because we expect the group's adjusted nonsales EBITDA will increase more than its debt.

We assess VIVID's liquidity position as strong, with existing liquidity sources covering uses by about 1.2x over the next 12 months and further credit facilities becoming available soon, and believe it will strengthen to 1.6x. This is based on our forecast of liquidity sources of about £635 million, which we assume will increase to more than £800 million in July 2024 and which mainly include cash and undrawn available facilities, cash from operations (adding back the noncash cost of sales), and proceeds from asset sales and grant funding. Liquidity uses amount to close to £545 million and primarily include capex, as well as interest and principal payments. We also consider that VIVID has satisfactory access to external funding if necessary.

Government-related entity analysis

We believe there is a moderately high likelihood that VIVID would receive timely extraordinary government support in case of financial distress. This leads to a one-notch uplift from the 'a-' stand-alone credit profile. Since the RSH's key goals include maintaining lender confidence and keeping funding costs low across the social housing sector, we consider it likely that the RSH would step in to prevent a default in the sector. We base this view on previous instances when the RSH mediated mergers or arranged liquidity support from other registered social housing providers in cases of financial distress, and we think this would also apply to VIVID.

Key Statistics

VIVID Housing Limited--Financial statistics

	--Year ended March 31--				
(Mil. £)	**2023a**	**2024e**	**2025bc**	**2026bc**	**2027bc**
Number of units owned or managed	34,325	35,710	36,674	38,137	39,165
Adjusted operating revenues	326.9	351.4	411.9	439.7	433.1
Adjusted EBITDA	99.9	120.0	139.1	156.2	162.2
Adjusted nonsales EBITDA	78.0	101.9	119.6	133.4	144.4
Capital expenditure	253.8	395.8	453.4	351.8	435.9
Debt	1,577.8	1,889.6	2,105.4	2,249.5	2,496.4
Interest expense	51.4	73.5	84.3	88.7	97.5
Adjusted EBITDA/adjusted operating revenue (%)	30.6	34.1	33.8	35.5	37.5
Debt/nonsales adjusted EBITDA (x)	20.2	18.5	17.6	16.9	17.3
Nonsales adjusted EBITDA/interest coverage (x)	1.5	1.4	1.4	1.5	1.5

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

Rating Component Scores

VIVID Housing Ltd.--Ratings score snapshot

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

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "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

- The U.K.'s Constrained Fiscal Position Implies Difficult Policy Trade-Offs For The Labour Government, July 8, 2024
- 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
- 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
- Inflation To Erode The Performance Of U.K. Public Finance Sectors, Nov. 29, 2022
- Bulletin: 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
- Bulletin: 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

Ratings Detail (as of July 19, 2024)*	
Vivid Housing Ltd.	
Issuer Credit Rating	A/Stable/--
Peninsular Capital PLC	

Ratings Detail (as of July 19, 2024)*	
Senior Secured	A
Senior Unsecured	A
Issuer Credit Ratings History	
07-Oct-2022	A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.