The Wrekin Housing Group Ltd.

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This report does not constitute a rating action.

Credit Highlights

Overview

Enterprise profile	**Financial profile**
U.K.-based Wrekin Housing Group Ltd.'s (Wrekin's) robust management mitigates sector headwind volatility.	Wrekin's expanding rental revenue base and proactive stock management will support credit metrics.
Wrekin's business model remains strong due to its focus on social housing.	Wrekin's rent increases and relatively stable level of investment in existing homes will lessen financial performance cost pressures.
We consider demand for Wrekin's properties in the West Midlands will remain high, primarily due to it offering social and affordable rents at about 66% of the market rate.	Although the group's development program requires new debt, the gradual recovery in financial performance should ease the debt burden.
Wrekin's strategy and planning processes remain solid and its management team is experienced.	Liquidity remains strong, underpinned by the group's large undrawn facilities.

We expect Wrekin will continue to benefit from the highly predictable revenue stream of its core rental activities, while sales activity exposure will be limited through fiscal year 2027 (ending March 31). We forecast the group's financial performance will gradually recover due to rent increases outpacing cost inflation and control on investment in existing homes.

Wrekin's growing rental revenue will strengthen its financial performance. This is likely to offset the effect of acquiring new debt to finance its new development program and alleviate the group's overall debt burden.

However, the potential merger with Housing Plus Group Ltd.--a peer operating in similar markets--could introduce additional risks compared with those we observe for Wrekin as a standalone entity. Although we expect the combined entity will focus on traditional social housing lettings, it may exhibit a higher risk appetite and pursue expansion that would be greater than if they were separate entities. This could put pressure on financial metrics.

Outlook

The negative outlook reflects our view that the potential business combination with Housing Plus Group Ltd. could add credit risks such as a higher risk appetite, elevated integration costs, and increased investments in new and existing homes.

Downside scenario

We could lower the rating on Wrekin if, over the next 24 months, we saw a significant deterioration in the credit profile of the combined entity compared to that of Wrekin. Alternatively, we could lower the rating if management deviated substantially from its current, largely conservative strategic and financial direction.

We could also lower the rating if we assessed the likelihood of extraordinary support from the U.K. government had weakened.

Upside scenario

We could revise the outlook to stable if Wrekin's management--whether as a stand-alone or combined entity--mitigated risks associated with its investment in existing homes, the merger, and its development plans, such that the S&P Global Ratings-adjusted EBITDA margin and interest coverage did not materially weaken.

Rationale

Enterprise profile: The continued focus on social housing activities and effective management strategies help ease financial pressures

We think demand for Wrekin’s properties across Shropshire and Staffordshire in the West Midlands will remain strong, evidenced by solid operational metrics despite a less dynamic economy than other English regions. The group’s average rent for general needs housing is relatively low at about 66% of the market rate. We expect that Wrekin’s vacancy level will remain on par with the sector average, which is about 1% of rent and service charge receivables. This level was higher but improved after Wrekin disposed of a care facility that carried high void losses.

We expect Wrekin will remain focused on the traditional social and affordable housing letting sector, of which revenue is more predictable and countercyclical than market sales activities. We understand that most of the group’s new units are dedicated to rentals for general needs and supported housing and forecast the group’s exposure to shared ownership sales will be below 2% of the adjusted revenue on average through fiscal year 2027.

We view the group's business management to be prudent, with a limited risk appetite, proactive approach to managing its stock, and strong focus on asset quality. We understand the group was able to improve its asset quality through a focused asset disposal programme of uneconomical units that required significant investment. Together with solid ongoing stock maintenance, this allowed the group to reprofile some of its planned investment. Furthermore, we consider about 80% of Wrekin’s stock already meets the Energy Performance Certificate C standards or above, which is ahead of that of peers. In addition, we note the group is taking actions to improve the cost efficiency of its care services, which are currently making a loss. However, this will take time to materialise, in our view.

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: Financial metrics will improve on the back of anticipated rent increases and good stock quality

We forecast that Wrekin will maintain a solid financial performance with a gradual recovery of adjusted EBITDA margins. We think the group will contain the level of investment in existing homes through fiscal year 2027, informed by recent stock data. This reflects component replacement spending that was brought forward in previous years, resulting in a decrease in the amount available to spend now, as well as regular asset disposal, which reduces costs on low-quality stock. We further expect the group's rent increases will outpace cost inflation, contributing to a gradual improvement in adjusted EBITDA margins toward fiscal year 2027. That said, we think the group may still face pressure from higher investments in existing homes beyond our forecast horizon, since some components will reach the end of useful life.

The group will continue to develop new homes, which require additional debt intake to fund associated capital expenditure (capex), but we still anticipate the improving adjusted nonsales EBITDA will alleviate the pressure on the debt metrics. This is on the back of the group's rent increases and new rental unit additions to its portfolio. We also consider the group will keep running its regular asset disposal programme as an extra funding source for development, alongside potential grant income from local authorities and Homes England. Moreover, we think the group could exercise flexibility in its development to ease the financial pressure if needed, since we understand the majority of new units are uncommitted beyond fiscal year 2026.

We continue to view Wrekin as having strong liquidity. We estimate the group's liquidity sources to uses will strengthen to approximately 2.2x in the next 12 months. This is higher than our previous expectations, but we think the ratio will be lower due to debt repayment refinancing toward the end of fiscal year 2026. We forecast liquidity sources of about £243 million--comprising cash, undrawn and available revolving credit facilities, asset sales, grant receipts, and cash from operations (adding back the noncash cost of sales). This will cover liquidity uses of about £109 million--mainly capital expenditure and debt service payments. We believe Wrekin retains strong access to external liquidity when needed.

Government-related entity analysis

We think there is a moderately high likelihood that Wrekin would receive timely extraordinary support from the U.K. government in the case of financial distress. This provides a one-notch uplift to the stand-alone credit profile. Since one of the key goals of the Regulator of Social Housing (RSH) is to maintain lender confidence and low funding costs across the sector, we consider it is likely that the RSH would step in to try and prevent a default in the sector. We base this view on previous instances of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to Wrekin.

Key Statistics

The Wrekin Housing Group Ltd.--Financial statistics

	--Year ended March 31--				
Mil. £	**2023a**	**2024e**	**2025bc**	**2026bc**	**2027bc**
Number of units owned or managed	13,941	13,931	14,200	14,443	14,560
Adjusted operating revenue	94.2	102.5	107.1	113.0	118.0
Adjusted EBITDA	19.4	26.3	30.0	32.4	34.4

Nonsales adjusted EBITDA	18.2	25.7	29.6	32.0	34.0
Capital expense	72.9	72.9	71.7	43.8	52.2
Debt	523.0	554.0	585.0	594.2	614.2
Interest expense	16.3	25.1	25.3	25.3	23.9
Adjusted EBITDA/Adjusted operating revenue (%)	20.6	25.7	28.0	28.7	29.2
Debt/Nonsales adjusted EBITDA (x)	28.7	21.5	19.8	18.6	18.1
Nonsales adjusted EBITDA/interest coverage(x)	1.1	1.0	1.2	1.3	1.4

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

Rating Component Scores

The Wrekin Housing Group Ltd.--Ratings score snapshot

	Assessment
Enterprise risk profile	2
Industry risk	2
Regulatory framework	3
Market dependencies	3
Management and governance	2
Financial risk profile	4
Financial performance	4
Debt profile	5
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, on RatingsDirect, 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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Wrekin Housing Group Outlook Revised To Negative On Proposed Merger With Housing Plus Group; 'A' Ratings Affirmed, July 15, 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
- 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 Detail (as of August 22, 2024)*

Wrekin Housing Group Ltd.	
Issuer Credit Rating	A/Negative/--
Senior Secured	A
Issuer Credit Ratings History	
15-Jul-2024	A/Negative/--
07-Oct-2019	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.