

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

Financial Year Ending	31 Mar 19	31 Mar 18
Turnover (GBPm)	372.2	300.7
Operating balance after transfers and grants (GBPm)	63.3	104.2
Total debt (GBPm)	1,608.8	1,534.7
Total assets (GBPm)	3,918.2	3,742.8
Equity and reserves (GBPm)	944.0	938.1
EBITDA/total operating revenue (%)	25.4	42.6
ROA (%)	0.6	2.6
ROE (%)	2.7	10.4
Net debt/EBITDA (x)	15	10.5

Source: Fitch Ratings, Fitch Solutions

Key Rating Drivers

Stable and Predictable Revenue: The ratings of A2Dominion Housing Group Limited (A2D) reflect continuing high 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 Regulator of Social Housing. A2D is one of the largest registered providers (RPs) of social housing in the south of England, with more than 38,100 units owned and managed in total in the financial year to March 2019 (FY19).

Rating Approach: Fitch rates RPs in England under its Revenue-Supported Rating Criteria and takes into account factors such as revenue defensibility, operating risk and the financial profile. A one-notch uplift is applied to the standalone ratings, reflecting the application of the Government-Related Entities Criteria and Fitch's assessment of four factors under the strength of linkage and incentive to support.

Revenue Defensibility; Demand: This is assessed as Stronger. We expect demand to remain strong in the local authorities where A2D has housing units. Fitch believes that any change in the rents that RPs are able to charge would be unlikely to materially affect demand. The supportive regulatory regime aims to maintain compensation for services at a level consistently supporting solvency for not-for-profit of an essential public service.

Revenue Defensibility; Pricing: This has been assessed as Stronger. RPs have limited revenue flexibility on their core social housing business, as it is the UK government that determines social housing rent rises. However, A2D has gained more flexibility to collect revenue to cover all costs due to the growing share of revenue from non-social housing activity.

Operating Risk; Operating Costs: This is assessed as Stronger. A2D has well-identified cost drivers and low potential volatility in major items. A2D has material capex on its development plans in the medium term but has opportunities to slow down committed schemes, defer uncommitted schemes and switch tenure from sale to market rent. In addition, in financial stress A2D could curtail some discretionary expenditure or spending on non-essential major works and improvements.

Operating Risk; Resource Management: This is assessed as Stronger. A2D has an adequate supply of resources and labour, with limited volatility in terms of amount, cost and timing. The nature of the entity reflects a flexible expenditure structure, with staff costs constituting only about a fifth of total expenses.

Stable Financial Profile: This has been assessed as Stronger. In Fitch's rating scenario net adjusted debt/EBITDA is likely to remain below 12x on a sustainable level. Debt at FYE19 rose slightly to GBP1.6 billion and is expected to increase further to GBP1.8 billion by FYE22. A2D's BP foresees turnover averaging about GBP410 million over 2020-2023. Net adjusted debt/EBITDA of 15x at FYE19 is considered a one-off.

Rating Sensitivities

Reassessment of Rating Factors: An upgrade could result from a sustainable improvement in the net adjusted debt/EBITDA ratio. A downgrade could result from a sustainable weakening of A2D's net adjusted debt/EBITDA ratio along with weakening liquidity or a weakening in revenue defensibility or operating risk.

Related Research

[English Housing Associations Dashboard \(January 2019\)](#)

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Appendix A

A2Dominion Housing Group Limited

(GBP million) FYE: 31 March

	2015	2016	2017	2018	2019
Income statement					
Turnover	312.3	378.4	371.9	300.7	372.2
Staff expenses	-38.7	-40.3	-41.5	-44.5	-50.7
Depreciation	-33.2	-31.4	-36.5	-31.0	-32.7
Other operating revenues and expenditure	-147.4	-178.4	-174.0	-121.0	-225.5
Operating balance before transfers and grants	93.0	128.3	119.9	104.2	63.3
Transfers and grants from public sector	0	0	0		
Operating balance after transfers and grants	93.0	128.3	119.9	104.2	63.3
Interest revenue	1.8	2.4	6.4	2.9	7.9
Interest expenditure	-49.8	-49.7	-55.8	-56.6	-60.4
Operating balance after financing	45.0	81.0	70.5	50.5	10.8
Surplus on disposal of fixed assets					
Dividends received from associates					
Non-operating revenue and expenditure	32.3	34.8	14.6	46.0	14.7
Profit (loss) before taxation	77.3	115.8	85.1	96.5	25.5
Taxation	-3.1	-5	-2	1.1	-3
Profit (loss) after tax	74.2	115.3	84.9	97.6	25.2
Minority interests	1.0	.8	.8	1.1	1.3
Profit or loss for the financial year after minority interest	73.2	114.5	84.1	96.5	23.9
Balance sheet					
Assets					
Tangible assets	2,480.5	2,530.6	2,534.8	2,593.0	2,633.3
Intangible assets					
Other long-term assets	21.2	21.3	20.8	88.6	34.1
Long-term investments	358.3	440.9	505.1	558.7	746.1
Stock	243.2	201.2	221.9	310.0	276.8
Trade debtors	.2	.1	.2	.9	.3
Other current assets	97.4	106.0	137.9	65.5	68.1
Total cash, liquid investments, and sinking funds	38.4	45.3	218.1	126.1	159.5
Total assets	3,239.2	3,345.4	3,638.8	3,742.8	3,918.2
Liabilities and equity					
Long-term debt	1,332.8	1,335.3	1,527.7	1,492.2	1,571.7
Pension	5.8	4.9	5.7	5.1	33.5
Other long-term liabilities	1,152.1	1,148.6	1,134.7	1,117.5	1,172.9
Short-term debt	15.3	29.2	33.9	52.5	37.1
Trade creditors	10.8	7.0	11.0	9.2	16.6
Other short-term liabilities	85.6	70.8	89.5	127.0	141.0
Equity					
Reserves	635.8	748.8	835.5	938.1	944.0
Minority interests	1.0	.8	.8	1.2	1.4
Liabilities and equity	3,239.2	3,345.4	3,638.8	3,742.8	3,918.2
Debt statement					
Short-term debt	15.3	29.2	33.9	52.5	37.1
Long-term debt	1,332.8	1,335.3	1,527.7	1,482.2	1,571.7
Subordinated debt					
Finance leases					
Total debt	1,348.1	1,364.5	1,561.6	1,534.7	1,608.8
Other Fitch-classified debt					
Unfunded pension liabilities	5.8	4.9	5.7	5.1	33.5
Adjusted debt	1,353.9	1,369.4	1,567.3	1,539.8	1,642.3
Unrestricted cash, liquid deposits, and sinking funds	38.4	45.3	218.1	126.1	159.5
Net debt	1,309.7	1,319.2	1,343.5	1,408.6	1,449.3
Net adjusted debt	1,315.5	1,324.1	1,349.2	1,413.7	1,482.8
Contingent liabilities					
Net overall risk	1,315.5	1,324.1	1,349.2	1,413.7	1,482.8
% debt in foreign currency	0	0	0	0	0
% issued debt	22.25	21.99	19.21	19.55	18.65
% debt at fixed interest rates	90.40	89.10	92.90	91.40	84.20
% debt at floating interest rates					

Source: Fitch Ratings

Appendix B

A2Dominion Housing Group Limited

(GBP million) FYE: 31 March

	2015	2016	2017	2018	2019
Cash flow statement					
EBITDA	126.2	159.7	156.4	133.7	96.8
FFO: funds from operations	1.0	1.0	1.0	1.0	1.0
Changes in working capital	1.0	1.0	1.0	1.0	1.0
CFO: cash flow from operations	17.0	187.0	132.8	73.9	144.2
Net capital expenditure	-145.5	-131.7	-156.3	-8.3	-107.9
Cash flow before financing	-128.5	55.3	-23.5	65.6	36.3
Dividends paid	0	0	0	0	0
Equity injection					
New borrowing	583.9	50.0	318.5	15.0	131.0
Other cash financing	-60.9	-63.3	-63.0	-70.3	-67.2
Debt repayment	-395.1	-34.1	-121.2	-32.3	-66.7
Cash flow after financing	-6	7.9	110.8	-22.0	33.4
Ratio analysis					
Profitability ratios					
Personnel costs/total operating revenue (%)	12.14	10.24	10.76	14.17	13.28
Transfers and grants from public sector/total operating revenue (%)	0	0	0		
EBITDA/total operating revenue (%)	39.59	40.56	40.56	42.57	25.35
Balance sheet ratios					
Current assets/total assets (%)	11.71	10.54	15.89	13.43	12.88
Current assets/total debt (%)	28.13	25.84	37.02	32.74	31.37
Return on equity (%)	11.65	15.38	10.15	10.39	2.67
Return on assets (%)	2.29	3.45	2.33	2.61	.64
Debt ratios					
Total debt/EBITDA (x)	10.680	8.540	9.980	11.480	16.620
Adjusted debt/EBITDA (x)	10.7	8.6	10.0	11.5	17.0
Net debt/EBITDA (x)	10.380	8.260	8.590	10.540	14.970
Net adjusted debt/EBITDA (x)	10.4	8.3	8.6	10.6	15.3
EBITDA/gross interest coverage (x)	2.530	3.210	2.800	2.360	1.600
CFO gross interest coverage (x)	.340	3.760	2.380	1.310	2.390
CFO debt service coverage (x)	.040	2.230	.750	.830	1.130
CFO gross leverage (x)	79.300	7.300	11.760	20.770	11.160
Net debt/cash flow before financing (x)	-10.190	23.860	-57.170	21.470	39.930
Debt service/operating balance before revenue from public sector (%)	478.39	65.32	147.62	85.32	200.79
Debt service/operating balance after revenue from public sector (%)	478.39	65.32	147.62	85.32	200.79
Long-term debt/total operating revenue (%)	418.07	339.17	396.19	471.89	411.55
Total debt/equity and reserves (%)	212.03	182.22	186.91	163.60	170.42
Total debt/total assets (%)	41.62	40.79	42.92	41.00	41.06
Liquidity ratios					
Liquidity cushion (x)	.360	.480	.410	1.210	.320
Coverage ratio (short-term rating criteria) (x)	1.530	2.060	1.850	9.440	4.240

Source: Fitch Ratings

Applicable Criteria

[Public Sector, Revenue-Supported Entities Rating Criteria \(November 2019\)](#)

[Government-Related Entities Rating Criteria \(November 2019\)](#)

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