

# ClwydAlyn Housing Ltd.

July 22, 2024

This report does not constitute a rating action.

## Credit Highlights

### Overview

#### Enterprise profile

ClwydAlyn Housing Ltd.'s ongoing focus on traditional social housing activities and the supportive Welsh policy framework underpin the group's strong business profile.

--The primary focus on social and affordable housing in North Wales is ClwydAlyn's credit strength, with sales exposure remaining nil.

--The demand for ClwydAlyn's social housing properties remains solid, despite a fairly narrow gap between social and private market rent.

-- We expect management will maintain a consistent strategy and manage pressure of investments in existing stock despite a change in key personnel.

#### Financial profile

ClwydAlyn's expanding rental asset base, supported by the Welsh government's generous grant funding and annual rent uplift, will partly offset the effect of cost pressures with high investment needs in existing homes and planned development.

--The expected narrowing of the gap between cost and rent increases will gradually help offset the rising cost of property maintenance.

--Favorable cost of debt and the government grants, combined with continued growth of the rental portfolio, will shore up debt metrics.

--Liquidity remains strong, backed by available facilities.

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**The 'A' rating on ClwydAlyn reflects our expectation of stable financial performance under a supportive operating framework and that rent increases will outpace the growth of cost inflation and increased investment in existing and new homes.** We forecast ClwydAlyn to continue receiving solid grant funding from the Welsh government for investments, which moderates the debt buildup for its development plan.

## Outlook

The stable outlook reflects our view that ClwydAlyn's solid and increasing rental revenue will mitigate cost pressures of maintaining properties. We project that gradually improving S&P Global Ratings-adjusted nonsales EBITDA and the favorable cost of debt will support stable debt metrics, despite rising debt.

### Downside scenario

We could lower our rating on ClwydAlyn if its financial performance deteriorates, for example through higher inflation and investment in existing homes. Pressure on the rating could also

arise from the group taking on more debt than we currently anticipate to fund its increasing development spend. In our view, these scenarios could weigh on the group's performance and sustainably weaken interest coverage toward 1x. We could also consider a negative rating action if we revised downward our view of the likelihood of the Welsh government providing extraordinary support in case of need.

### **Upside scenario**

We could upgrade ClwydAlyn if its adjusted EBITDA improves materially, or its debt funding needs reduces, for example due to higher-than-expected grant funding for investment in existing or new homes. In our view, this could strengthen the group's debt profile and liquidity position.

## **Rationale**

### **Enterprise risk profile: Underpinned by a continued focus on the traditional social housing activities within the supportive Welsh framework**

We think ClwydAlyn benefits from generating most of its earnings in the predictable and countercyclical social housing sector, backed by its solid regional market position and zero exposure to sales. The group owns and manages over 6,500 homes in North Wales, where we think economic fundamentals are weaker than in other U.K. regions. We calculate social and affordable rent to market rent as fairly high compared with that of English peers, at approximately 85% of market rent. Despite the tight gap in rent, we think demand for ClwydAlyn's social housing properties will remain relatively solid due to strong presence in area of operations. Overall, the group's average vacancy rate over the past three years was 2.9% of rent and service charge receivable, which is considered at par with peers. We understand that in fiscal 2024, void levels improved following management's actions and we anticipate this trend to continue.

We view ClwydAlyn's fairly consistent strategy and financial policies as in line with those of the sector. We consider that maintaining strong relationships with key stakeholders supports the delivery of its pipeline of investments in existing homes and new builds. We think ClwydAlyn has flexibility in the development program to contain pressure on key credit metrics. We expect the group to continue investing in its existing homes to comply with the increasing required housing standards in areas such as fire safety and decarbonization. As of March 31, 2024 about 73% of the group's stock has attained an energy performance certificate rating of 'C' or above, which is relatively in line with rated peers.

We assess the regulatory framework under which registered providers of social housing in the Wales operate as very strong (for more information, see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published Oct. 23, 2023, on RatingsDirect).

## Financial risk profile: Stable financial metrics as increasing investments in existing and new homes are partly offset by the Welsh Government's strong grant funding support

We expect the group will continue to demonstrate stable financial performance, with S&P Global Ratings-adjusted EBITDA margins hovering around 20% through fiscal 2027. We project that the increasing need to improve the existing housing stock, especially on sustainability, will hinder improvement in financial performance. Nevertheless, we anticipate the rent uplift in the following years will outpace cost inflation and the group will also receive government grants to fund investment in its existing housing stock, which will partly offset these expenses.

In our view, generous government grant rates will also help offset pressure on ClwydAlyn's debt metrics, although its debt levels increase in the outer years of our forecast. The group aims to complete a relatively large number of units in the coming one-to-two years following the pandemic and delays in construction, planning, and contractor failures. The later relates to two of ClwydAlyn's schemes that were needed to be reprocurd at higher cost, though we understand the Welsh government will cover the extra cost to ensure delivery of units. We anticipate that grants will substantially cover about 60% of development spending on average, which leads to a moderate buildup of total debt in our forecast. We also project that the new developments will start to decrease after a spike in handovers by fiscal 2026, containing funding needs. Meanwhile, the group benefits from the favorable cost of debt locked in by the existing bond, which makes up about 80% of its total debt and supports interest coverage.

Our strong view of ClwydAlyn's liquidity position is based on our forecast that over the next 12 months, sources of liquidity will cover uses approximately by 1.7x. This encompasses our forecast of liquidity sources of about £129 million--from cash and investments, undrawn and committed revolving credit facilities, grant receipts, and cash from operations--which will cover liquidity uses of about £74 million (mainly capital expenditure and debt service payments). We continue to assess ClwydAlyn's access to external liquidity as satisfactory.

### Government-related entity analysis

We think there is a high likelihood ClwydAlyn would receive extraordinary government-related support in case of financial distress. This leads us to apply a two-notch uplift to the group's stand-alone credit profile to derive the issuer credit rating. This is based on our opinion of the Welsh government's capacity to support public sector enterprises, and on our view that ClwydAlyn plays an important role for the Welsh government in social housing provision. We also consider that the group has a very strong link to the Welsh government because the government directly regulates the social housing sector, providing strong regulatory oversight.

## Key Statistics

Table 1

### ClwydAlyn Housing Ltd.--Key statistics

Mil. £	--Year ended March 31--				
	2023a	2024e	2025bc	2026bc	2027bc
Number of units owned or managed	6390	6513	6662	7009	7197
Adjusted operating revenue	50.6	56.1	60.8	64.8	69.0
Adjusted EBITDA	9.7	11.3	12.7	14.7	14.6

## ClwydAlyn Housing Ltd.

Non-sales adjusted EBITDA	9.7	11.3	12.7	14.7	14.6
Capital expense	49.0	55.9	57.9	74.1	35.8
Debt	230.1	273.4	272.8	297.0	316.4
Interest expense	8.1	9.2	9.2	10.4	11.1
Adjusted EBITDA/Adjusted operating revenue (%)	19.2	20.2	20.9	22.7	21.2
Debt/Non-sales adjusted EBITDA (x)	23.7	24.2	21.5	20.2	21.7
Non-sales adjusted EBITDA/interest coverage(x)	1.2	1.2	1.4	1.4	1.3

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

## Rating Component Scores

Table 2

### ClwydAlyn Housing Ltd.--Ratings score snapshot

Assessment	Score
Enterprise risk profile	3
Industry risk	2
Regulatory framework	2
Market dependencies	4
Management and Governance	3
Financial risk profile	4
Financial performance	4
Debt profile	5
Liquidity	3
Stand-alone credit profile	bbb+
Issuer credit rating	A

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, 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: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- 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
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 20, 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 July 22, 2024)\*

#### ClwydAlyn Housing Ltd

Issuer Credit Rating	A/Stable/--
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#### PenArian Housing Finance PLC

Senior Secured	A
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#### Issuer Credit Ratings History

24-May-2017	A/Stable/--
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\*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.

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