MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
25 January 2021

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RATINGS

LiveWest Homes Limited	
Domicile	United Kingdom
Long Term Rating	A2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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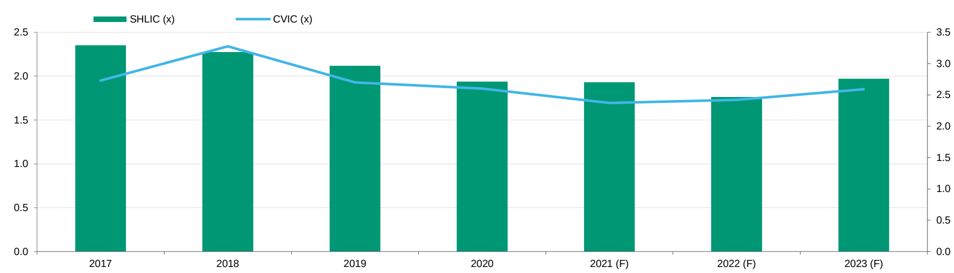
LiveWest Homes Limited

Update to credit analysis

Summary

The credit profile of LiveWest Homes Limited (LiveWest, A2 stable) is supported by the housing association's stable operating performance, ample interest coverage, moderate debt metrics compared to peers and a strong likelihood that the government of the United Kingdom (Aa3 stable) would intervene in the event that the association faced acute liquidity stress. LiveWest's A2 rating also incorporates credit challenges represented by an elevated exposure to market sales and high levels of capital expenditure as the HA executes its development programme.

Exhibit 1
LiveWest's interest coverage metrics expected to remain stable in the near term
Social housing letting interest coverage (x) (LHS) , Cash flow volatility interest coverage (x) (RHS), Fiscal 2017-2023 (F)



2017-2020 are audited financial statements, 2018 is the first year of fully merged entity
Source: LiveWest, Moody's

Credit strengths

» Strong interest coverage expected to continue

» Low level of debt and strong financial management

» Supportive institutional framework in England

Credit challenges

» Higher capital expenditure and elevated market sales exposure

» Rising costs on existing stock, digitisation

Rating outlook

The stable outlook on LiveWest reflects our expectation that the group's financial performance will remain strong supporting stable interest cover ratios and that debt will remain manageable. The stable outlook also incorporates the currently stable operating environment for housing associations in England.

Factors that could lead to an upgrade

We would consider upgrading LiveWest's rating if there was a strengthening in operating performance. Maintenance of current strong levels of interest coverage above 2.0x would also support an upgrade. A reduction of market sales activity to levels sustained below 15% of turnover would also be credit positive.

Factors that could lead to a downgrade

We would consider downgrading LiveWest's rating in the event of a material scaling up of market sale development above currently proposed levels, together with a deterioration in the strong liquidity and unencumbered assets position. Negative pressure would also be exerted on the rating by an increase in gearing above 50%. In addition, a weaker regulatory framework or a dilution of the overall level of support from the UK government could also negatively affect the rating.

Key indicators

Exhibit 2

LiveWest Homes Limited

	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21 (F)	31-Mar-22 (F)
Units under management (no.)	34,537	35,503	36,298	37,460	37,801	38,774
Operating margin, before interest (%)	29.8	26.7	28.4	28.0	27.7	25.7
Net capital expenditure as % turnover	36.8	20.4	43.6	40.3	46.0	41.8
Social housing letting interest coverage (x times)	2.4	2.3	2.1	1.9	1.9	1.8
Cash flow volatility interest coverage (x times)	2.7	3.3	2.7	2.6	2.4	2.4
Debt to revenues (x times)	3.3	3.2	3.4	3.6	4.1	3.9
Debt to assets at cost (%)	39.6	39.3	40.9	40.9	42.2	43.7

Source: Moody's Investors Service, LiveWest

Detailed credit considerations

The credit profile of LiveWest, as represented in an A2 stable issuer rating, combines a baseline credit assessment (BCA) of a3 and a strong likelihood of extraordinary support coming from the national government in the event that the entity faced acute liquidity stress.

Baseline credit assessment

Strong interest coverage expected to continue

LiveWest's forecast interest cover metrics are expected to remain stable. LiveWest's strong interest cover metrics are upheld by a profitable core business, strong operating cash flows and a moderate debt burden relative to peers.

The social housing letting interest cover (SHLIC) for fiscal 2020 was stronger than rated peers at 1.9x, compared to an A2-rated peer median of 1.5x. Going forward, the interest cover will remain stable despite increased interest expenses as a result of rising debt. We expect the SHLIC to average 1.9x over the next three years.

Cash Flow Volatility Interest Coverage (CVIC), which measures net cash interest expense against operating cash flow adjusted for historical volatility, remained strong at 2.6x for fiscal 2020, significantly outperforming the A2-rated peer median of 1.6x. The CVIC is also expected to remain strong over the next three years as operating cash flows rise, remaining above the peer median and averaging 2.5x.

Low level of debt and strong financial management

LiveWest's credit profile is further supported by the housing association's relatively low debt level and strong balance sheet. The group is planning on additional borrowing to fund development, with debt increasing from £897 million in fiscal 2020 to £1 billion by fiscal 2022, but the increase will be gradual and the group will maintain strong debt metrics aligned to its A2-rated peers.

Gearing (debt to assets at cost) for the group was 41% for fiscal 2020, compared to an A2-rated peer median of 46%. Gearing is expected to weaken modestly over the next few years as borrowing increases, rising to 44% by fiscal 2022. Debt to revenues weakened to 3.6x in fiscal 2020 from 3.4x in fiscal 2019, as is expected to increase further to 3.9x by fiscal 2022.

LiveWest's treasury policy with regards to debt is relatively flexible, allowing for between 60%-90% fixed rate (including floating rate debt swapped to fixed), 0-40% variable and index linked at 0-25%. LiveWest has low interest rate risk with 97% of debt at fixed at rates, as of March 2020.

A significant proportion of this debt is fixed with standalone swaps; the total portfolio has a notional value of £384 million. Mitigating the high standalone swap exposure is LiveWest's ample unencumbered asset position, which can be used to post as collateral in the event of an adverse interest rate movement, and the excess security posted. At September 2020, LiveWest had a negative mark-to-market value gross of thresholds of £121 million; the net value amounted to £101 million. Additionally, LiveWest's policy for managing mark-to-market risk requires the organisation to ensure sufficient available security (either property or cash) to cover a 50 basis point shift in the interest rate swap curve.

In addition to their low debt, the group's credit quality is supported by strong financial management, which is captured in their 'a' score for financial management. This assessment is based on a number of factors, including its strong decision-making framework (the Internal Financial Framework) which outlines minimum requirements for interest cover, cash, immediate and long-term liquidity, and maximum limits for debt to revenues and market sales exposure. The group also has strong stress testing with quantified mitigating actions. The high financial management score also reflects strong delivery against merger plans.

Supportive institutional framework in England

The sector's credit quality will continue to benefit from the strong regulatory framework governing English HAs. The regulator maintains strong oversight through quarterly returns, long-term business plans, annual reviews, and by undertaking biennial In-Depth Assessments (IDAs) for large and complex HAs. In response to the pandemic, the regulator adapted some aspects of its oversight temporarily, for example, extending its liquidity monitoring, briefly pausing the programme of IDAs and delaying regulatory submissions to reduce the operational burden on HAs. The regulator has a strong track record of intervention in cases of mismanagement or financial stress with powers to provide financial assistance and/or make manager appointments where there has been a breach of regulatory standards.

The operating environment for English HAs has improved under more supportive policies for social rent increases and capital grant. Following four years of social rent reductions, HAs now benefit from a return to inflation-linked rent increases from April 2020 for five years. In addition, the government has committed to increased capital grant on more flexible terms for new social housing.

Counterbalancing the improvements, we expect policy to drive increased borrowing and development risk in the sector as it responds to the government's objective to deliver a significant increase in the construction of new homes.

Higher capital expenditure and elevated market sales exposure

LiveWest's capital expenditure (capex) is set to rise as the group increases its development. Net capex to revenues was in line with rated peers at 18% in fiscal 2018, but this increased to 40% in fiscal 2020 and is expected to remain between 40% and 50% for the subsequent two years as the housing association develops social rented units, homes for outright sales and shared ownership properties. The capex to revenues going forward will be higher than that of its A2-rated peers who reported a median capex to revenues of 32% in fiscal 2020.

LiveWest's development pipeline targets a total of approximately 5900 total units over the next five years. The majority of the development programme is focused on social rent and shared ownership units, but the group is also building homes for outright sales.

However, revenue from market sales (outright sales and first tranche shared ownership) as a percentage of turnover is projected to remain stable around its current level of 25% (fiscal 2020) over the next five years. LiveWest have forecasted a temporary drop in market sales revenues for fiscal 2021, driven by the impact of the coronavirus pandemic on sales volumes. The market sales exposure is partially mitigated by the group's policy to maintain turnover from market sales below 30% of turnover, a credit positive. Additionally, LiveWest has some flexibility over its development programme, with 65% committed spend over the next five years. Compared to the previous year's business plan, the current business plan has reduced the total number of units planned from 7350 previously.

LiveWest has historically a maintained strong market sales and is targeting continuing this track record into the future. In fiscal 2020, LiveWest achieved a 17% margin for both its first tranche of shared ownership products (FTSO) and on properties developed for outright sale (OS). Looking forward, the business plan assumes achievable FTSO sales margins deteriorating to around 6-9% from fiscal 2021 onwards. Outright sales are expected to be stronger, averaging 15% over the next three years. However, we note LiveWest uses prudent assumptions in its business planning, such as assuming a 6% reduction in sales values as a result of coronavirus impacts. While LiveWest does have experience in these tenures, and has achieved solid margins on these products in the recent past, increasing exposure to pro-cyclical market sales adds risk to the housing association's credit profile.

A strengthening liquidity position partially mitigates the increased risks taken on by LiveWest, as measured by Moody's liquidity coverage metric, which compares the two-year net-capex requirement with funds available for drawdown within 48 hours. LiveWest's liquidity coverage was aligned with peers at 1.3x as of fiscal year end 2020. As of March 2020, LiveWest held 38 months liquidity, enough to meet cash flows to 2022, taking into account 6 months development delays following lockdown and an 8 month delay on sales.

Furthermore, a sophisticated liquidity policy somewhat mitigates the sales risk associated with the growing development programme. LiveWest's liquidity policy sets out a requirement to maintain sufficient liquidity to cover 24 months of expenditure, plus all committed development spend beyond 24 months, in addition to a further liquidity provision which accounts for sales risk. The additional liquidity buffer is calculated as the cash effect of a six month delay in sales, accompanied by a 15% drop in sales values.

Rising costs on existing stock, digitisation

LiveWest has increased its provisions for investment in planned maintenance over a 30-year period compared to its previous business plan. The total programme cost is now expected to total £1.3bn, up from £1.06bn last year. This is predominantly driven by the inclusion of £200m decarbonisation works and £6m in replacement cladding. Similar to the rest of the sector, LiveWest is aiming for all properties to achieve a SAP rating of C or above by 2028 and is intending to be entirely carbon neutral by 2050.

LiveWest will spread maintenance works that have been delayed by the impact of Covid-19 over fiscal 2022 and 2023 and is estimating further costs of £1.4m due to lost productivity. The group is also increasing its investment into digitisation, with its plan encompassing funding for six strategic digital projects. This additional investment is targeted in the first five years of the plan, with total increased funding provisions of £4.4m for these projects. However, the group has budgeted efficiency savings of £12.2m in fiscal 2021, which is in line with its pre-merger targets for this year. Having achieved its previous efficiency savings, LiveWest is targeting total efficiency savings of £17m across management and maintenance between fiscal 2021 and 2023.

Extraordinary support considerations

The strong level of extraordinary support factored into the rating reflects the wide-ranging powers of redress available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. Recent history has shown that the UK government (Aa3 stable) is willing to support the sector, as housing remains a politically and economically sensitive issue. The strong support assumption also factors increasing exposure to non-core social housing activities in the sector, that add complexity to HA operations, and the weakening of the sovereign's financial resilience, making an extraordinary intervention slightly more challenging. In addition, our assessment that there is a very high default dependence between LiveWest and the UK government reflects their strong financial and operational linkages.

ESG Considerations

How environmental, social and governance risks inform our credit analysis of LiveWest

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of LiveWest, the materiality of ESG to its credit profile is as follows:

Environmental considerations are not material to LiveWest's credit profile. In line with the rest of the UK, the sector's main environmental risk exposures relate to water shortage and flood risk. Flood risk is managed by county and national authorities, and therefore the financial burden of adapting to increased flood risk will not fall on individual housing associations.

Social risks are material to LiveWest's credit profile. In particular, the sector is exposed to risks stemming from socially-driven policy agendas affecting social rents, benefits and capital grants in addition to the impact of demographic trends on demand which are captured in our assessment of the operating environment. We view the coronavirus outbreak as a social risk under our ESG framework given its impact on health and safety. Overall, we expect the outbreak to cause ongoing operational disruption for HAs but do not expect a material credit impact as higher arrears and lower market sales receipts will be offset by cash savings from reduced capital spending on development and repairs. HAs are also impacted by customer relations and product quality. The Grenfell fire tragedy in June 2017 has encouraged higher health and safety standards with many HAs planning on increasing spending on the quality of their existing stock.

Governance considerations are also material to LiveWest's credit profile and are captured in our assessment of governance and management. In general, housing association governance is strong with multi-year strategies supported by detailed forecasts, conservative liquidity policies, and robust risk management including stress testing.

Further details are provided in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

Rating methodology and scorecard factors

Output of the baseline credit assessment scorecard

The assigned BCA of a3 is the same as the scorecard suggested BCA.

Exhibit 3
LiveWest's 2020 scorecard

LiveWest Homes Limited			
Baseline Credit Assessment	**Sub-factor Weighting**	**Value**	**Score**
Factor 1: Institutional Framework			
Operating Environment	10%	a	a
Regulatory Framework	10%	a	a
Factor 2: Market Position			
Units Under Management	10%	37,460	a
Factor 3: Financial Performance			
Operating Margin	5%	28.0%	a
Social Housing Letting Interest Coverage	10%	1.9x	a
Cash-Flow Volatility Interest Coverage	10%	2.6x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.3x	baa
Debt to Assets	10%	40.9%	ba
Liquidity Coverage	10%	1.3x	a
Factor 5: Management and Governance			
Financial Management	10%	a	a
Investment and Debt Management	10%	baa	baa
Suggested BCA			**a3**

Source: LiverWest, Moody's Investors Service

European Social Housing Providers, April 2018 (1113602)

Government Related Issuers, February 2020 (1186207)

Ratings

Exhibit 4

Category	Moody's Rating
LIVEWEST HOMES LIMITED	
Outlook	Stable
Issuer Rating -Dom Curr	A2
LIVEWEST TREASURY PLC	
Outlook	Stable
Bkd Senior Secured -Dom Curr	A2

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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