FitchRatings

A2Dominion Housing Group Limited

Public Finance
Government-Related Entities
United Kingdom

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Key Rating Drivers

Rating Action: Fitch Ratings has downgraded A2Dominion Housing Group Limited's (A2D) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to 'A' from 'A+' and affirmed its Short-Term Foreign- and Local-Currency IDRs of 'F1+'. The Outlooks are Stable.

Rating Derivation Summary: A2D's Standalone Credit Profile (SCP) is 'a-' under the Revenue-Supported Debt Criteria (up to three notches away from the UK sovereign's 'AA-'/Negative/'F1+' ratings) and 12.5 points under the Government-Related Entities (GRE) Criteria. This leads to a bottom-up plus one rating under the Notching Guideline Table.

Revenue Defensibility – 'Strong': Demand has been assessed as 'Strong', as demand for social housing remains strong in London and the south east, the main areas within which A2D operates. Any change in the rents charged by A2D is unlikely to materially affect demand.

Pricing – 'Strong': A supportive regulatory regime aims to maintain compensation for services at a level that will consistently support the solvency of an essential public service. Fitch expects revenue from social rents as a percentage of total revenues to eventually fall, due to increased revenues from non-social housing activity, which will finance development plans and compensate for rent cuts and reduced grants. In this respect, A2D has the independent ability and full flexibility to collect sufficient revenues to cover all costs.

Operating Risk – 'Strong': Operating costs have been assessed as 'Strong'. A2D has well-identified cost drivers and low potential volatility in major items. A2D has material capex in their development plans in the medium-term but has the flexibility to slow down committed schemes, defer uncommitted schemes and switch tenure from sale to market rent.

Resource Management – 'Strong': Resource management has been assessed as 'Strong' as there are unlikely to be supply constraints on labour or resources. Staff costs make up just above 21% of operating costs and there is therefore a lot of flexibility to reduce operating costs without reducing staffing compared to other sectors (such as healthcare) where staff costs are a significant proportion of operating costs.

Financial Profile – 'Strong': In Fitch's rating case, A2D's net adjusted debt/EBITDA is expected to rise substantially in the first year, then fall to current levels in the second and third years. It will thenreduce to below 12x in the fourth and fifth years of the rating case. As A2D is already on Negative Outlook, Fitch has downgraded the IDR by one notch. This places the entity more in line with others that have similar levels of net debt/EBITDA. A2D has also been placed on Stable Outlook.

GRE Score Assessment: The assessments are the following: Status, Ownership, and Control – 'Strong'; Support Track Record and Socio-Political Implications of Default – 'Moderate'; Financial Implications of Default – 'Weak'. This results in 12.5 points under the GRE Criteria guidelines, leading to a bottom-up plus one rating under the Notching Guideline Table.

ESG Considerations: ESG issues have a minimal impact on A2D's ratings, as reflected in a score of '3'.

Rating Sensitivities

Net Debt/EBITDA Increasing: A sustained worsening of the net adjusted debt/EBITDA ratio.

Decreased EBITDA: The IDRs could be upgraded if the net adjusted debt/EBITDA improves on a sustained basis.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1+

Local Currency

Long-Term IDR	A
Short-Term IDR	F1+

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Issuer Profile

A2D is now one of the largest RPs in London and the south-east of England, with just over 38,100 homes in management. It reported GBP320 million turnover in FY20 and an operating surplus of GBP80 million.

Financial Data

A2Dominion Housing Group Limited

(GBPm)	2020	2025rc
Net adjusted debt/EBITDA (x)	15.2	11.9
EBITDA/gross interest (x)	1.8	2.4
Operating revenue	330	426
EBITDA	106	154
Net adjusted debt	1,613	1,835
Total assets	4,033	

rc: Fitch's rating-case scenario
Source: Fitch Ratings, A2D

Applicable Criteria

Government-Related Entities Rating Criteria (September 2020)

Public Sector, Revenue-Supported Entities Rating Criteria (March 2020)

Related Research

Lengthy Coronavirus Outbreak Could Hit UK GREs' Ratings (April 2020)

Fitch Downgrades 3 Oxford Colleges, Places TfL on RWN; Revises Outlook on 4 GREs to Negative (April 2020)

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Rating Synopsis

Fitch views A2D as a GRE of the United Kingdom and assigns a score of 12.5 to the entity, according to Fitch's GRE criteria. The rating factors Status, Ownership and Control and Socio-Political Implications of Default are both assessed as 'Strong', while Support Track Record is assessed as 'Moderate' and Financial Implications of Default is assessed as 'Weak'.

The score of 12.5 leads to the application of a bottom-up approach with a three-notch differential with that of the sovereign. A2D's SCP is 'a-', or up to three notches away from the UK, and as such it is assessed as bottom-up plus one capped at Government minus 1.

Rating History

Date	Long-Term Foreign-Currency IDR	Long-Term Local-Currency IDR
19 Sept 2013	AA-/Negative	AA-/Negative
14 Nov 2014	A+/Stable	A+/Stable
1 April 2020	A+/Negative	A+/Negative
2 Nov 2020	A/Stable	A/Stable

Source: Fitch Ratings

Notching Guideline Table

SCP of GRE versus rating of government/overall support score	Equal to or more than	Between		Between		Between		Between			Equal to or less than
	45	35	42.5	27.5	32.5	20	25	15	17.5	12.5	10
Same or above	Standalone or constrained	Standalone or constrained		Standalone or constrained		Standalone or constrained		Standalone or constrained		Standalone or constrained	Standalone or constrained
Up to three notches away from government	Equalised	Equalised		Equalised		Top-down -1[a]		Bottom-up +1 capped at government -1		$\boxed{\text{Bottom-up +1 capped at government -1}}$	Standalone
Four notches away	Equalised	Top down -1		Top down -1		Top down -2		Bottom up +1		Bottom up +1	Standalone
More than four notches away from government or standalone not derived/not meaningful[c]	Equalised	Top down -1		Top down -2		Top down -3		Bottom up +2 or +3 capped at government -3[b]		Bottom up +1[b]	Standalone[b]

[a] If the SCP of the GRE is one notch below the government and the credit drivers of the GRE are largely independent from those of the government, a one-notch uplift to the same rating as the government can also be considered
[b] When the standalone is not assigned or not meaningful, entities for which the notching approach is bottom-up or standalone would not be rated
[c] The SCP may be 'not meaningful' when the issuer cannot be effectively de-linked from the government - notably when the GRE primarily acts on behalf of the government to perform a policy-driven mission and doesn't generate its own cash flow or because of very tight operational and financial links with the government
Source: Fitch Ratings

Issuer Profile

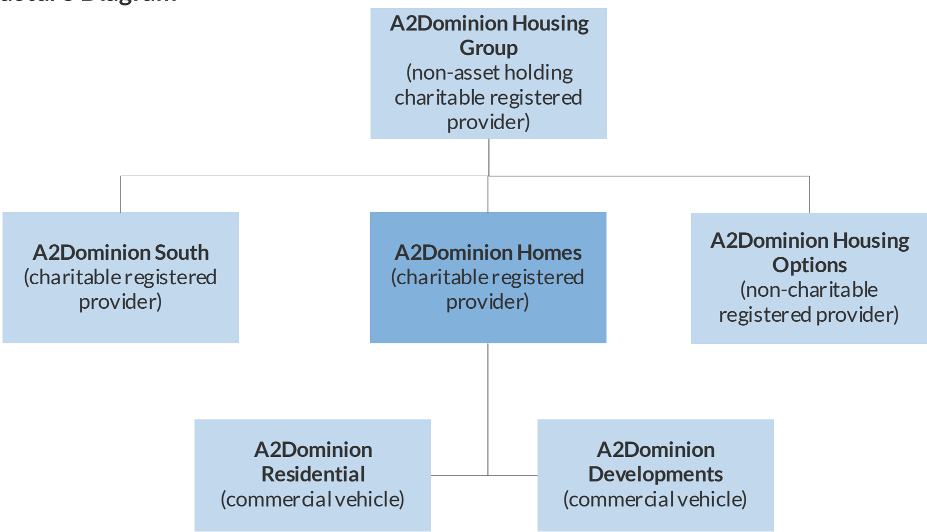
A2D was formed in October 2008, when A2 Housing Group merged with Dominion Housing Group. It provides social, affordable and low-cost home ownership, and supported or sheltered housing, student accommodation and units for private rent and private sale. A2D is the parent and provides strategic direction as well as central and development services.

A2Dominion Homes and A2Dominion South are the charitable registered providers (RPs). A2Dominion Housing Options provides low-cost ownership and is a non-charitable organisation. A2Dominon Developments Ltd, which was formed in FY14 (financial year ending 31 March 2014) by merging two existing companies, carries out development activity on behalf of the whole group, including affordable housing and housing for sale. A2D Residential is the vehicle used for market rent activity. A2D provides a repairs and maintenance service through two joint ventures (JVs) with two maintenance contractors. Pyramid Plus South LLP and Pyramid Plus London LLP are 70% owned by A2D and sit under A2Dominion Housing Options.

The group also has an interest in a number of development JVs, of which eight are active. A2D acts as funder and partner, which reduces risks, costs and time. In FY20 a new JV, West King Street Renewal LLP, was entered into with London Borough of Hammersmith and Fulham. Essex Wharf LLP was dissolved in March 2020.

A2D is now one of the largest RPs in the south of England, with 38,000 total units. It is a member of the G15, a group of London's largest housing associations. A2D operates in London and throughout the south-east of England, with a strong presence in Ealing, Bromley and Oxford through A2Dominion Homes, and in Staines and Winchester through A2Domion South. The group operates across 83 local authorities, 10 of which are key partners. These are Spelthorne, Ealing, Oxford City, Hounslow, Hillingdon, Bristol, Hammersmith and Fulham, City of Westminster, Bromley, and Winchester.

Structure Diagram



Source: Fitch Ratings

Housing Stock

	Units	
	FY20	(%)
Social housing		
General needs	17,519	46
Affordable	1,103	3
Supported/housing for older people	2,206	6
Shared ownership	3,660	10
Key worker	2,708	7
Temporary accommodation	429	1
Social housing – other (garages, offices, community centres)	1,141	3
Total owned	**28,766**	75
Managed for others	**6,376**	17
Non-social housing		
Student accomodation	1,456	4
Market rent	1,425	4
Other - commercial	101	0
Total owned	**2,982**	8
Total units	**38,124**	

Source: Fitch Ratings, A2D

Pandemic Impact

Fitch believes the impact of the coronavirus pandemic on RPs will be less than other public sectors Fitch covers in the UK. RPs have been mostly unaffected by the pandemic as they were well-prepared due to the uncertainties surrounding Brexit. A2D has been responding to the pandemic in a number of ways and the impact has been factored into its business plan for FY21. Should the impact of the pandemic prove worse than forecast, the group has identified a number of potential remedies including divesting of some, or all, its market rent portfolio, delaying other uncommitted expenditure, and a review of costs with a view to achieve further savings. A2D has strong liquidity due to undrawn committed facilities and to delays to maintenance and development programmes caused by lockdown and soclal distancing measures.

Assessment of Support

GRE Factor Assessment Summary Table

Status, ownership, and control	Support, track record and expectations	Socio-political implications of default	Financial implications of default	GRE score
Strong	Moderate	Moderate	Weak	12.5

Source: Fitch Ratings

Status, Ownership and Control: 'Strong'

Fitch reflects in this rating factor the legal status of the issuers, the related assets and liabilities transfer implications in case of default, and the control the state and its agencies exercises on RPs. Most RPs are private not-for-profit entities. For entities that do not have, in strict terms, a legal owner (due to their structure or their status), Fitch will look primarily at the level of control by the government – and not at ownership.

Fitch considers the regulatory framework for English social housing as having a robust legal basis and the overseeing Regulator of Social Housing (RSH) as maintaining sound control and tight monitoring of RPs. The regulator's history of oversight and non-financial intervention in rare cases of distress of RPs is a key factor behind the sector's solidity.

The RSH periodically publishes regulatory judgements on individual RPs. The latest assessment on A2D was a G1/V2 in August 2019 following an in-depth assessment. These judgements comprise a viability report and a governance report, which are conducted by means of an in-depth assessment of the individual RP (evaluation of the risks it faces – financial, market, liquidity, and so forth – and the management team's ways of coping with them). In addition, RPs have to submit their multi-year business plans, which include a development plan, an operating plan, a means of financing, and stress testing, for regulatory assessment. The business plan process was delayed in 2020 due to the pandemic, allowing all RPs to report their financial forecast returns by the end of September, rather than end-June.

Fitch has factored in the financial involvement of the government in terms of the provision of housing benefit (HB) and housing grants, the fact that RPs are carrying out an important public policy mission, and that the government co-financed assets remain in the sector.

Support Track Record: 'Moderate'

Fitch takes into account the support mechanisms the issuers can benefit from, or have benefitted from in the past, from their sponsor, the UK. Policy influence is moderately supportive of the financial stability of RPs. Regulatory restrictions on government support are unlikely to prevent timely intervention in exceptional circumstances. Although the regulator does not provide a direct guarantee for RP borrowers, and the UK government does not have any ownership in the entities, the RSH can use its statutory powers to intervene where there are serious concerns about the performance of an RP. Cosmopolitan Housing Association's merger with Sanctuary Housing in March 2013 showed that the regulator's support was also available for entities involved in non-SH activity. We have therefore deemed that, if necessary, support would be forthcoming for all RPs.

Socio-Political Implications of Default: 'Moderate'

In the unlikely event of financial default, other RPs can act as substitutes, with only minor or temporary disruption to the service offered. Support for this sector ranges from merely ensuring continuation of activities whilst a substitute is found to actively seeking to prevent a default and ensure continued financial viability of the GRE. The RSH can place a poorly performing RP under supervision and make statutory appointments to the board. In some extreme cases, it can direct an independent statutory inquiry, which could result in an RP being required to transfer its assets to another RP to protect the interests of tenants and other relevant parties. Fitch considers that RPs facing difficulties would probably be forced to merge with larger or financially stronger entities.

Fitch considers that reduced access to the capital markets to raise funds, the consequence of a default, would only have a very limited impact on the level of services provided to the tenants. A2D's development plan may, however, have to be scaled down to adapt to the entity's new financing capacity. Fitch considers that RPs are of significant political and economic importance for the country. Fitch considers they have a counter-cyclical role for the UK economy, as displayed by their continued strong performance through the coronavirus pandemic.

Financial Implications of Default: 'Weak'

This reflects Fitch's view that a default by an RP would have a minimal impact on either the availability or cost of the domestic financing of other RPs. Fitch considers that if a default occurred, it would be treated as an isolated case of mismanagement or lack of viability; as such, this should not affect the sector at large.

Overall GRE Assessment

The assessment of A2D's rating factors leads to a score of 12.5 under our GRE criteria.

Standalone Credit Profile Assessment

A2D's SCP has been downgraded to 'a-', which reflects a 'Stronger' assessment of Revenue Defensibility and of Operating Risk. It also reflects a leverage ratio (net adjusted debt/EBITDA) that Fitch expects to be below 12x in years four and five of its rating-case scenario.

Summary

Revenue defensibility	Operating risk	Leverage ratio (x), 2025rc	Negative impact of liquidity profile	Asymmetric risks	SCP
Strong	Strong	11.9	No	No	a-

rc: Fitch's rating-case scenario
Source: Fitch Ratings

Revenue Defensibility: 'Stronger'

Demand Assessed as Stronger

There is high demand for social and affordable rents nationwide, demonstrated by a five-year shortfall in homes across the UK by just under 485,000 units. More than half of this shortfall is in London and the south-east, where A2D's portfolio is based. Annualised mean monthly market rent prices equal over 50% of mean annual earnings in the capital, exacerbating demand for affordable accomodation. The group's stock is located in regions with high property values and market rents, allowing for switches of tenure should it be needed. There is also strong demand for housing in these areas, with 109 applications on average per vacancy for choice-based lettings. Housing Benefit (HB) or Universal Credit (UC) was used by 40% of A2D tenants to pay either part or all their rent. Eighty-five per cent of tenants already have a paying relationship with A2D, and 62% of rental income is paid directly by tenants.

Market Rent

The group has developed a market rent programme with the key objective of achieving a commercial return to reinvest in social housing. The flexibility of market rent compared to social tenures will allow A2D to better manage financial risk of the overall property portfolio. These properties are being developed in key areas within a 20-mile radius of any of A2D's seven management offices, based in Bromley, Ealing, Newham, Oxford, London Paddington, Staines and Winchester. A2D has already completed 911 units, and a further 264 units are planned to be built by FY23. A strategic review in FY20 recommended to put four schemes up for sale and a conversion of one scheme to affordable rent.

Welfare Benefit Reform

The key welfare reforms affecting A2D involve direct payment by, and lower benefits to, tenants, under-occupancy rules and benefit caps. The internal welfare reform working group monitors and reports regularly on the effects of welfare reform and the effectiveness of A2D's action plan. The tenancy sustainment team has helped tenants secure GBP5.4 million in HB from applications and renewals received. Of A2D's tenants, 40% of rental income is from HB or UC. The number of tenants paying by direct debit increased to 42% in FY20 and the phased introduction of UC is continuing. The Trusted Partner Status with the Department for Work and Pensions (DWP) helps A2D manage direct payment of rent from UC. During FY20, GBP10.6 million social value was achieved through community investment schemes, helping 7,500 people gain employment and training. Rent arrears at FYE20 were 2.89%, and do not appear to have risen above 3.5% during any individual month during 1H21.

Pricing Assessed as Stronger

Fitch views the pricing characteristics of A2D as 'Stronger' as A2D is allowed to increase social rents in line with inflation +1% (while there are no caps on increases on market rented property) and is allowed to develop for sale, both privately and through shared ownership. This should enable A2D to cover the growth of their costs and cross-subsidise development. Fitch also considers that a rent increase within the legal cap should not affect the demand level.

Rents returned to Consumer Price Index (CPI)+1% for five years from 1 April 2020, after the reduction in social housing rents by 1% a year for four years from April 2016. This has brought

Revenue Breakdown (Excluding Non-Cash Items), 2020

	(GBPm)	(%)
SH lettings	209.8	65.5
Other SH activities	18.9	5.9
Non-SH activities	91.7	28.6
Operating revenue	**320.4**	
Memo		
Financial revenue		2.1
Capital revenue		15.1
Exceptional revenue		9.2
Other		0

Source: Fitch Ratings, A2D

some relief for the sector after the significant reduction in turnover over the four years from 2016 as a result of the rent cut – estimated by RPs at about 12% by 2020 and 2021.

A2D, like many other RPs, has been diversifying its business to non-core activities such as outright property sales, market rent and housing management to gain flexibility in price-setting. Prices are set at market rates driven by demand and supply, rather than government-set formulae. These are not subject to regulative restrictions, so A2D has independent flexibility to collect revenues sufficient to cover all related costs. Fitch considers London-based and or south-east England-based RPs to have much more flexibility on pricing than RPs operating in other areas.

Diversification into non-core business activities gives them full flexibility to steer their revenue generation and cross-subsidise their core social housing business. In general, demand is high on both market rented and sold properties and social rented and sold properties.

Operating Risk: Stronger

Operating Costs Assessed as Stronger

A2D has well-identified cost drivers and low potential volatility in major items. A2D's performance indicators have improved over the past five years partly due to a business improvement exercise. 2020 is the seventh year of operations for Pyramid Plus London and Pyramid Plus South, which provide repairs, allowing A2D to continue investing in maintaining and upgrading its homes. This service model allowed for savings of GBP1 million against the previous model. The group focuses on value for money and is continually looking for ways to be more cost-efficient. Since 2018, the Fit for the Future transformation programme has supported A2D in becoming more responsive to customers' needs and expectations. The programme has helped A2D become more efficient and sustainable and aims to save GBP23 million over three years.

The key components of A2D's cost base are construction related, property maintenance and staffing. A large proportion of construction-related costs are controlled through fixed-price build contracts with major contractors following a tender process. Delayed development schemes result in time-related cost increases and the coronavirus pandemic has led to some shortage in availability of materials and labour. Property maintenance costs and responsive repair costs are controlled though a fixed-price arrangement which is increased annually by CPI. Planned maintenance and major repairs will cost between GBP20 million to GBP28 million annually over the next five years. For FY21 there are likely to be some delays due to the pandemic restricting access to some properties. A2D's business plan includes modelling of cost inflation but does not factor in any sales inflation.

The group regularly carries out a planned stock condition survey. On average, all stock is inspected on a rolling five-year basis. New surveys are budgeted for annually and include new units and any stock swaps. The stock condition survey influences the asset-management strategy and future planned programmes, and provides stock data for the internal and external clients who may request it. Ninety-nine per cent of the total stock is compliant with the Decent Homes Standard. The portfolio is fairly new as 40% of the stock was built post-2002, leading to lower average repairs and maintenance costs.

The main constraint is the availability of land and of construction companies to implement their development plan. This is notably the case in the Greater London area where construction companies are in high demand and real estate prices are increasing. This is offset, in Fitch's view, by the RPs' ability to charge higher rents or sales prices in the London area to cover the higher costs. The UK has a solid network of construction companies, some of them world-renowned, with the financial strength and the knowledge to build large-scale social housing projects. Larger RPs operating in more than one area in the UK have also a better negotiating power over any construction companies that may be interested in a longer-term cooperation with a large-scale investment partner.

Fire Safety

A2D has 152 buildings being considered in the fire and safety programme, 109 of which are over 18 metres, or six floors, high. The three-year programme, totalling GBP58 million, to rectify issues has begun, including a GBP13.5 million provision set aside in the FYE19 accounts. A large

Expenditure Breakdown (Excl. Non-Cash Items), 2020

	(GBPm)	(%)
Staff costs	55.1	21.3
Routine maintenance costs	19.3	7.5
Other recurring exenditure	149.2	57.8
Depreciation and impairment	34.6	13.4
Operating expenditure	**258.2**	

Memo	
Financial charges	60.3
Capital expenditure	201.1
Exceptional expenditure	4.0
Other	-

Source: Fitch Ratings, A2D

proportion of this cost is expected to be borne by third parties (the business plan includes a 35% conservative assumption).

Resource Management Assessed as Stronger

A2D has no supply constraints for labour or resources in terms of amount, cost or timing. A2D's average number of employees was 1,077 full-time equivalents in FY20, an increase from 1,006 in FY19. Of these, just under 65% were in housing support and care, 27% were in administration and just under 9% in development and sales. Wages and salaries remained in line with the previous year at GBP55.1 million. A2D focuses on reducing staff turnover and absence levels but will always be affected by external wage inflation. Their pay policy is to pay at the 65th percentile of the market.

Capital Planning

Fitch assesses capital planning and management as 'Neutral'. A2D has adequate mechanisms for capital planning and funding, and has demonstrated generally effective management. These mechanisms are closely monitored by the RSH through the 30-year financial forecast returns required to be submitted and the regulatory judgements undertaken. Debt maturity is well within the expected economic life.

To finance their investment programme, UK RPs have strong ongoing cashflows from the social rental aspect of their business,s as well as high levels of liquidity provided by the financial markets. Most RPs have RCFs, bank loans, Private Placements (PPs) or public bonds to finance development on long-term arrangements that are often not fully drawn. There is overall little risk of cost overrun with these investments as the construction processes are well established and thoroughly planned. In most cases boards only commit to a development project and include it in the business plan if funding is secured, and liquidity policy measures are met.

A2D has developed over 12,500 units since FY08. It has an in-house developer, but for large and/ or complex schemes A2D appoints a main external contractor. Of those units developed, 53% were for social rent, and were previously helped by the grant regime. Just over 25% were shared ownership, and the rest were for private sale or market rent. The total number of units developed annually has ranged between 415 and 1,767 since FY08. These numbers will vary over the coming years as developments are completed.

The group has a robust development appraisal process, procedures and controls. As affordable housing development in London and the south-east requires a subsidy, this must be provided from surpluses generated elsewhere within the group. A2D has managed to lessen the impact of reduced government grants by reinvesting more of its reserves in subsidising the provision of affordable homes. A2D has formed a strategic partnership with the Greater London Authority (GLA) as part of their 2016/2021 London Affordable Homes Programme (in response to the pandemic, the GLA has extended the deadline for start on-site to 2023) agreeing to deliver 60% of affordable housing, which provides a grant rate of about GBP60,000 per unit. The group's strategy is to develop whole sites, with a mix of tenures. This gives it full control over the site and the ability to appoint contractors or use its in-house developers. Profits from housing sales can be gift-aided to the charitable RPs to support affordable housing development.

At FYE20, the group managed or owned 38,113 homes, a net increase of 22 on the previous year-end. Organic growth through development was offset by the disposal of units under the group's stock rationalisation programme. A2D is working within 83 local authorities and has 6,400 units in its development pipeline across 23 local authorities, with over 650 to be delivered through JVs. Around 20% of total developed units will be affordable units, 20% market rent, 20% shared ownership and 40% private sale. The regional split is expected to be 50% London and 50% south-east (outside London). A2D expects to deliver on average 1,200 units a year over the next five years. In FY20 A2D delivered 415 new homes with a variety of tenures.

On average, 40% of funding of new units is from external funding (loans), 40% from surpluses, and 20% from government grants.Total commitments are expected to be met by undrawn loan facilities, cash, social housing grants, projected proceeds from first-tranche sales of shared-ownership properties, and the sale of properties.

Development Track Record

	Units developed/ completed	Units in development
2007-2008	1,767	-
2008-2009	1,553	-
2009-2010	1,253	-
2010-2011	1,107	-
2011-2012	1,101	-
2012-2013	636	-
2013-2014	581	-
2014-2015	579	-
2015-2016	1,127	-
2016-2017	754	-
2017-2018	774	-
2018-2019	875	-
2019-2020	415	-
2020-2021	-	388
2021-2022	-	1,416
2022-2023	-	1,680
2023-2024	-	1,202
2024-2025	-	890

Note: Until 2024-2025 all units are in the pipeline. Only from 2025-2026 does the group have unidentified units
Source: Fitch Ratings, A2D

The implications of Brexit on the sector are uncertain but are likely to be limited. There is likely to be turbulence in the financial and housing markets, delaying planned debt restructures or indicating a lowering of demand for property purchases. There may also be some impact on the supply chain (potentially being negatively affected by material and personnel shortages) and secondary supply chains could be affected by material shortages as a result of border friction or tariffs. Neverthless, supply chains have been expanded to reduce risk of service and material shortage.

Financial Profile: Stronger

In FY20, turnover was GBP320 million, GBP52 million lower than in FY19. FY19 was particularly high as a result of significant developments for sale. The surplus for FY20 of GBP20 million was in line with FY19. Debt at FYE20 rose to GBP1.7 billion and is expected to peak at GBP1.9 billion by FYE23.

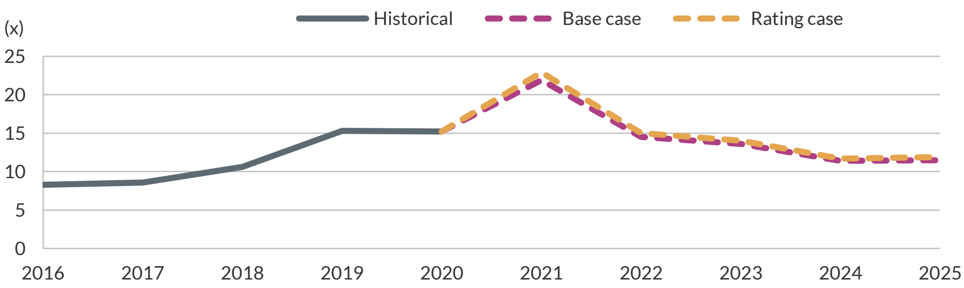
A2D's performance is aided by a mixed tenure development plan that aims to deliver housing for sale as well as affordable housing and market rent properties. Profits from private sale units will be re-invested in the RP to continue to build and provide affordable and social units. Although the share of sales and non-social housing activity is expected to increase in the medium term, at least half of the turnover will remain from social housing lettings. Debt will increase to fund capital expenditure on development programmes.

Debt Ratios

Year 1 of A2D's business plan is based on the 2019/2020 budget and conservative assumptions on the impact of the pandemic on the group. The base plan and stress-tested variants demonstrate that A2D has capacity to absorb the impact of the pandemic. The group is able to control its net debt by adjusting levels of as-of-yet unidentified "bluesky" scheme expenditure – that is, schemes that have not yet been identified but that will be maintained in line with strategy. Should the impact of the pandemic prove worse than forecast, the group has a number of mitigating options available. Prudent levels of stair-casings are assumed (staircasing being where an owner of a shared ownership property purchases further shares of the property from the RP that owns the remaining part): GBP5 million in 2020 and 2021; GBP7.5 million in 2021 and 2022; and GBP15 million thereafter (before inflation). The plan includes a modest level of strategic sales of land and market rent stock.

The group is able to cover a significant portion of forecast interest due with cash generated from lettings activity (social and non-social) before 2024, and all forecast interest from 2024 onwards. The plan demonstrates resilience even through periods of slower sales. As sales conditions improve, the group is well-placed to benefit from the upside. The group has sufficient facilities to cover forecast loan requirements until 2024. The rating case has been only stressed slightly, primarily by reducing operating revenue by an additional 0.5% for years 1–5 and increasing operating expenditure by 0.5% for years 1–5. We believe the business plan presented by A2D has already factored in significant stresses, particularly as a result of the uncertainty surrounding the coronavirus pandemic.

Net Adjusted Debt/EBITDA - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, A2D

Financial Profile Ratios:

- **Leverage:** net adjusted debt / EBITDA (x)
- **Gross Interest Coverage:** EBITDA / Gross Interest (x)

Fitch's Rating-Case Scenario:
The rating case is a through-the-cycle scenario that incorporates a combination of revenue, cost or financial risk stresses

Liquidity Profile: Weaker

At FYE20, A2D had GBP122 million in cash and liquid investments. A2D nevertheless generally aims to minimise the liquid cash that it holds, seeking to maximise its return through investment. The liquidity profile is assessed as 'Neutral', as A2D has a liquidity cushion above 0.33. At FYE20 the group had GBP2.2 billion available arranged facilities, which are amortising. However, additional facilities have been negotiated, meaning that the group has sufficient facilities to cover its base plan loan requirement until 2024. These include GBP443 million of available, but undrawn, facilities – primarily with bank revolving facilities. GBP77 million is available through Pricoa (secured platform available until August 2021). A2D also has a GBP75 million forward deal contractually committed from BAe (EMTN unsecured), available from March 2022.

Liquidity Cushion Calculation

(GBPm)	2021rc
Unrestricted cash, liquid deposits, and sinking funds (2020)	121.5
Undrawn committed credit lines	443
EBITDA, 2021rc	74
Debt service, 2021rc	52
Cash operating expenditure, 2021rc	276
Liquidity cushion (x)	2.0

rc: rating-case scenario
Source: Fitch Ratings, A2D

Asymmetric Risks: Neutral

Debt structure and contingent liabilities	Management and governance	Legal and regulatory	Information quality	Country ceiling and legal regime
Neutral	Neutral	Neutral	Neutral	Neutral

Source: Fitch Ratings

Mitigating actions, should the need arise, include delaying the start onsite of one or more large schemes and raising funds by implementing a stock rationalisation programme to dispose of stock that no longer fits within their operating area or to dispose of market rent stock. The group maintains a register of unencumbered stock that could be disposed of quickly if necessary.

Debt Structure

Debt at FYE20 rose to GBP1.7 billion and is expected to peak at GBP1.9 billion by FYE23. In its rating case Fitch expects net adjusted debt/EBITDA to increase significantly for FY21 but then decline over years two and three back to current levels and then decline to below 12x in years four and five.

A2D has no group covenants. However, there are interest cover and gearing covenants within its two main subsidiaries, A2D Homes and A2D South. These covenants are met within the business plan and in the stress-tested business plans, albeit with diminished headroom. A2D has developed just under 10,500 units in the past decade and it aims to develop on average 1,200 units a year from 2020. The tenure split is expected to be 20% affordable rent, 20% shared ownership, 20% private rent and 40% private sale.

In December 2019 A2D issued 2 bond issues off EMTN programme totalling GBP160 million and arranged GBP75 million new loan facilities with one lender. Total drawn debt increased by GBP109 million in FY20 to just over GBP1.7 billion, 41% of the current drawn debt portfolio is bank loans, with margins ranging from 0.25% (plus LIBOR) to 5.97% (fixed). At FYE20 A2D had GBP555 million of revolving credit facilities in place, with GBP520 million undrawn.

All loans are secured by charges on properties, apart from the bonds which are unsecured, with the exception of some of the legacy club bonds that are secured. Borrowings consist of secured loan and club bond facilities totalling GBP944.1 million and unsecured retail and wholesale bonds and floating rate notes totalling GBP768.6 million (net of discount). The loans are to be repaid until 2045 in bullet payments or half-yearly and quarterly instalments. The total value of the social housing stock (all completed units) is GBP3.2 billion on an Existing Use Value for Social Housing (EUV-SH)/Fair Value basis, compared to a Market Value – Vacant Possession (MV-VP) basis of GBP8.6 billion.

Debt Analysis

	End-2020
Fixed rate (% of adjusted debt) – average for the group	89.9
Short-term debt (% of adjusted debt)	0
Average cost (%)	4.42
Average maturity (years)	9.14

Source: Fitch Ratings, A2D

Bonds Issued by A2Dominion Housing Group Limited

ISIN code	Issue date	Maturity date	Issue volume (GBPm)	Coupon (%)
EMTN programme			1,000	
XS1517173149	15 November 2016	15 November 2028	250	3.5
XS2089975994	11 December 2019	11 December 2030	75	2.625
XS2087450693	10 December 2019	10 December 2029	85	2.605

Source: Fitch Ratings

Peer Analysis

A2D is a medium/large size RP, sitting between Hyde Housing Association Limited and Great Places Housing Group Limited in terms of number of housing units. A2D is based in the south-east of England, similar to Hyde, with Great Places operating in the north west. A2D's net adjusted debt/EBITDA is more comparable to those that have an SCP at 'a-' . The percentage of units in development in their portfolio at around 20% is average compared to peers, althoughand much lower than London & Quadrant Housing Trust where this figure reaches 50%.

Peers

Issuers	Sponsor	GRE score	Leverage 2025rc	SCP	IDR	Rating approach
A2Dominion	UK	12.5	11.9	a-	A	Bottom-up, +1
Great Places Housing Group Limited	UK	12.5	8.2	a	A+	Bottom-up, +1
Hyde Housing Association Limited	UK	12.5	8.9	a	A+	Bottom-up, +1
London & Quadrant Housing Trust	UK	12.5	8.9	a	A+	Bottom-up, +1
Notting Hill Genesis	UK	12.5	11.9	a-	A	Bottom-up, +1
Origin Housing Limited	UK	12.5	10.5	a-	A	Bottom-up, +1
Places for People Group Limited	UK	12.5	10.0	a-	A	Bottom-up, +1

Source: Fitch Ratings

ESG Considerations

The highest level of ESG credit relevance is a score of '3' – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/site/esg.

Appendix A: Financial Data

A2Dominion Housing Group Limited (FYE: 31 March)

(GBPm)	FY16	FY17	FY18	FY19	FY20
Income statement					
Operating revenue	396	386	355	384	339
Revenue growth (annual % change)		-2.7	-7.9	8.2	-11.9
Operating expenditure	-265	-267	-210	-319	-258
Expenditure growth (annual % change)		0.6	-21.4	51.8	-19.0
Interest revenue	2	6	3	8	2
Interest expenditure	-50	-56	-57	-60	-60
Other non-operating items	32	16	5	12	-4
Taxation	-1	0	1	0	2
Profit (loss) After Tax	115	85	98	25	21
Memo: Transfers and grants from public sector	0	0	0	0	0
Balance sheet summary					
Long-term assets	2,993	3,061	3,240	3,414	3,576
Stock	201	222	310	277	266
Trade debtors	0	0	1	0	0
Other current assets	106	138	66	68	70
Total cash, liquid investments, sinking funds	45	218	126	160	122
Total assets	3,345	3,639	3,743	3,918	4,033
Long-term liabilities	2,489	2,668	2,615	2,778	2,873
Short term debt	29	34	53	37	27
Trade creditors	7	11	9	17	13
Other short term liabilities	71	90	127	141	152
Charter capital	0	0	0	0	0
Reserves and retained earnings	749	836	938	944	966
Minority interests	1	1	1	1	1
Liabilities and equity	3,345	3,639	3,743	3,918	4,033
Debt statement					
Short term debt	29	34	53	37	27
Long term debt	1,335	1,528	1,482	1,572	1,691
Finance leases	0	0	0	0	0
Subordinated debt	0	0	0	0	0
Total debt	1,365	1,562	1,535	1,609	1,718
Unfunded pension liabilities	5	6	5	34	16
Other Fitch classified debt	0	0	0	0	0
Adjusted debt	1,369	1,567	1,540	1,642	1,735
Unrestricted cash, liquid investments, sinking funds	45	218	126	160	122
Net adjusted debt	1,324	1,349	1,414	1,483	1,613
EBITDA reconciliation					
Operating balance	131	119	145	66	80
+ Depreciation	31	37	31	33	33
+ Provision and impairments	0	0	-2	1	2
+/-Other non-cash operating revenues/expenditures	0	0	0	0	0
= EBITDA	162	155	175	99	115

Source: Fitch Ratings, A2D

Appendix B

A2Dominion Housing Group Limited

Ratio analysis	FY16	FY17	FY18	FY19	FY20
Income statement ratios					
EBITDA/operating revenue (%)	41.0	40.2	49.2	25.8	33.9
Personnel costs/operating expenditure (%)	17.2	18.0	24.7	17.8	24.6
Total transfers from public sector/operating revenue and ad-hoc transfers (%)	0.0	0.0	0.0	0.0	0.0
Balance sheet ratios					
Current assets/total assets (%)	10.5	15.9	13.4	12.9	11.3
Current assets/adjusted debt (%)	25.7	36.9	32.6	30.7	26.4
Total assets/adjusted debt (%)	244.3	232.2	243.1	238.6	232.5
Return on equity (%)	15.4	10.2	10.4	2.7	2.1
Return on assets (%)	3.4	2.3	2.6	0.6	0.5
Debt ratios					
Net adjusted debt/EBITDA (x)	8.2	8.7	8.1	14.9	14.0
EBITDA/gross interest coverage (x)	3.3	2.8	3.1	1.6	1.9
Net adjusted debt/operating revenue (%)	334.0	349.9	397.9	385.7	476.5
Net adjusted debt/equity (%)	176.8	161.5	150.7	157.1	167.0
Debt in foreign currency/total debt (%)	0.0	0.0	0.0	0.0	0.0
Debt at floating interest rates/total debt (%)	0.0	0.0	0.0	0.0	0.0
Issued debt/total debt (%)	22.0	19.2	19.5	18.6	52.5
Liquidity ratios					
Liquidity cushion (x)	0.6	0.5	3.6	1.7	2.6
Coverage ratio (x)	2.1	1.8	25.0	17.5	23.1

Source: Fitch Ratings, A2D

Appendix C

A2Dominion Housing Group Limited

(GBPm)	FY21rc	FY22rc	FY23rc	FY24rc	FY25rc
Cash-flow analysis					
Cash-adjusted operating revenue	351	429	426	432	426
Revenue growth (annual % change)	4.1	22.4	-0.8	1.4	-1.4
Cash-adjusted operating expenditure	-275	-309	-289	-274	-270
Expenditure growth (annual % change)	23.0	12.4	-6.5	-5.2	-1.4
EBITDA	74	119	135	157	154
Interest revenue	2	0	0	0	0
Interest expenditure	-52	-61	-58	-62	-66
Financial balance	-50	-60	-57	-62	-66
Net capital expenditure	-118	-174	-210	-44	-99
Capital injection and other cash-items	0	0	0	0	0
Dividend paid	0	0	0	0	0
Other cash-items (net)	-11	32	18	14	7
Net debt movement	26	106	56	-69	-1
Change in cash	-78	23	-58	-4	-4
Debt and liquidity					
Adjusted debt	1,744	1,850	1,906	1,837	1,836
Memo: Non-cash movement in adjusted debt	0	0	0	0	0
Unrestricted cash	43	66	8	4	1
Net adjusted debt	1,701	1,784	1,898	1,833	1,835
Financial and liquidity ratios					
Net adjusted debt/EBITDA (x)	22.9	15.0	14.0	11.7	11.9
EBITDA/gross interest coverage (x)	1.4	2.0	2.3	2.5	2.351
Liquidity cushion (x)	2.0	1.9	-	-	-
Liquidity coverage ratio (x)	28.9	36.4	-	-	-

rc: Fitch's rating-case scenario
Source: Fitch Ratings

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.