MOODY'S INVESTORS SERVICE

CREDIT OPINION
15 January 2024

Update

Send Your Feedback

RATINGS

Longhurst Group 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.

Contacts

Zoe Jankel +44.20.7772.1031
VP-Sr Credit Officer
zoe.jankel@moodys.com

James Boachie-Yiadom +44.20.7772.5298
Ratings Associate
james.boachieyiadom@moodys.com

Sebastien Hay +34.91.768.8222
Associate Managing Director
sebastien.hay@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Longhurst Group Ltd (United Kingdom)

Update to credit analysis

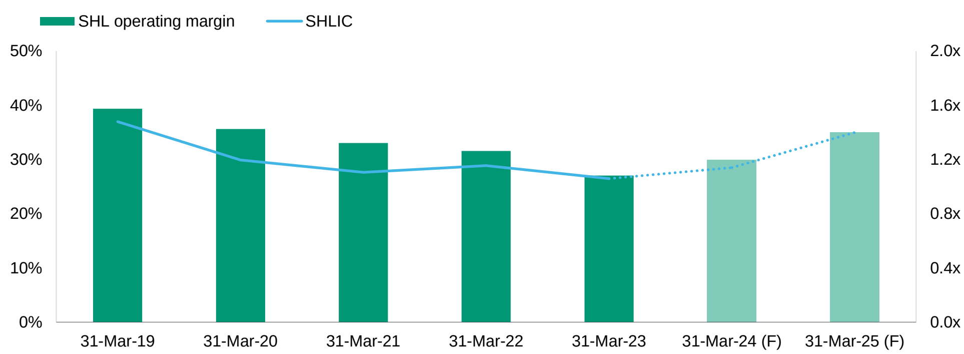
Summary

The credit profile of Longhurst Group Limited (Longhurst, A3 stable) reflects its moderate risk appetite, good performance on social rent and relatively weak debt metrics. Longhurst benefits from the strong regulatory framework governing English housing associations (HAs) and our assessment of a strong likelihood that the government of the United Kingdom (UK, Aa3 stable) would intervene in the event that Longhurst faced acute liquidity stress.

Exhibit 1

Longhurst's exhibits strong performance on its social rented property

Social housing letting (SHL) operating margin (%) and social housing letting interest coverage (SHLIC, x times), fiscals 2019 to 2025



F: Indicates forecast
Source: Longhurst, Moody's Investors Service

Credit strengths

» Simple group structure and moderate risk appetite

» Good performance on social rented property, although it has weakened in recent years

» Supportive institutional framework in England

Credit challenges

» Weakened operating margin and interest coverage

» Gearing remains higher than peers

Rating Outlook

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

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 forecasts, 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 rating.

Key Indicators

Exhibit 2

Longhurst Group Ltd

	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.)	23,155	23,462	23,658	24,149	24,567	25,334	25,929
Operating margin, before interest (%)	29.3	25.1	23.5	23.8	20.7	23.6	26.1
Net capital expenditure as % turnover	14.6	30.4	19.7	17.7	44.5	52.9	30.9
Social housing letting interest coverage (x times)	1.5	1.2	1.1	1.2	1.1	1.1	1.4
Cash flow volatility interest coverage (x times)	1.9	1.2	1.5	1.5	1.6	1.2	1.6
Debt to revenues (x times)	3.6	4.5	4.5	4.3	4.5	4.4	4.0
Debt to assets at cost (%)	57.9	57.2	57.1	55.4	56.6	56.7	54.3

F: Indicates forecast
Source: Longhurst, Moody's Investors Service

Detailed Rating Considerations

Longhurst's A3 rating combines: (1) Baseline Credit Assessment (BCA) of baa1 and a strong likelihood of extraordinary support coming from the UK government in the event that Longhurst faced acute liquidity stress.

Baseline Credit Assessment

Simple group structure and moderate risk appetite

Longhurst Group Limited is the Registered Provider and the parent of the Group, with around 24,500 homes managed in the Midlands and East of England. It also has four active subsidiaries - Keystone Developments which is responsible for market sales development, two financing special purpose vehicles (SPVs) and Teetotal Homes which is a registered charity. Longhurst has formed a new partnership through a 25% stake in a cross-sector joint venture (JV), Grange Lane (Littleport) LLP to develop market sales properties.

Longhurt's development programme includes £596 million of expenditure on the construction of 3,176 units over the next five years. As only a small proportion (15%) of this is committed, Longhurst retains the flexibility to scale back its development programme as a response to further economic and financial pressures. 60% of the total programme is planned to be social and affordable rent, and the remainder shared ownership units. Longhurst's successful bid with Nottingham Community Housing Association (NCHA) for £230 million in grant funding from the Homes England's Affordable Homes Programme 2021-26, allows 16% of the development programme to be funded by capital grant receipts.

Longhurst's market sales exposure (excluding JVs), primarily first-tranche shared ownership sales, is projected to remain moderate throughout fiscal years 2024-2025, contributing an average of 16% of total revenue.

Good performance on social rented property, although it has weakened in recent years

Longhurst's social housing lettings operating margin has declined over recent years, from 42% in fiscal 2018 to 28% in fiscal 2023, although it remains higher than the A3 peer median of 24%. The falling operating margin over this period is due to the impact of the sector-wide rent cut between fiscal 2017 to fiscal 2020, as well as other challenges including increasing management and maintenance costs. Longhurst has faced challenges in achieving efficiencies from the merger and consolidation of the group structure in 2019. Other issues include backlogs of repairs from the pandemic, and labour shortages in its repair services which have pushed up costs and voids in recent years. Longhurst plans to intensify efforts to clear the backlog in fiscal 2024 and 2025, with new repairs contractors now in place. Although we anticipate the margin on social housing lettings to remain above that of peers, it is likely to remain somewhat depressed in fiscal 2024 due to the rent cap and high cost inflation. Over the next five years Longhurst has a considerable major repairs programme, estimated at £120 million, which includes decarbonisation works, as well as fire safety and general property refurbishment works. Although much of this cost will be capitalised, the remainder will suppress social housing margins.

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 by undertaking biennial In-Depth Assessments (IDAs) for large and complex HAs. 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 HAs 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 HAs retain some expenditure flexibility and have a track record of reducing costs to mitigate lower income.

However, due to high rates of inflation, the government had intervened on social rent policy with a 7% ceiling on social rent increases, which was implemented from April 2023 for one year. The ceiling of 7% results in an adverse differential between rental income and cost growth, driving lower margins and interest coverage.

Weakened operating margin and interest coverage

Longhurst's operating margin has weakened to 21% in fiscal 2023 from 31% in fiscal 2018, driven largely by the pressures on its social housing business as highlighted above, although this is still above the A3 peer median of 20% in the same year. Longhurst expects its margin to remain below 30% until fiscal 2026, considering its challenges related to management and maintenance costs, as well as underperformance in its care and supported housing business. The latter reported an operating loss of 32% in fiscal 2023, down from 19% in fiscal 2022, due to high levels of voids as a result of lower referrals by local authorities and a back-log in repairs. However, given that this represents approximately 8% of total turnover, the impact on Longhurst's overall operating margin is muted. Longhurst is anticipated to divest from certain care activities in the near term, which should help alleviate operational pressures. In contrast, its margins on first tranche shared ownership sales are strong at 26% in fiscal 2023, and are expected to remain decent as demand for this product remains more resilient than that for outright sales.

Social housing lettings interest coverage (SHLIC) has been modest over the last three years at an average of 1.1x, although - as with the operating margin - this remains slightly above the A3 peer median of 1.0x in fiscal 2023. Longhurst's SHLIC is forecast to marginally improve over the next three fiscal years, averaging 1.3x.

Gearing remains higher than peers, liquidity is decent

Longhurst's gearing is higher than peers, with debt at 57% assets valued at historical cost at FYE2023 compared with an A3 rated peer median of 51%. This is predominantly due to its legacy as a large-scale voluntary transfer organisation (LSVT), which tend to have higher levels of gearing. However, despite an increase in debt to fund major repairs and its development programme, we expect gearing to remain stable as assets are added to its balance sheet.

Longhurst's debt structure is low risk, with 95% at fixed rates (after hedging), and only 13% of debt requiring refinancing within the next 5 years.

Longhurst's liquidity levels are decent, at 1.2x of two year net cash needs as of FYE2023, with significant buffer above its liquidity policy of 18 months of net capex in cash and immediately available facilities. Longhurst's unencumbered assets position is sufficient to support an additional £561 million of borrowing capacity as of June 2023, well above its 5-year net cash need of £369 million.

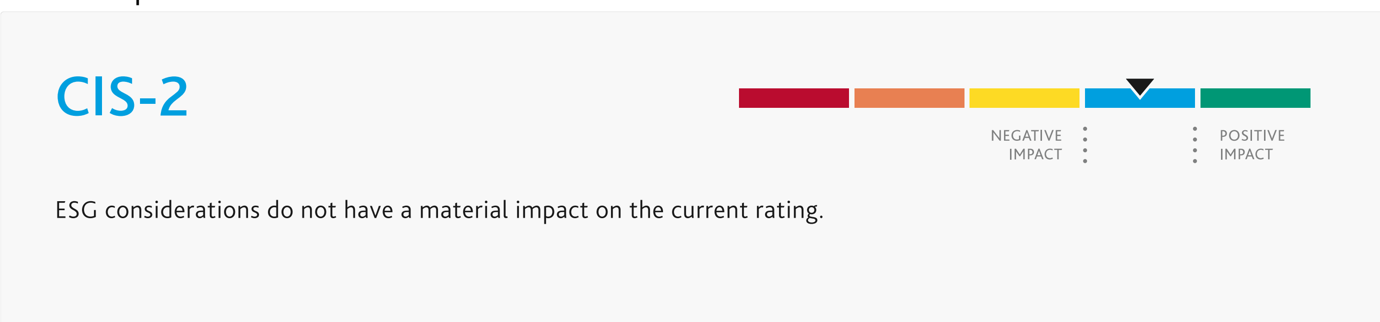
Extraordinary Support Considerations

The strong level of extraordinary support factored into the rating 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 HAs 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 increasing exposure to non-core social housing activities in the sector, that add complexity to HA 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 Longhurst and the UK government reflects their strong financial and operational linkages.

ESG considerations

Longhurst Group Ltd's ESG credit impact score is CIS-2

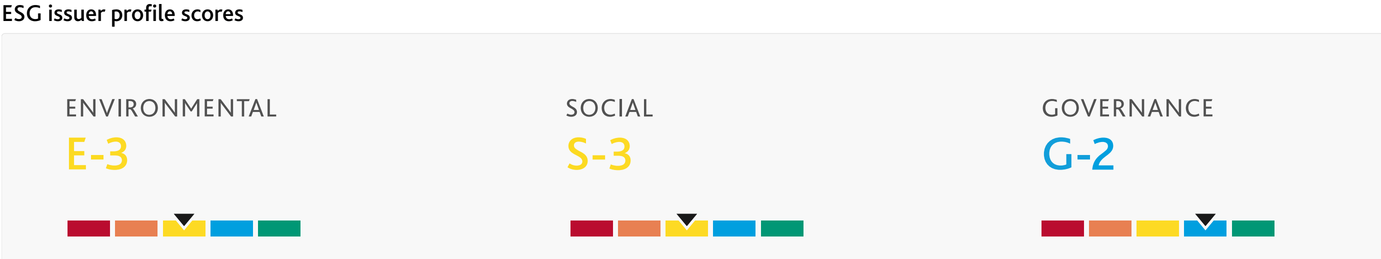
Exhibit 3
ESG credit impact score



Source: Moody's Investors Service

Longhurst's **CIS-2** reflects that ESG risks have a limited impact on its rating. Longhurst has low exposure to carbon transition risks as the majority of its stock already meets energy efficiency requirements, and, although social risks are prevalent, we consider that it 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

Longhurst has 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

Longhurst has 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

Longhurst 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 Baseline Credit Assessment (BCA) of baa1 is close to the scorecard-indicated outcome.

The methodologies used in this rating were European Social Housing Providers, published in April 2018, and Government Related Issuers, published in February 2020.

Exhibit 5

Longhurst's fiscal 2023 scorecard

Longhurst Group			
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%	24,567	a
Factor 3: Financial Performance			
Operating Margin	5%	20.7%	baa
Social Housing Letting Interest Coverage	10%	1.1x	baa
Cash-Flow Volatility Interest Coverage	10%	1.6x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.5x	ba
Debt to Assets	10%	56.6%	b
Liquidity Coverage	10%	1.2x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**baa2**
Assigned BCA			**baa1**

Source: Longhurst, Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
LONGHURST GROUP LTD	
Outlook	Stable
Baseline Credit Assessment	baa1
Issuer Rating -Dom Curr	A3
LIBRA (LONGHURST GROUP) TREASURY NO 2 PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3
LIBRA (LONGHURST GROUP) TREASURY PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3

Source: Moody's Investors Service

REPORT NUMBER 1387246

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's
INVESTORS SERVICE