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CREDIT OPINION
9 February 2024

Update

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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

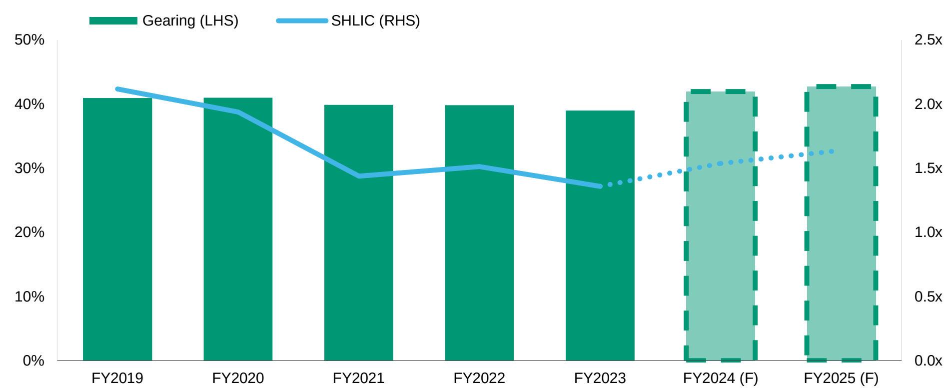
Summary

The credit profile of LiveWest Homes Limited (LiveWest, A2 stable) reflects its strong interest coverage, robust financial management practices and moderate gearing compared to peers. It also incorporates an elevated exposure to market sales and increasing levels of expenditure. LiveWest benefits from the strong regulatory framework governing the English housing association sector and our assessment that there is a strong likelihood that the government of the United Kingdom (Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1

LiveWest will maintain strong debt metrics and interest coverage

Gearing (debt to assets at cost) and social housing letting interest coverage (SHLIC), fiscals 2019-2025



Fiscals 2024 and 2025 are forecasts based on LiveWest's 2023 Business Plan.
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, including on decarbonisation works

Rating outlook

The stable outlook reflects the expected gradual reduction in inflation and associated cost pressures as well as the proactive actions taken by LiveWest to mitigate the adverse effects of the weaker operating environment, thereby limiting development risk.

Factors that could lead to an upgrade

Upward pressure on the ratings could result from a significant improvement in operating performance, a material reduction in debt or a significant increase in government support for the sector.

Factors that could lead to a downgrade

Downward pressure on the ratings could result from a prolonged weakening in operating performance, debt growing more quickly than forecast, weaker liquidity or a failure to adapt strategies and risk appetite to mitigate weaker economic conditions. Lower government support for the sector or a dilution of the regulatory framework could also lead to downward pressure on the ratings.

Key indicators

Exhibit 2

LiveWest Homes Limited

	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24 (F)	31-Mar-25 (F)
Units under management (no.)	36,298	36,056	36,470	37,162	38,061	38,779	39,546
Operating margin, before interest (%)	28.4	28.0	25.2	22.6	20.4	21.7	22.8
Net capital expenditure as % turnover	39.6	33.8	9.1	27.5	20.3	44.7	39.8
Social housing letting interest coverage (x times)	2.1	1.9	1.4	1.5	1.4	1.5	1.6
Cash flow volatility interest coverage (x times)	2.3	2.2	2.3	2.6	3.2	3.0	2.7
Debt to revenue (x times)	3.5	3.6	3.8	3.5	3.2	3.6	3.6
Debt to assets at cost (%)	41.0	41.0	39.9	39.8	39.0	42.0	42.7

Source: LiveWest, Moody's Investors Service

Detailed credit considerations

LiveWest's ratings combine: (1) its Baseline Credit Assessment (BCA) of a3; and (2) a strong likelihood that the UK government would act in a timely manner to prevent a default.

Baseline credit assessment

Strong interest coverage expected to continue

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

Social housing letting interest coverage (SHLIC) saw a minor decline to 1.4x in fiscal 2023 from 1.5x in the prior year. This reduction is largely attributable to a combination of increased costs on social housing lettings and higher interest expenses. We expect SHLIC to increase to an average of 1.6x over the next three years, in line with the A2-rated peer median, underpinned by a return to Consumer Price Inflation (CPI)-linked rent increases from fiscal 2025 as well as LiveWest's cost saving initiatives. LiveWest's SHLIC is also supported by the group's low interest rate risk, with 93% of debt at fixed rates as of September 2023.

Cash flow volatility interest coverage (CVIC), a measure of net cash interest expense against operating cash flow adjusted for historical volatility, rose to 3.2x in fiscal 2023 from 2.6x in fiscal 2022, significantly surpassing the A2-rated peer median of 2.4x. We expect CVIC to remain strong and average 2.8x over the next three years, although this is dependent on market sale receipts being realised as planned.

Moderate levels of debt and strong financial management

LiveWest's credit profile is supported by its relatively low debt levels and strong balance sheet. The group's gearing (debt to assets at cost) stood at 39% at the end of fiscal 2023, well below the A2-rated peer median of 46%. The group will increase borrowing to finance development, with debt projected to rise to £1.3 billion in fiscal 2028 from £963 million in fiscal 2023, but the debt metrics will continue to be robust relative to A2-rated peers. We expect that gearing will only see a moderate increase to an average of 42% over the next five years.

LiveWest faces moderate refinancing risk with 16% of its debt portfolio maturing within the next five years. However, this is offset by LiveWest's access to £358 million of cash and readily available undrawn facilities, which enable it to comfortably cover its upcoming debt maturities.

In addition, the group's credit quality is underpinned by robust financial management practices. This assessment is based on several factors, including LiveWest's strong decision-making framework (the Internal Financial Framework), which stipulates minimum requirements for interest coverage, cash and immediate and long-term liquidity as well as maximum limits for debt to revenue and market sales exposure. Furthermore, LiveWest has proactively adapted its strategy to the weaker operating environment by implementing significant reductions to its development programme and targeting higher asset disposals. This allowed 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 high rates of inflation in 2022, with CPI at 10.1% as of September 2022 on a year-on-year basis, the government implemented a 7% ceiling on social rent increases from April 2023 for one year. The ceiling of 7% results in an adverse differential between rental income and cost growth, which we expect will drive lower margins and interest coverage across the sector in fiscal 2024. The UK government has confirmed that the English sector will return to rent increases of September CPI plus 1% in fiscal 2025 (7.7%), which will be favourable considering that CPI stood at 4.0% in December 2023.

Higher capital expenditure and elevated market sales exposure

LiveWest's capital expenditure is expected to rise over the medium term. We expect that net capital expenditure to revenue will increase to an average of 37% over the next three years, from 20% in fiscal 2023. Nevertheless, capital expenditure will remain below previous estimates due to cuts in LiveWest's development programme. LiveWest aims to develop a total of approximately 5,900 units over the next five years, predominantly social and affordable rent (57%), alongside shared ownership (32%) and outright sales (12%).

The proportion of turnover from market sales (outright sales and first tranche shared ownership) peaked at 29% in fiscal 2023, one of the highest within the rated portfolio. While this is forecast to slightly decrease, it is expected to remain high over the next three years at an average of 23%. This is credit negative as it exposes the group to the housing market downturn and increased volatility in its operating cash flows. However, LiveWest has a track record of solid profitability on its market sales, with a margin of 17% in fiscal 2023, sustained by strong demand.

In addition, this risk is partly mitigated by LiveWest's robust liquidity policies. These policies set out a requirement to maintain sufficient liquidity to cover 24 months of expenditure plus all committed development spending beyond that period, in addition to an extra liquidity provision to account for sales risk. The additional liquidity buffer is calculated as the cash impact of a six-month delay in sales coupled with a 15% decrease in sale values. As of September 2023, LiveWest held cash and immediately available undrawn facilities of £358 million, sufficient to cover 1.3x, its two-year cash needs.

Significant expenditure on existing stock, including on decarbonisation works

LiveWest has a significant level of investment on planned maintenance and improvement of its existing stock. Between fiscals 2024 and 2028, the group intends to allocate approximately £554 million towards maintenance and major repairs (inclusive of capitalised major repairs), with £42 million earmarked for decarbonisation works and £26 million for building and fire safety. LiveWest is aiming for all properties to attain an Energy Performance Certificate (EPC) rating of C or above by 2028, slightly ahead of the majority of peers who have set a target of 2030.

LiveWest is targeting efficiency savings of £4.1 million per annum by fiscal 2026. These efficiencies will be primarily driven by increased investments in digitisation to improve service delivery and efficiency. The group has a good track record of achieving efficiency savings and met its merger efficiency targets ahead of the fiscal 2023 goal, generating more than £17 million in recurring annual savings. This, in conjunction with a return to CPI-linked rent increases, will lead to an increase in the margin on social housing lettings to an average of 26% over the next three years, rising from 23% in fiscal 2023. However, it will still be slightly below the A2-rated peer median of 29% for the same period.

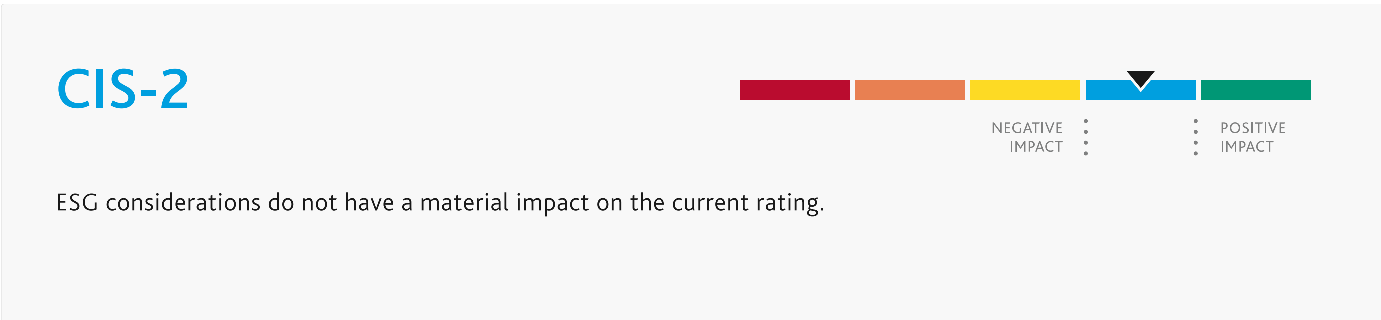
Extraordinary support considerations

The strong level of extraordinary support factored into the ratings reflects our view of the UK government's support for the housing association sector due to its political, economic and social importance. Extraordinary support for the sector is predominantly exercised through sector regulators whose wide-ranging powers in cases of financial distress include facilitating mergers. However, this process can be protracted and is reliant on housing associations agreeing to merge, which is more challenging in a weakened operating environment, with high expenditure pressures and high borrowing costs. 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 CIS-2

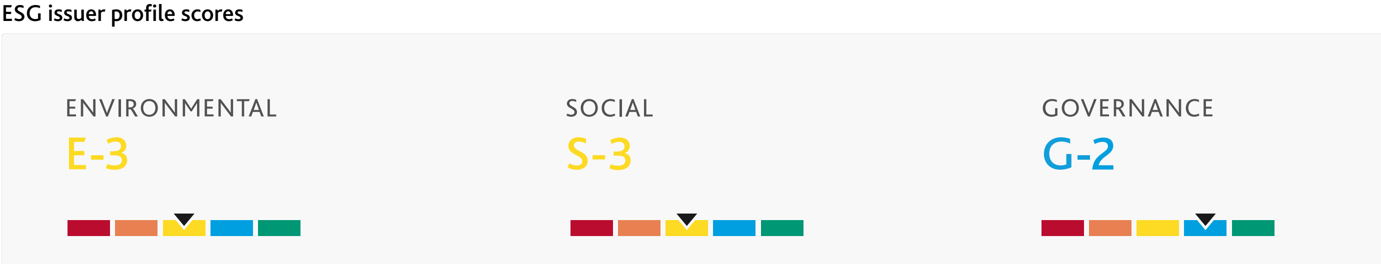
Exhibit 3
ESG credit impact score



Source: Moody's Investors Service

LiveWest's **CIS-2** indicates that ESG risks have a limited impact on its rating. Although environmental and social risks are prevalent we consider that LiveWest has the ability to effectively mitigate them through its strong governance and management practices. We also consider that the supportive regulatory framework for the sector offsets some ESG risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

LiveWest has a material exposure to environmental risks (**E-3**), relating to a significant proportion of its stock requiring retrofit to meet energy efficiency standards by 2035 (carbon transition risks), leading to increased expenditure.

Social

LiveWest has a material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety of existing housing stock (responsible production risks), which weighs on expenditure and operating margins, and the impacts of cost of living or affordability pressures on social tenants (demographic and societal trends), which led to the UK government capping social rent increases below inflation in fiscal 2024 in England, which will also have a negative impact on margins.

Governance

LiveWest has limited governance risks (**G-2**). Its governance is fit for purpose, with strong financial management policies and processes, detailed reporting and a simple organisational structure. The regulatory framework also supports good governance in the sector.

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 2023.

The methodologies used in this rating were European Social Housing Providers, published in April 2018, and Government Related Issuers, published in January 2024.

Exhibit 5

2023 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%	38,061	a
Factor 3: Financial Performance			
Operating Margin	5%	20.4%	baa
Social Housing Letting Interest Coverage	10%	1.4x	baa
Cash-Flow Volatility Interest Coverage	10%	3.2x	aa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.2x	baa
Debt to Assets	10%	39.0%	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	Stable
Baseline Credit Assessment	a3
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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