MOODY'S RATINGS

CREDIT OPINION
27 January 2025

Update

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RATINGS

Riverside Group

Domicile	United Kingdom
Long Term Rating	Baa1
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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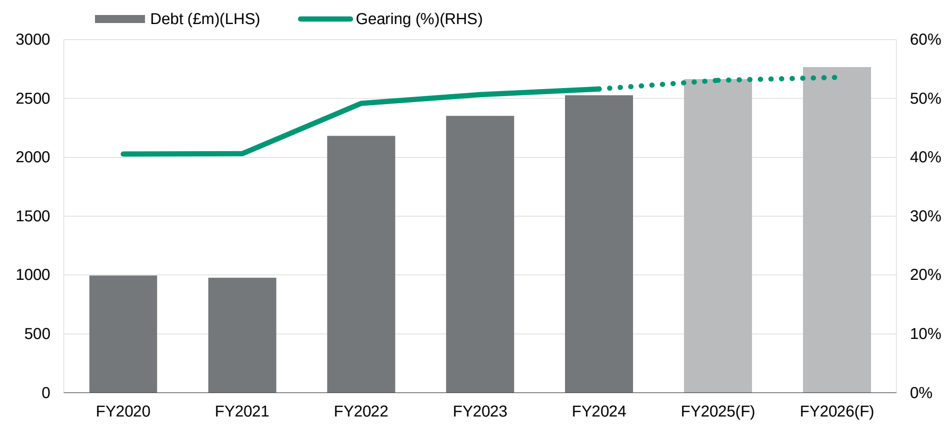
Riverside Group (United Kingdom)

Update to credit analysis

Summary

The credit profile of Riverside Group (Riverside, Baa1 stable) reflects its strong market position, its debt metrics in line with peers and adequate liquidity. It also incorporates a weaker operating performance and the increased treasury risks resulting from its merger with One Housing Group (OHG), including refinancing and covenant risks. The rating also incorporates a strong likelihood that the government of the United Kingdom (UK, Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1
Riverside is expected to maintain adequate debt metrics
Debt (£m, LHS) and gearing (%, RHS), FY2020-2026(F)



F: indicates forecast based on Moody's projections. FY2020-2021 are Riverside only, FY2022-2026(F) show the merged entity, the key driver behind the jump in debt.
Source: Riverside, Moody's Ratings

Credit Strengths

- » Large housing association with nationwide operations and strong management
- » Debt metrics in line with rated peers
- » Supportive institutional framework in England

Credit Challenges

- » Treasury risk following the merger with OHG
- » Low operating margin and interest cover ratios

Rating Outlook

The stable outlook reflects adequate debt metrics and the proactive steps taken to reduce risk, including debt restructuring, generating savings from the merger, scaling back development and reducing the exposure to market sales.

Factors that Could Lead to an Upgrade

Upward pressure on the ratings could result from a marked improvement in operating performance beyond the level currently projected, a reduction in indebtedness and a debt restructuring that effectively reduces the risk posed by the current portfolio combined with an improvement in interest coverage ratios.

Factors that Could Lead to a Downgrade

Downward pressure on the ratings could result from a weakening in financial performance, a ramp-up in risk appetite, including a higher exposure to market sales than the moderate level currently projected, or an increase in indebtedness, including gearing sustained at levels above 60%. A weakening of the regulatory framework or dilution of the overall level of support from the UK government could also lead to downward pressure on the ratings.

Key Indicators

Exhibit 2

Riverside

	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.)	58,360	57,077	75,089	75,088	73,620	74,195	74,313
Operating margin, before interest (%)	15.4	19.8	13.0	5.1	8.6	12.0	14.0
Net capital expenditure as % turnover	56.3	14.7	41.8	44.0	31.4	31.2	20.0
Social housing letting interest coverage (x times)	1.1	1.6	1.0	0.3	0.4	0.4	0.5
Cash flow volatility interest coverage (x times)	1.9	2.7	0.6	1.0	0.6	1.0	1.1
Debt to revenues (x times)	2.8	2.6	4.9	3.8	3.9	3.8	3.8
Debt to assets at cost (%)	40.6	40.6	49.2	50.6	51.6	53.1	53.6

F: Forecast based on Riverside's latest business plan. FY2022 income statement incorporates only 4 months of OHG. FY2023 onwards show the consolidated entity.
Source: Riverside, Moody's Ratings

Detailed Credit Considerations

Riverside's rating combines: (1) its Baseline Credit Assessment (BCA) of baa3, 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 nationwide operations and strong management

Riverside is the sixth largest housing association (HA) in the UK with around 74,000 units in FY2024, benefitting from a strong market position. Riverside is politically engaged with dedicated public policy staff.

Riverside secured additional grant funding through its strategic partnership with Homes England, that will limit debt growth going forward, a credit positive. Similarly, it will receive grants from the Greater London Authority for London-based schemes.

Riverside's credit quality is also supported by its strong financial management controls. We view Riverside's stress-tests and tiered mitigations as more sophisticated than peers. In addition, Riverside will continue to simplify its organisational structure over the next 2-3 years. The future simplification is required as Riverside inherited OHG's very complex organisation with multiple joint ventures.

Debt metrics in line with rated peers

We expect Riverside's debt to revenues to average 3.8x over the next three years, stronger than rated peers (median of 4.1x over the same period). Riverside's debt to revenues stood at 3.9x in FY2024.

Riverside's debt will increase to £2.9 billion by FY2027 from £2.5 billion in FY2024 to fund the development plan. Consequently, gearing will increase to 54% by FY2027 from 52% in FY2024, above rated peers' median of 50%.

Net capex will average 25% of turnover over the next three years, below the peer median following its reduction in its development programme. Capex includes the retrofitting of existing housing stock, as 27% of Riverside's stock is below EPC-C. Riverside obtained a £12.8 million of grant via the Social Housing Decarbonisation Fund to contribute towards the retrofitting cost, and has bid for further grants.

Riverside's has a strong liquidity position as of September 2024, with 29 months, well above its treasury policy which requires immediately available liquidity to meet cash requirements for the next 18 months. Riverside also benefits from a solid unencumbered asset position.

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 ongoing to extend the policy out to at least fiscal 2031, which would provide more certainty to the sector.

Treasury risk following the merger with OHG

Following the merger with OHG, Riverside inherited a higher share of variable debt and a higher refinancing risk than rated peers. Riverside issued £365 million followed by £74 million of private placement last year and used the proceeds to repay some debt thereby de-risking its debt profile. Refinancing risk has reduced to 31% of drawn debt maturing over the next five years and 20% of drawn debt on variable rates as of March 2024. Whilst the reduction is positive this remain above peer medians: 17% and 12% respectively. Despite a switch to EBITDA-only from EBITDA MRI and a harmonisation of covenant calculations, the covenant headroom on interest covers remains tight. We capture those higher risks than peers in our assessment of its investment and debt strategy at ba.

The HA plans to continue to reimburse early small loans and to decrease the number of lenders. We will monitor the progress and risk reduction, as well as negative externalities. Given the higher interest rate environment, Riverside may face increased interest payments following its debt consolidation than planned, which will weigh on its interest cover ratios.

Low operating margin and interest cover ratios

Riverside's operating margin is projected to remain weak at 13% on average over FY2025-2027. This is lower than peers, which we expect to record a median of 24% over the next three years.

Riverside's operating margin will remain weaker than peers primarily due to fire safety costs inherited from OHG. The group identified 65 high-rise buildings with potential flammable cladding issues still requiring works, having already remediated 110 buildings as of October 2024. Riverside expects to spend £358 million over the next 5 years on safety and compliance costs, an average of 10% of turnover per year.

Also, Riverside provides care and supported housing, which tend to have lower margins than social housing lettings, being more labour-intensive.

Riverside is committed to improving its operating performance and has made significant progress in accelerating the integration of OHG. Savings from the integration already amount to £7 million per annum. The operating margin will also improve over the next three years from 9% in fiscal 2024 thanks to the sale of Baycroft (a care scheme); Baycroft reported a £12.6 million loss in fiscal 2024 due to underoccupancy.

Low margin combined with increasing cost of debt underpin Riverside's much weaker Social Housing Letting Interest Coverage (SHLIC), 0.4x in fiscal 2024 or the second lowest among rated peers. Riverside's average cost of debt increased to 5.13% in fiscal 2024, compared to 4.56% the year before.

Riverside's cash flow volatility interest coverage (CVIC) stood at 0.6x in FY2024, which compares adversely to the peer median of 1.4x. We expect CVIC to remain weaker than peers but improve going forward, averaging 1.2x over the next three years. Cash flow from operations is expected to improve thanks to savings, above inflation rent increases and market sales. Market sales are expected to average 11% of turnover over the next three years (or 18% including joint ventures) - a moderate exposure.

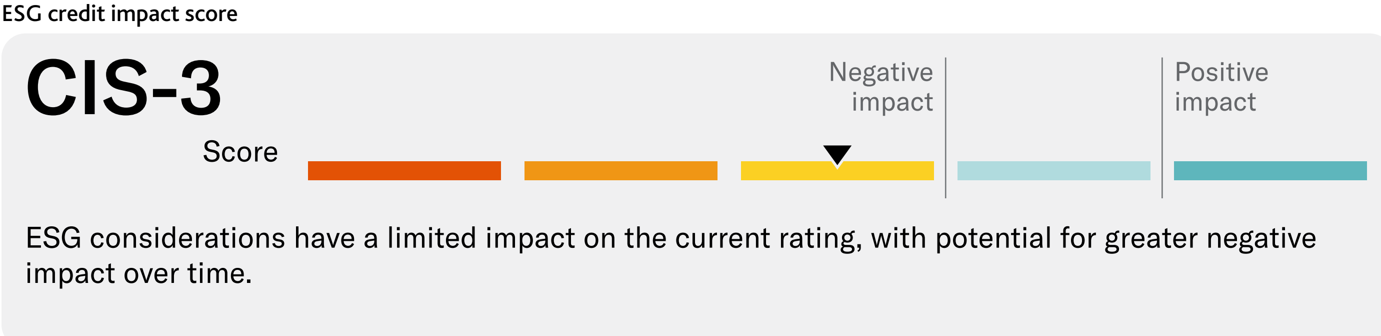
Extraordinary Support Considerations

The strong level of extraordinary support factored into the rating 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 HAs 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 Riverside and the UK government reflects their strong financial and operational linkages.

ESG considerations

Riverside Group's ESG credit impact score is CIS-3

Exhibit 3
ESG credit impact score

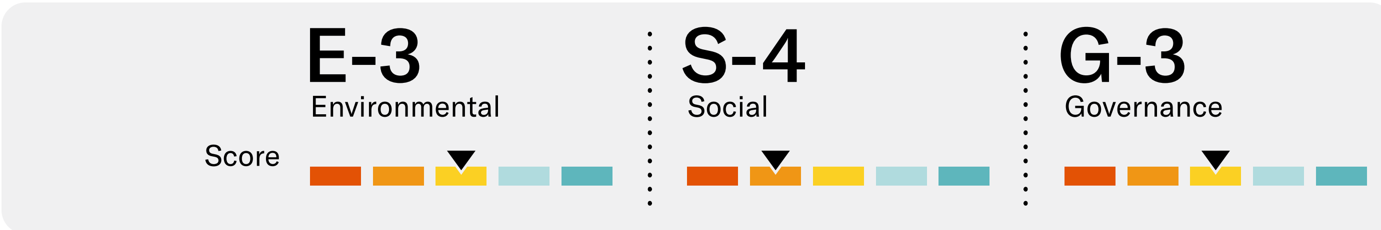


Source: Moody's Ratings

Riverside's **CIS-3** reflects our view that ESG risks have a materially negative impact on its rating. In particular, expenditure requirements related to the carbon transition and building safety will weaken margins and increase financing needs, as well as affordability constraints for low-income tenants which have led to government-imposed sub-inflationary rent caps. Riskier debt structure than peers will weaken credit quality.

Exhibit 4

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Riverside 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 2030 (carbon transition risks), leading to increased expenditure.

Social

Riverside is highly exposed to social risks (**S-4**) through sector-wide legislative requirements to improve the safety and quality of existing stock (responsible production risks) for which Riverside has considerable expenditure requirements which will weigh on its margins and interest coverage over the medium term. Riverside is also vulnerable 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. Riverside also has a significant care and support business, which generates lower margins, and is exposed to cost pressures from its ability to recruit skilled staff.

Governance

Riverside has higher governance risks than most of the sector (**G-3**) due to a debt structure that is riskier than is the norm for the sector, inherited from the merger with One Housing Group. Besides, Riverside has a more complex group structure than peers, mostly inherited from One Housing Group. The HA is looking at simplifying both. Somewhat counterbalancing these risks, we view Riverside's management as strong and experienced, with sound policies.

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 baa3 is in line with the scorecard-indicated BCA outcome of baa3 for FY2024.

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
FY2024 Scorecard

Riverside			
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%	73,620	aa
Factor 3: Financial Performance			
Operating Margin	5%	8.6%	ba
Social Housing Letting Interest Coverage	10%	0.4x	b
Cash-Flow Volatility Interest Coverage	10%	0.6x	b
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.9x	baa
Debt to Assets	10%	51.6%	b
Liquidity Coverage	10%	1.3x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	ba	ba
Scorecard - Indicated BCA Outcome			**baa3**
Assigned BCA			**baa3**

Source: Riverside, Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
RIVERSIDE GROUP	
Outlook	Stable
Baseline Credit Assessment	baa3
Issuer Rating -Dom Curr	Baa1
RIVERSIDE FINANCE PLC	
Outlook	Stable
Senior Secured -Dom Curr	Baa1

Source: Moody's Ratings

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