CREDIT OPINION
6 November 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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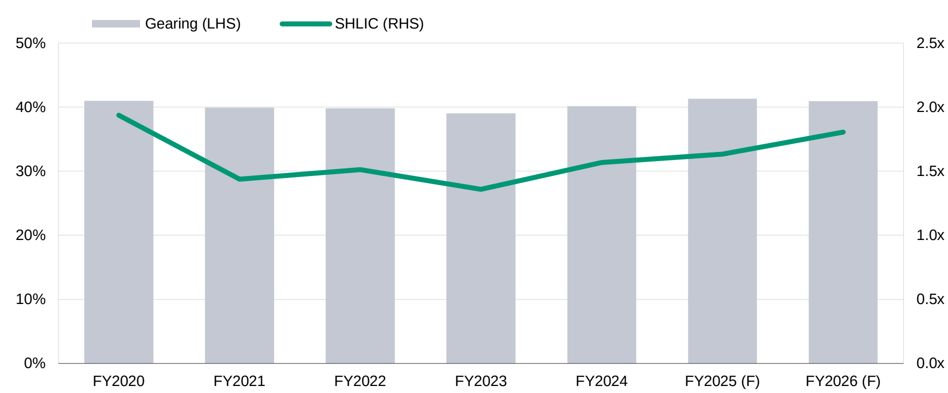
# LiveWest Homes Limited (UK)

Update to credit analysis

## Summary

The credit profile of LiveWest Homes Limited (LiveWest, A2 stable) reflects its robust financial management, moderate gearing and good interest cover metrics. It also incorporates its elevated exposure to market sales and weaker operating margin than peers. 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 UK (Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1
**LiveWest will maintain strong debt metrics and interest coverage**




*Source: LiveWest and Moody's Ratings*

## Credit strengths

» Lower debt than peers supported by strong financial management

» Good interest coverage with limited treasury risks

» Supportive institutional framework in England

## Credit challenges

» Operating margin is slightly weaker than peers

» High exposure to market sales

## Rating outlook

The stable outlook reflects our expectations that the reduction in inflation and the return to inflation-linked rent increases will support a recovery in operating performance. It also reflects the fact that LiveWest will maintain stronger debt metrics than peers.

## 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 or weaker liquidity. 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-20 | 31-Mar-21 | 31-Mar-22 | 31-Mar-23 | 31-Mar-24 | 31-Mar-25 (F) | 31-Mar-26 (F) |
|---|---|---|---|---|---|---|---|
| Units under management (no.) | 36,056 | 36,470 | 37,162 | 38,061 | 38,694 | 39,540 | 40,206 |
| Operating margin, before interest (%) | 28.0 | 25.2 | 22.6 | 20.4 | 21.9 | 23.6 | 25.8 |
| Net capital expenditure as % turnover | 33.8 | 9.1 | 27.5 | 20.3 | 34.3 | 34.9 | 31.7 |
| Social housing letting interest coverage (x times) | 1.9 | 1.4 | 1.5 | 1.4 | 1.6 | 1.6 | 1.8 |
| Cash flow volatility interest coverage (x times) | 2.2 | 2.3 | 2.6 | 3.2 | 3.3 | 2.5 | 2.8 |
| Debt to revenue (x times) | 3.6 | 3.8 | 3.5 | 3.2 | 3.4 | 3.5 | 3.5 |
| Debt to assets at cost (%) | 41.0 | 39.9 | 39.8 | 39.0 | 40.2 | 41.3 | 40.9 |

*Source: LiveWest and Moody's Ratings*

## Detailed credit considerations

LiveWest's A2 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

**Lower debt than peers supported by strong financial management**

LiveWest has stronger debt metrics than peers with gearing at 40% (A2 median: 49%) and debt-to-revenue at 3.4x (A2 median: 3.6x) as of fiscal 2024. Debt will rise to around £1.4 billion by fiscal 2029 from £1.0 billion in fiscal 2024 to fund its development plans but its debt metrics will only deteriorate slightly and remain stronger than peers due to the addition of new assets and revenue growth. However, this is contingent on the realisation of planned market sales, which are expected to cover a third of development spending, such that any delay or underperformance would result in weaker debt metrics.

Its debt is relatively low risk with around 8% at variable rate and a significant proportion fixed with standalone swaps. LiveWest faces moderate refinancing risks with 22% of its debt maturing within the next five years. However, cash and undrawn facilities of £333 million as of September 2024 comfortably cover upcoming debt maturities.

In addition to its low debt, LiveWest's credit quality is underpinned by strong financial management practices. Its decision-making framework (the Internal Financial Framework) 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.

**Good interest coverage with limited treasury risks**

Relatively low debt supports strong interest coverage metrics. Social housing letting interest coverage (SHLIC) stood at 1.6x in fiscal 2024, in line with the median of A2-rated peers. We expect SHLIC to remain strong at 1.7x on average over the next three years, underpinned by an improvement of margins on its social housing lettings.

LiveWest maintains sufficient headroom of 1.3x above its EBITDA-MRI interest cover covenant of 1.1x. Its headroom will remain strong despite significant level of investment on planned maintenance and improvement of its existing stock.

Cash flow volatility interest coverage (CVIC), which measures net cash interest expense against operating cash flow adjusted for historical volatility, is strong at 3.3x in fiscal 2024, above the median for A2-rated peers of 2.4x. We expect CVIC to remain strong and average 2.7x over the next three years, although this is contingent on market sales being realised as planned.

**Supportive institutional framework in England**

The sector's credit quality benefits from the strong institutional framework governing English housing associations (HAs) 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, annual reviews, and regular programmed inspections for HAs with more than 1,000 units. The regulator has a strong track record of intervention in cases of mismanagement or financial stress.

The operating environment for English housing associations remains supportive. Demand for social housing is very high and English housing associations retain some expenditure flexibility, with a track record of controlling costs to mitigate lower income. The UK government confirmed that for fiscal 2026, rent increases within the English sector will be pegged at the September Consumer Price Index (CPI) plus 1%. A consultation is currently ongoing to extend the policy out to fiscal 2031, which would provide more certainty to the sector.

**Operating margin is slightly weaker than peers**

LiveWest's operating margin stood at 22% in fiscal 2024, slightly weaker than the median of A2 peers of 24%. Its margins have declined in the last five years in line with the rest of the sector due to inflationary pressures, a higher volume of repairs and maintenance as well as government interventions on rent increases.

We forecast a gradual improvement in its operating margin to 26% by fiscal 2027. The improvement will be supported by the return to inflation-linked rent increases as well as targeted efficiency savings of £9.1 million in fiscal 2025, rising to £10.1 million by fiscal 2026. These efficiencies will be primarily driven by higher productivity of repairs and maintenance teams, savings on procurement costs and reduced staff costs.

LiveWest faces significant needs to invest in its existing stock and intends to spend around £575 million on maintenance and major repairs over the next five years. Fire safety remediation works will be completed by fiscal 2027 on its six high-rises and are expected to cost £30 million, some of which will be recovered from developers. In addition, LiveWest is aiming to bring its stock to EPC-C or above by 2028, slightly ahead of the majority of peers who have set a target of 2030. This is estimated to cost around £50 million, some of which will be covered by grants. LiveWest has already made good progress with around 21% of its stock left to retrofit as of fiscal 2024 compared to 25% for the median of rated HAs.

**High exposure to open market sales**

LiveWest has one of the highest exposure to market sales among rated HAs, highlighting its higher risk appetite than peers. In fiscal 2024, sales accounted for 23% of its turnover, with an even split between first-tranche shared ownership and outright sales. This exposes the group to fluctuations in the housing market and can generate volatility in cash flows. We note that sales have performed well historically with margins of 17% in fiscal 2024 and the number of unsold units remains low.

LiveWest has scaled back its development programme in response to the deterioration in the macroeconomic environment, demonstrating its proactive risk management. It now plans to develop around 5,700 new units over the next five years equivalent to 15% of its current stock. LiveWest will maintain a high exposure to market sales with 38% of its development programme planned for market sales over the next five years.

LiveWest has more conservative policies than the sector and performs extensive stress testing although we view this as appropriate given its higher risk appetite. Under its liquidity policy, it must maintain sufficient liquidity to cover 24 months of planned spending, plus all committed development spend beyond 24 months. It also holds an additional buffer above its liquidity policy to withstand a six-month delay in sales and a 15% decrease in house prices. As of September 2024, LiveWest held cash and immediately available undrawn facilities of £333 million, sufficient to cover 1.3x its two-year cash requirements.

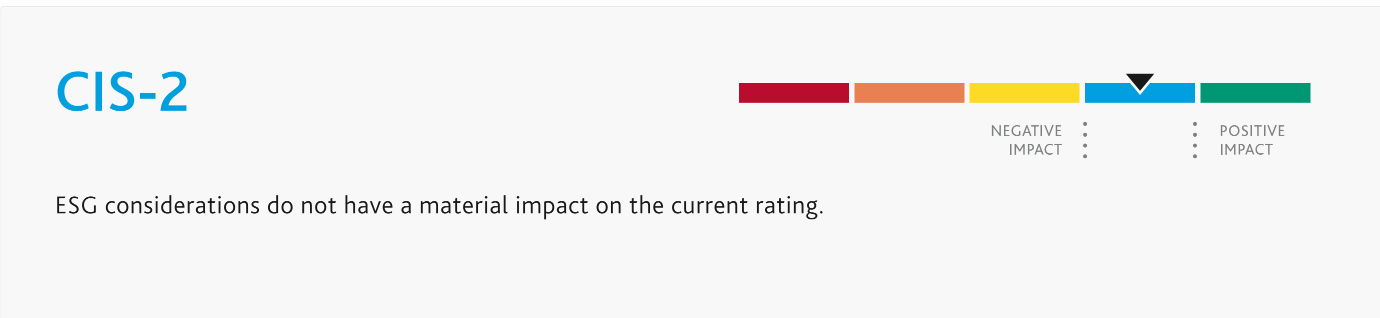
### Extraordinary support considerations

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 Ratings*

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 Ratings*

### Environmental

LiveWest has some exposure to environmental risks (**E-3**) related to the government's requirement to bring their housing stock to EPC-C by 2030. LiveWest has a more ambitious target than peers of 2028 and still needs to retrofit 21% of its housing stock.

### Social

LiveWest has a material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety and quality of existing stock (responsible production risks) and the vulnerability of the sector to tenant affordability considerations through the government's social rent policy. Those risks can materialise in the form of reduced operating margin and interest cover metrics.

### Governance

LiveWest has limited governance risks (**G-2**) given its sound and prudent risk management framework and practices in line with sector best practices including 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 2024.

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

Exhibit 5
**LiveWest Homes Limited**
**Fiscal 2024**

| 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% | 38,694 | a |
| **Factor 3: Financial Performance** | | | |
| Operating Margin | 5% | 21.9% | baa |
| Social Housing Letting Interest Coverage | 10% | 1.6x | a |
| Cash-Flow Volatility Interest Coverage | 10% | 3.3x | aa |
| **Factor 4: Debt and Liquidity** | | | |
| Debt to Revenue | 5% | 3.4x | baa |
| Debt to Assets | 10% | 40.2% | ba |
| 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: Moody's Ratings*

## 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 Ratings*

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