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CREDIT OPINION
22 February 2023

Update

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RATINGS

LiveWest Homes Limited

Domicile	United Kingdom
Long Term Rating	A2
Type	LT Issuer Rating - Dom Curr
Outlook	Negative

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 (UK)

Update to credit analysis

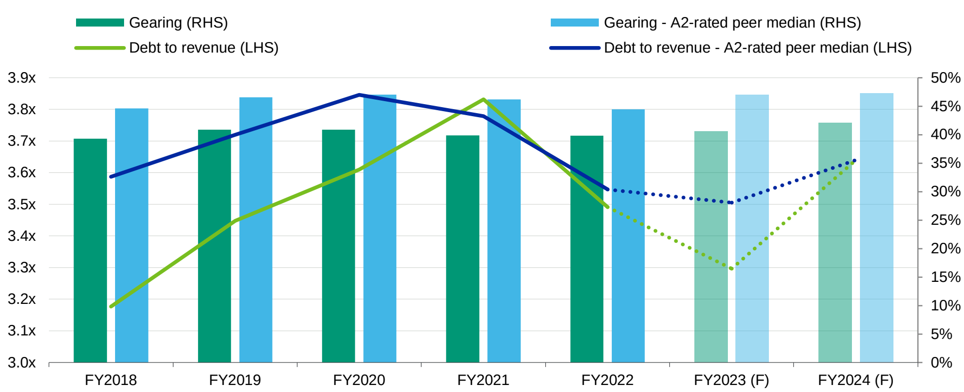
Summary

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

Exhibit 1

LiveWest's debt metrics are stronger than peers

Debt to revenue and gearing (debt to assets at cost), fiscals 2018-2024



Source: LiveWest, Moody's Investors Service

Credit strengths

» Strong interest coverage expected to continue

» Moderate levels of debt and strong financial management

» Supportive institutional framework in England

Credit challenges

» Higher capital expenditure and elevated market sales exposure

» Significant expenditure on existing stock and decarbonisation

Rating outlook

The negative outlook reflects the high exposure to weaker economic and financial conditions in the UK. A 7% ceiling on social rent increases in England combined with high cost inflation and sizeable levels of mandatory expenses (quality, fire and building safety, decarbonisation) will weigh on operating margins over the next 12 to 18 months. This could be worsened by additional below-inflation caps on social rent increases. At the same time, higher interest rates and tightening financing conditions will further weaken interest coverage ratios. Further declines in home prices and sales volumes in the UK could affect housing associations' profitability and surpluses from market sales and further weaken their credit profile.

Factors that could lead to an upgrade

A rating upgrade is unlikely due to the negative outlook. The negative outlook could be stabilised if LiveWest is able to maintain relatively stable financial metrics over the medium term. This could be driven by operating performance improving more than presently anticipated, including the ability to contain cost pressures, and reductions in development plans leading to lower debt levels than currently anticipated.

Factors that could lead to a downgrade

LiveWest's rating could be downgraded as a result of one or a combination of the following: a failure to adapt strategies to mitigate against weaker economic conditions; a further weakening in operating margins and interest coverage ratios; increases in debt levels beyond that currently anticipated; significant deteriorations in liquidity; significant scaling up in market sales exposure or material deterioration in market sales performance; or any weakening of the regulatory framework or dilution of the overall level of support from the UK government. A downgrade of the UK sovereign rating would also place downward pressure on LiveWest's rating.

Key indicators

Exhibit 2

LiveWest Homes Limited

	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23 (F)	31-Mar-24 (F)
Units under management (no.)	35,503	36,298	36,132	36,546	37,241	36,688	37,358
Operating margin, before interest (%)	26.7	28.4	28.0	25.2	22.6	22.2	21.7
Net capital expenditure as % turnover	18.2	39.6	33.8	9.1	27.5	32.3	46.7
Social housing letting interest coverage (x times)	2.3	2.1	1.9	1.4	1.5	1.6	1.5
Cash flow volatility interest coverage (x times)	3.3	2.3	2.2	2.3	2.6	2.4	2.6
Debt to revenue (x times)	3.2	3.4	3.6	3.8	3.5	3.3	3.6
Debt to assets at cost (%)	39.3	40.9	40.9	39.9	39.8	40.6	42.1

Source: LiveWest, Moody's Investors Service

Detailed credit considerations

LiveWest's rating combines: (1) its baseline credit assessment (BCA) of a3 and (2) a strong likelihood of extraordinary support coming from the UK government in the event that LiveWest faced acute liquidity stress.

Baseline credit assessment

Strong interest coverage expected to continue

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

Social housing letting interest coverage (SHLIC) slightly increased to 1.5x in fiscal 2022 from 1.4x in the prior year. The increase is largely a result of one-off breakage costs incurred in fiscal 2021 on the restructuring of interest rate swaps, partially offset by higher expenditure on building safety and catch-up repairs due to coronavirus-related backlogs. We expect SHLIC to average 1.6x over the next three years, in line with the A2-rated peer median, supported by efficiency savings and the assumption of a return to consumer price inflation (CPI)-linked rent increases from fiscal 2025.

Cash flow volatility interest coverage (CVIC), which measures net cash interest expense against operating cash flow adjusted for historical volatility, increased to 2.6x in fiscal 2022 from 2.3x in fiscal 2021, above the A2-rated peer median of 2.2x. We expect CVIC to remain strong and average 2.5x over the next three years, although this is contingent on market sale receipts being realised as planned.

Moderate levels of debt and strong financial management

LiveWest's credit profile is further supported by its relatively low debt levels and strong balance sheet. The group will increase borrowing to fund development, with debt rising to £1.2 billion by fiscal 2025 from £946 million in fiscal 2022, but debt metrics will remain strong compared to A2-rated peers.

Gearing (debt to assets at cost) for the group was 40% at fiscal year-end 2022, compared to an A2-rated peer median of 45%. We expect that gearing will only moderately increase to a peak of 43% by fiscal 2025. Debt to revenue decreased to 3.5x in fiscal 2022 from 3.8x in fiscal 2021, supported by higher market sale receipts in the year. It is forecast to fall further to 3.3x in fiscal 2023 before rising back to 3.6x over the medium term, in line with the A2-rated peer median.

LiveWest has low interest rate risk with 92% of debt at fixed rates as of September 2022. A significant proportion of this debt is fixed with standalone swaps; the total swap portfolio has a notional value of £264 million. Mitigating the high standalone swap exposure is LiveWest's ample unencumbered assets position, which can be used to post as collateral in the event of an adverse interest rate movement, and the excess security posted. As of September 2022, LiveWest has a negative mark-to-market value gross of thresholds of £6 million, down from £79 million in the prior year as a result of the rise in long-term rates.

In addition, the group's credit quality is supported by strong financial management practices, which is captured in the a score for financial management. This assessment is based on a number of factors, including LiveWest's strong decision-making framework (the Internal Financial Framework), which outlines minimum requirements for interest coverage, cash, immediate and long-term liquidity and maximum limits for debt to revenue and market sales exposure. The financial management score also reflects LiveWest's responsiveness to the weaker operating environment; the group cut its development programme by 1,000 units over four years and increased its asset disposals target to 300 from 120 over the next three years. This allows LiveWest to preserve liquidity and maintain a moderate level of debt.

Supportive institutional framework in England

The sector's credit quality will continue to benefit from the strong institutional framework governing English housing associations reflected in an Operating Environment score of a3 and a Regulatory Framework score of a1. These scores are assigned at a national level and reflect the following credit considerations:

The regulator maintains strong oversight through quarterly returns, long-term business plans and annual reviews and by undertaking biennial In-Depth Assessments (IDAs) for large and complex housing associations. 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 housing associations remains supportive. Demand for social housing remains very high and the government has committed to increased capital grant on more flexible terms for new social housing. English housing associations retain some expenditure flexibility and have a track record of reducing costs to mitigate lower income.

However, due to presently very high rates of inflation, the government has intervened on social rent policy with a 7% ceiling on social rent increases to be implemented from April 2023 for one year. The ceiling of 7% will likely result in an adverse differential between rental income and cost growth, driving lower margins and interest coverage. The intervention introduces policy volatility to the sector as the ceiling will supersede the allowable increase of CPI plus 1% under the current rent standard, which is in place until March 2025.

Higher capital expenditure and elevated market sales exposure

LiveWest's capital expenditure is expected to rise as development activity increases over the medium term. Net capital expenditures to revenues was 28% in fiscal 2022, an increase from 9% in fiscal 2021, which was impacted by delays due to the coronavirus pandemic.

Going forward, we expect this to increase to an average of 40% over the next three years. LiveWest's development plan targets a total of approximately 5,800 units over the next five years, mostly social rent (58%), but also shared ownership (29%) and outright sales (12%).

Income from market sales (outright sales and first tranche shared ownership) as a percentage of turnover was 26% in fiscal 2022, a level we deem high. It is forecasted to remain close to current levels over the next three years at an average of 24%. This is credit negative as it exposes the group to the risk of increased volatility in its operating cash flows. In addition, a weakening housing market over the next year may lead to lower market sale receipts, which would result in higher borrowing needs or further reductions in the development programme.

LiveWest has a track record of solid profitability on its market sales. The group achieved a margin on sales of 16% in fiscal 2022 and expects it to slightly increase over the next two years. However, house price declines, combined with rising material and development costs, could weaken the margins below current expectations.

The group's liquidity position has weakened compared to the previous year but is supported by strong liquidity policies. As of September 2022, LiveWest held cash and immediately available undrawn facilities of £309 million, enough to cover 1.3x the forward-looking, two-year cash needs. This is below the A2-rated peer median of 1.5x. However, the liquidity policy somewhat mitigates the sales risk associated with the development programme. LiveWest's liquidity policy sets out a requirement to maintain sufficient liquidity to cover 18 months of expenditure plus all committed development spend beyond that period, 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 sale values.

Significant expenditure on existing stock and decarbonisation

LiveWest has a significant level of investment on planned maintenance and improvement of existing stock. The group's margin on social housing lettings was 26% in fiscal 2022, below the A2-rated peer median of 30%, and is expected to remain close to current levels over the next three years. Between fiscals 2024 and 2028, the group is planning to spend around £553 million on maintenance and major repairs (including capitalised major repairs), of which £45 million for decarbonisation works and £24 million for fire safety. LiveWest is aiming for all properties to achieve an Energy Performance Certificate (EPC) rating of C or above by 2028, slightly ahead of most peers who are targeting 2030, and is also intending to be entirely carbon neutral by 2050. LiveWest expects that 24% of its spend on getting its stock to EPC C will be covered by capital grants.

Based on its current business plan, LiveWest is targeting efficiency savings of £4.1 million per annum by fiscal 2026. Those efficiencies will be driven mainly by increased investments into digitisation to improve service delivery and efficiency. The group has a good track record of efficiency savings and met its merger efficiency targets ahead of the fiscal 2023 goal, having generated more than £17 million in recurring savings per annum.

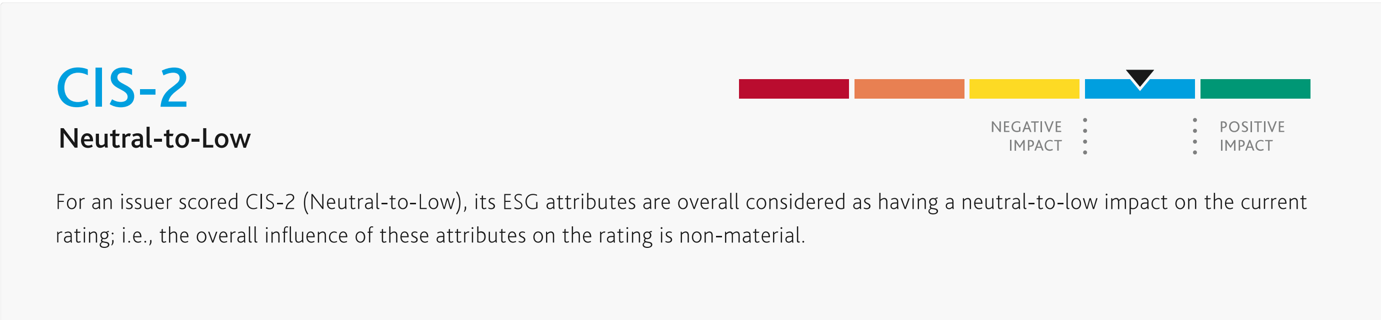
Extraordinary support considerations

The strong level of extraordinary support factored into the rating reflects the wide-ranging powers available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. However, the process can be protracted and is reliant on housing associations agreeing to merge, which could be more challenging in a weakening operating environment. Recent history has shown that the UK government is willing to support the sector, as housing remains a politically and economically sensitive issue. The strong support assumption also factors in increasing exposure to non-core social housing activities in the sector, that add complexity to housing association 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

LiveWest Homes Limited's ESG Credit Impact Score is Neutral-to-Low CIS-2

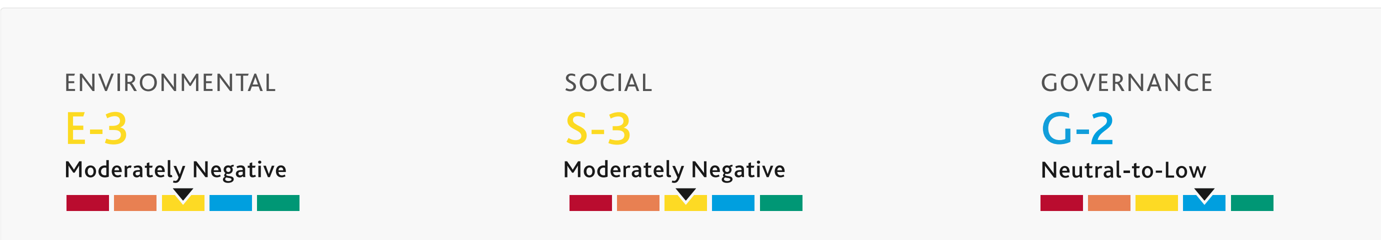
Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

LiveWest's credit impact score is neutral-low, reflecting moderate exposure to environmental and social risks and a low-neutral governance profile, as well as a supportive regulatory framework and support from the UK government.

Exhibit 4
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

We assess its E issuer profile score as moderately negative (**E-3**), primarily due to carbon transition risk from the legislative requirement for English housing associations to improve the energy efficiency of their existing housing stock by 2035, leading to increased expenditure. We consider that LiveWest has a material exposure to this risk due to a relatively high proportion of its stock requiring retrofit.

Social

We assess its S issuer profile score as moderately negative (**S-3**), reflecting exposure to risks from responsible production and demographic and societal trends. Responsible production risks include the legislative requirement to improve the safety of its existing housing stock which will increase expenditure over the medium term. Demographic and societal trend risks reflect the vulnerability of the sector to government policy which controls rent setting in England and Wales. The government's recent intervention on social rent policy with a ceiling on social rent increases introduces policy volatility to the sector and will have a negative impact on financial performance.

Governance

We assess its G issuer profile score as neutral to low (**G-2**). Governance in the sector is generally fit for purpose, with good oversight of business risks, strong financial planning and risk management processes, detailed reporting and simple organisational structures. The regulatory framework also supports good governance in the sector. LiveWest has strong financial management practices which support financial stability.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of a3 is in line with the scorecard-indicated BCA for fiscal 2022.

The methodologies used in this rating were European Social Housing Providers, published in April 2018, and Government Related Issuers, published in February 2020.

Exhibit 5

Fiscal 2022 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%	37,241	a
Factor 3: Financial Performance			
Operating Margin	5%	22.6%	baa
Social Housing Letting Interest Coverage	10%	1.5x	a
Cash Flow Volatility Interest Coverage	10%	2.6x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.5x	baa
Debt to Assets	10%	39.8%	baa
Liquidity Coverage	10%	1.3x	a
Factor 5: Management and Governance			
Financial Management	10%	a	a
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**a3**
Assigned BCA			**a3**

Source: LiveWest, Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
LIVEWEST HOMES LIMITED	
Outlook	Negative
Baseline Credit Assessment	a3
Issuer Rating -Dom Curr	A2
LIVEWEST TREASURY PLC	
Outlook	Negative
Bkd Senior Secured -Dom Curr	A2

Source: Moody's Investors Service

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