

A2Dominion Housing Group Limited

Update

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Local Currency

Long-Term IDR	A+
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Outlooks

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

Financial Data

A2Dominion Housing Group Limited

	31 Mar 16	31 Mar 15 restated
Total operating revenue (exc. transfers and grants from public sector) (GBPm)	378.4	312.3
Transfers and grants from public sector (GBPm)	0	0
Operating balance (GBPm)	113.0	86.5
Total debt (GBPm)	1,364.5	1,348.1
Total assets (GBPm)	3,345.4	3,239.2
Equity and reserves (GBPm)	748.8	635.8
Fitch-calculated EBITDA gross interest coverage (x)	2.7	2.1
Return on assets (%)	3.4	2.3
Return on equity & reserves (%)	15.3	11.5
Total debt/EBITDA (%)	7.7	10.1

Key Rating Drivers

Stable and Predictable Revenue: The ratings of A2Dominion Housing Group Limited (A2D) reflect continuing demand for social housing in the south of England, and continued cash flow from rented properties. They also factor in A2D's secured cash flow from public funds and the control and regulation provided through the Homes and Communities Agency (HCA). A2D is now one of the largest registered providers (RPs) of social housing in the south of England, with over 36,000 units in total in the financial year to March 2016 (FY16).

Rating Drivers: A2D's financial performance and debt metrics, supported by strong demand for social housing, are in line with 'A+' peers. The Stable Outlook reflects Fitch Ratings' view that developments in the social housing sector over the past two years, such as a weakened operating environment and increased challenges facing RPs in England, should not necessarily have a material negative impact on A2D.

High Demand for Housing: Fitch expects strong demand to continue in the 79 local authorities where A2D has housing units due to long waiting lists as housing prices and market rent levels are high. A2D shows healthy tenancy turnover and swift re-letting of properties, which are reliable indicators of demand. Demand is also reflected in the 170 applications on average per vacancy for choice-based lettings and good performance on void loss and arrears.

Annual Surpluses: A2D has recorded net annual surpluses on a group consolidated basis for the last five years, and its business plan forecasts further surpluses. Fitch expects the operating margin over the next five years to be between 28% and 34%, with variations largely dependent on the timing of major repairs expenditure and the profits generated from shared ownership and outright sales. We forecast the mix of A2D's turnover to change, with a rise in non-social housing turnover from 42% of overall turnover in FY17 to a high of 52% in FY19.

Development Programme: A2D has developed over 9,700 units in the last nine years, and its strategy for 2015-2020 is to develop a further 4,500-6,000 units. A2D aims to deliver 20% of these units for affordable rent, 20% for shared ownership, 20% for private rent and 40% for private sale, while reducing its reliance on the HCA grant.

The group's strategy in recent years has been to develop whole sites, with a mix of tenures including rented, shared ownership and units for sale. Profits from housing sales and market rent can be gift-aided to charitable RPs to support affordable housing development.

Debt Continues to Rise: A2D's debt will rise to fund its growth in housing assets. Debt at FYE16 was GBP1.36bn, and borrowing requirements over the next five years are fairly stable with total debt expected to peak at GBP1.55bn at FYE17. A2D has recently set up a GBP1bn EMTN programme and expects to issue up to GBP250m shortly. The group also issued a GBP150m unsecured bond through A2D Funding II plc in October 2014, following a GBP150m bond insured through A2DFunding in October 2013, both with a guarantee from A2D.

Rating Sensitivities

Pressure on Covenants, Volatility: Fitch will continue to monitor challenges to the ratings, such as signs of: greater pressure on headroom on interest cover and gearing covenants; greater reliance on sales receipts than currently expected; increased volatility in operating revenue as a result of higher exposure to development activities; and a significant increase in gearing.

Related Research

[A2Dominion Housing Group Limited \(November 2015\)](#)

[Fitch Affirms 3 English Social Housing Registered Providers; Outlooks Stable \(July 2016\)](#)

[English Social Housing: Registered Providers \(February 2015\)](#)

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Appendix A

A2Dominion Housing Group Limited

Year-end 31 March (GBPm)	2012	2013	2014	2015 Restated (adoption of FRS 102)	2016 (adoption of FRS 102)
Income statement summary and profitability					
Total operating revenue (exc. transfers and grants from public sector)	249.2	258.6	272.1	312.3	378.4
Operating revenue growth (%)	23.43	3.77	5.22	14.77	21.17
Transfers and grants from public sector	0	0	0	0	0
Transfers and grants from public sector/total revenues ^a (%)	0	0	0	0	0
Operating balance	41.2	54.9	77.7	86.5	113.0
Interest expense	42.2	43.4	48.2	49.8	49.7
Profit (loss) after tax	17.1	28.0	38.9	73.2	114.5
Personnel costs/total revenues ^a (%)	12.40	12.68	14.11	12.39	10.65
Fitch-calculated EBITDA margin (%)	51.57	51.78	56.96	42.94	47.01
FFO margin (%)	31.26	32.21	37.52	23.44	30.26
FCF margin (%)	18.18	28.19	19.59	-41.15	14.61
Return on equity and reserves (%)	3.01	4.69	6.10	11.49	15.27
Return on assets (%)	0.93	1.53	2.06	2.26	3.42
Balance sheet summary					
Total assets ^b	1,834.1	1,834.6	1,887.5	3,239.2	3,345.4
Stock	203.7	172.7	174.7	243.2	201.2
Cash and liquid investments	28.4	17.3	30.0	29.4	37.3
Reserves	567.9	597.1	636.5	635.8	748.8
Equity					
Cash-flow summary					
EBITDA (Fitch calculated)	128.5	133.9	155.0	134.1	177.9
Cash interest paid	-50.7	-51.3	-54.1	-62.7	-65.7
Other items before FFO	0.4	0.7	0.2	1.8	2.3
FFO: funds from operations	77.9	83.3	102.1	73.2	114.5
Changes in working capital	-20.3	4.7	-21.4	-56.2	72.5
CFO: cash flow from operations	57.6	88.0	80.7	17.0	187.0
Net capital expenditure	-12.3	-15.1	-27.4	-145.5	-131.7
Dividends paid	0.0	0.0	0.0	0.0	0.0
FCF: free cash flow	45.3	72.9	53.3	-128.5	55.3
Equity injection					
Other cash financing	-50.3	-50.6	-53.9	-60.9	-63.3
Cash flow before debt movement	-5.0	22.3	-0.6	-189.4	-8.0
New borrowing	164.0	26.3	237.4	583.9	50.0
Debt repayment	-148.7	-66.6	-213.5	-395.1	-34.1
Cash flow after net debt movement	10.3	-18.0	23.3	-0.6	7.9

^a Includes revenue from the public sector

^b Prior to the adoption of FRS 102, social housing grant was classified within fixed assets and netted off. With the adoption of FRS 102, it is now shown as a long-term liability.

Source: Issuer and Fitch calculations

Related Criteria

[Ratings of Public-Sector Entities – Outside the US \(February 2016\)](#)

[Revenue-Supported Rating Criteria \(June 2014\)](#)

Appendix B

A2Dominion Housing Group Limited

Year-end 31 March (GBPm)

	2012	2013	2014	2015 (adoption of FRS 102)	2016 (adoption of FRS 102)
Debt summary					
Short-term debt	17.1	22.3	21.1	15.3	29.2
Long-term debt	1,161.2	1,122.7	1,138.2	1,332.8	1,335.3
Total debt	1,178.3	1,145.0	1,159.3	1,348.1	1,364.5
Subordinated debt					
Finance leases					
Other Fitch-classified debt					
Total risk	1,178.3	1,145.0	1,159.3	1,348.1	1,364.5
Unfunded pension liabilities	3.8	3.2	4.6	5.8	4.9
Contingent liabilities					
Overall risk	1,182.1	1,148.2	1,163.9	1,353.9	1,369.4
Cash, liquid deposits and sinking fund	32.1	21.5	34.6	34.8	43.9
Net overall risk	1,150.0	1,126.7	1,129.3	1,319.1	1,325.5
% debt in foreign currency	0.00	0.00	0.00	0.00	0.00
% debt at fixed interest rate	80.28	83.00	95.40	90.40	89.10
% issued debt	0.00	0.00	12.94	22.25	21.99
Coverage and leverage					
Fitch-calculated EBITDA gross interest coverage (x)	2.53	2.61	2.87	2.14	2.71
FFO gross interest coverage (x)	1.54	1.62	1.89	1.17	1.74
FFO debt service coverage (x)	0.39	0.71	0.38	0.16	1.15
FFO/net capital expenditure (%)	633.33	551.66	372.63	50.31	86.94
FFO gross leverage (x)	0.07	0.07	0.09	0.05	0.08
Net debt/(CFO-capex) (x)	-30.32	-11,235.00	105.11	-6.92	-89.84
Total debt/Fitch-calculated EBITDA (x)	9.17	8.55	7.48	10.05	7.67
Net debt/Fitch-calculated EBITDA (x)	8.92	8.39	7.26	9.79	7.42
Total risk/Fitch-calculated EBITDA (x)	9.17	8.55	7.48	10.05	7.67
Overall risk/Fitch-calculated EBITDA (x)	9.20	8.58	7.51	10.10	7.70
Total debt/equity and reserves (%)	207.48	191.76	182.14	212.03	182.22
Total debt/total assets (%) ^b	64.24	62.41	61.42	41.62	40.79
Sector-specific data					
Social housing rent	164.9	174.6	180.0	202.6	209.5
Other social and non-social activity	84.3	84.0	92.1	109.7	168.9
Property sales	45.7	45.6	53.3	75.8	113.6
Management costs	40.7	46.0	45.0	46.3	46.0
Routine maintenance costs	15.5	15.9	15.3	16.2	16.7
Net debt/total assets (%) ^b	62.70	61.47	59.83	40.71	39.67
Total debt per unit	35,291.1	35,005.7	35,194.3	40,347.8	40,356.7
Accrued housing grant	1,159.3	1,157.8	1,157.2	1,173.0	1,197.0
Total social housing stock (units)	33,388	32,709	32,940	33,412	33,811
Void rent loss	2.6	2.4	3.0	2.5	2.1
Management cost per social housing unit (GBP)	1,219.0	1,406.3	1,366.1	1,385.7	1,360.5
Routine maintenance cost per social housing unit (GBP)	464.2	486.1	464.5	484.9	493.9
Void rent loss/social housing rent (%)	1.58	1.37	1.67	1.23	1.00
Social housing rent/total revenues ^a (%)	66.17	67.52	66.15	64.87	55.36

^a Includes revenue from the public sector

^b Prior to the adoption of FRS 102, social housing grant was classified within fixed assets and netted off. With the adoption of FRS 102, it is now shown as a long-term liability.

Source: Issuer and Fitch calculations

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