

CREDIT OPINION

6 November 2024

Update



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RATINGS

The Guinness Partnership Ltd.

Domicile	United Kingdom
Long Term Rating	A3
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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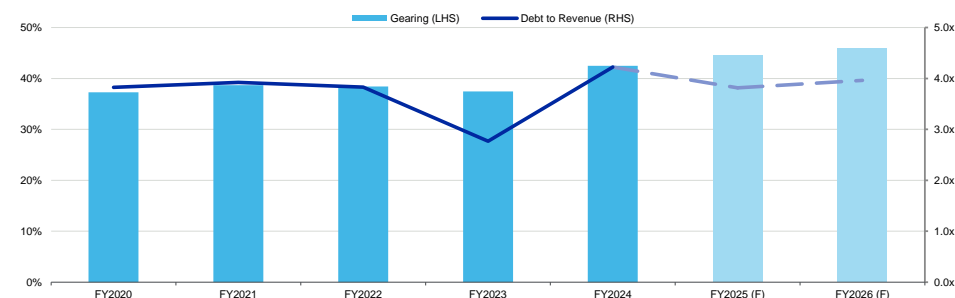
Update to credit analysis

Summary

The credit profile of [The Guinness Partnership Ltd.](#) (Guinness, A3 stable) reflects its scale and strong balance sheet, offset by its weak operating performance and elevated capital expenditure. Guinness benefits from the strong regulatory framework governing English housing associations 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

Guinness' gearing is expected to remain strong, albeit rising Debt to assets at cost (gearing) and debt to revenue



F: Forecast. Fiscals 2024 to 2026 include Shepherds Bush Housing Association, the main driver behind the increase in debt metrics in fiscal 2024.

Source: Guinness and Moody's Ratings

Credit strengths

- » Large housing association with operations spread nationally
- » Strong balance sheet and high level of unencumbered assets
- » Supportive institutional framework in England

Credit challenges

- » Weak operating performance and interest coverage
- » Elevated capital expenditures, but reduced exposure to market sales

Rating outlook

The stable outlook reflects Guinness' sound debt metrics and liquidity, in line with A3-rated peers and the improvement in macro-economic conditions which we expect will support the recovery in margins.

Factors that could lead to an upgrade

Upward pressure on the ratings could result from a significant improvement in operating performance beyond current expectations, a reduction in the development programme or a significant increase in government support for the sector, especially significantly higher levels of capital grants.

Factors that could lead to a downgrade

Downward pressure on the ratings could result from a sustained deterioration in financial performance due to idiosyncratic factors or the merger with Shepherds Bush, including a prolonged material weakening in operating margins and interest coverage ratios, debt growing quicker than forecasts, weaker liquidity or a scaling up in market sales exposure. 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

The Guinness Partnership Ltd.							
	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.)	62,893	62,999	63,138	63,493	67,905	67,975	69,353
Operating margin, before interest (%)	24.3	19.9	20.1	16.2	11.3	19.0	21.7
Net capital expenditure as % turnover	34.5	35.7	51.8	13.2	58.0	49.2	40.4
Social housing letting interest coverage (x times)	1.6	0.8	1.3	1.0	0.9	1.0	1.3
Cash flow volatility interest coverage (x times)	0.2	-0.2	0.9	1.7	1.5	1.2	1.7
Debt to revenues (x times)	3.8	3.9	3.8	2.8	4.2	3.8	4.0
Debt to assets at cost (%)	37.3	38.7	38.4	37.4	42.5	44.5	45.9

F: Forecast. Fiscals 2024 to 2026 include Shepherds Bush Housing Group, the main driver behind the increase in debt metrics in fiscal 2024.

Source: Guinness and Moody's Ratings

Detailed credit considerations

Guinness' A3 rating combines: (1) its BCA of baa2; and (2) a strong likelihood that the UK government would act in a timely manner to prevent a default.

Baseline credit assessment

Large housing association with operations spread nationally

Guinness is a large and influential housing association with a diverse portfolio. As at fiscal year end 2024, the group managed almost 68,000 homes across 144 local authorities. Its significant scale and the strength of its balance sheet provide more financial resilience and opportunities for economies of scale than smaller rated peers.

Guinness' properties are distributed nationally, with a significant concentration in northern England and London. The regions with the highest number of homes are London, Cheshire East and Milton Keynes. One of Guinness' strategies is to rationalise and consolidate its stock to improve the efficiency of its service delivery. The HA already transferred 845 units to another HA in fiscal 2024 for £45 million and plans to transfer another 450 units in fiscal 2026. Guinness has exited regulated care services in fiscal 2025, which will support the recovery of operating margin, as those activities are labour-intensive.

Strong balance sheet and high level of unencumbered assets

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Guinness will maintain a robust balance sheet, even if debt metrics are projected to weaken due to increased borrowing to finance its capital expenditures. Guinness' total debt stood at £1.9 billion in fiscal 2024, equivalent to 42% of assets at cost, comparing favourably to the A3-rated peer median of 52%. Debt is expected to increase to £2.8 billion by fiscal 2029, but debt metrics will remain robust relative to peers, with gearing averaging 47% and debt to revenue averaging 4x over the next five years.

Guinness has a high level of unencumbered assets, which support its long-term borrowing capacity. As of June 2024, the borrowing value of unencumbered assets for the group stood at £1.2 billion, significantly above the net funding needs of £0.9 billion for the next five years.

Guinness' liquidity position remains strong, backed by robust treasury policies which require available liquid funds to meet cash requirements for the next 18 months. In addition, committed loan facilities must be in place for all contracted, approved and pipeline commitments in the next 18 months, alongside a contingency of £25 million. As of June 2024, Guinness' immediately-available liquidity represented 1.5x its two years' net cash needs.

Supportive institutional framework in England

The sector's credit quality will continue to benefit 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 at least fiscal 2031, which would provide more certainty to the sector.

Weak operating performance and interest coverage

Guinness has weak operating performance relative to peers. Its operating margin declined to 11% in fiscal 2024, well below the A3-rated peer median of 21%. Social housing letting interest coverage (SHLIC) also decreased, to 0.9x in fiscal 2024, slightly below A3-rated peer median of 1x. This is mainly due to decreased profitability on social housing lettings, driven by a large impairment charge of £18.6 million due to both lower land valuations and higher scheme costs, following contractor failures. Excluding the impact of impairment, its operating margin would have been 15% and SHLIC at 1.2x. However, the operating margin would still be below peers as Guinness is negatively impacted by building safety costs, non-recurring restructuring costs, additional impairment on other units and a deficit on supported care activities.

Guinness expects its operating margin and interest coverage metrics to improve, supported by the delivery of new units, inflation-linked rent increases and the realisation of post-merger cost efficiencies. Guinness projects an increase in its operating margin and SHLIC to an average of 21% and 1.2x, respectively, over the next three years. However, this improvement could be constrained by pressures on repairs and further delays to development delivery due to labour and material shortages or planning. Guinness is exposed to additional costs and delays as a result of relatively recent contractor insolvencies on four schemes, which may lead to further impairments. Finally, expenditure relating to building and fire safety continues to weigh on Guinness' operating performance, as Guinness projects safety costs to reach £130 million over the next five years, after a peak in fiscal 2024.

Elevated capital expenditures, but reduced exposure to market sales

Guinness' investment in new and existing homes will remain high over the next few years, which will result in a rise in debt. Gross capex will remain around £350 million over the next three years, in line with fiscal 2024.

However, the group has reduced the number of units in its development plan due to required spending on existing assets. Guinness targets the delivery of 5,571 units over the next five years, compared to 6,600 units last year. The development programme continues to reflect Guinness' standalone strategy, given that Shepherds Bush has ceased all uncommitted developments to focus on investment in existing stock.

Tenures for the development programme include social and affordable housing (56%), shared ownership (37%) and outright sales (7%). This is a reduced exposure to outright sales compared to last year's business plan, a credit positive. Following contractor insolvencies, the HA changed the tenure on Leaside Lock Phase 3, securing additional grant with the Greater London Authority (GLA). Guinness also benefitted from similar flexibility around tenure and additional grant at Signal Park Phase 1. Guinness continues to closely monitor its stalled sites and evaluate strategies.

Guinness' exposure to market sales (outright sales and first tranche shared ownership) is projected to be moderate, averaging 14% of turnover over the next five years, compared to 7% in fiscal 2024.

Extraordinary support considerations

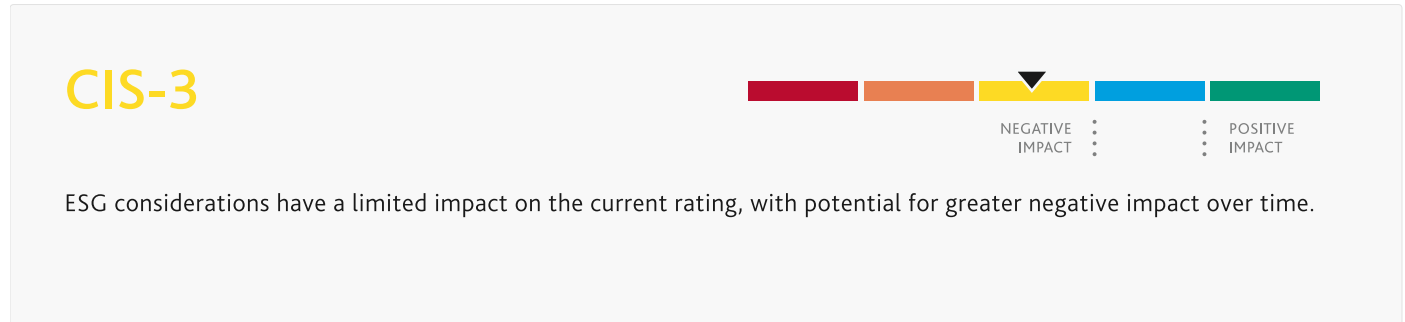
The strong level of extraordinary support factored into the ratings reflects the wide-ranging powers available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. However, the process can be protracted and is reliant on housing associations 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 Guinness and the UK government reflects their strong financial and operational linkages.

ESG considerations

The Guinness Partnership Ltd.'s ESG credit impact score is CIS-3

Exhibit 3

ESG credit impact score

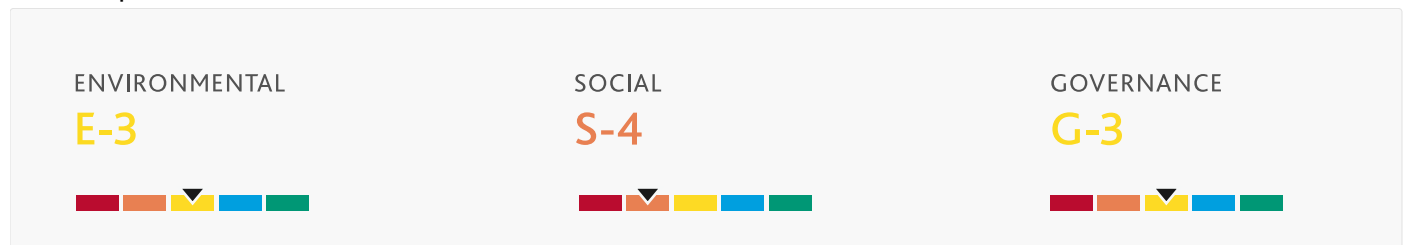


Source: Moody's Ratings

ESG considerations have a limited impact (**CIS-3**) on Guinness' ratings, with potential for greater negative impact over time. Guinness is mostly exposed to expenditure requirements related to elevated development ambitions, fire safety and carbon transition.

Exhibit 4

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Guinness 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

Guinness is highly exposed to social risks (**S-4**) due to legal requirements to improve the safety of its existing stock 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

Guinness has higher governance risks than most rated peers (**G-3**) due to a large capital expenditure in respect of the development programme in a deteriorated operating environment.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.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 baa2 is close to the scorecard-indicated BCA outcome of baa1 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

Fiscal 2024

Guinness Partnership			
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%	67,905	aa
Factor 3: Financial Performance			
Operating Margin	5%	11%	baa
Social Housing Letting Interest Coverage	10%	0.9x	ba
Cash-Flow Volatility Interest Coverage	10%	1.5x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.2	ba
Debt to Assets	10%	42%	ba
Liquidity Coverage	10%	1.5x	a
Factor 5: Management and Governance			
Financial Management	10%	ba	ba
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			baa1
Assigned BCA			baa2

Source: Guinness and Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
THE GUINNESS PARTNERSHIP LTD.	
Outlook	Stable
Baseline Credit Assessment	baa2
Issuer Rating -Dom Curr	A3
Senior Secured -Dom Curr	A3

Source: Moody's Ratings

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