

CREDIT OPINION

13 February 2024

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

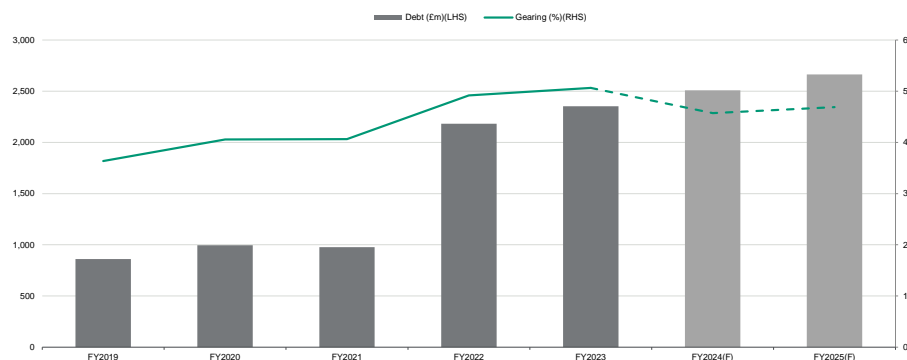
Summary

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, covenant and interest rate 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 despite the jump in debt following the merger

Debt (£m)(LHS) and gearing (%) (RHS), FY2019-2025(F)



F: indicates forecast based on Moody's projections. FY2019-2021 are Riverside only, FY2022-2025(F) show the merged entity, the key driver behind the jump in debt.

Source: Riverside, Moody's Investors Service

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 Group

	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.)	56,089	58,360	57,077	75,089	75,088	72,339	73,726
Operating margin, before interest (%)	18.5	15.4	19.8	13.0	5.1	12.2	14.4
Net capital expenditure as % turnover	17.4	56.3	14.7	41.8	44.0	41.2	31.1
Social housing letting interest coverage (x times)	1.1	1.1	1.6	1.0	0.3	0.5	0.6
Cash flow volatility interest coverage (x times)	1.3	1.9	2.7	0.6	1.0	1.0	1.3
Debt to revenues (x times)	2.4	2.8	2.6	4.9	3.8	3.3	3.5
Debt to assets at cost (%)	36.4	40.6	40.6	49.2	50.6	46.0	47.3

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

Source: Riverside, Moody's Investors Service

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 75,000 units in FY2023, 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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

We expect Riverside's debt to revenues to average 3.5x over the next three years, stronger than rated peers (median of 4.1x over the same period). Riverside's debt to revenues stood at 3.8x in FY2023.

Riverside's debt will increase to £2.8 billion by FY2026 (Moody's projections) from £2.4 billion in FY2023 to fund the development plan. Gearing increased to 51% in FY2023, above rated peers' median of 48%. Gearing should decrease in the next few years as grants increase faster than net debt.

Net capex will average 33% 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 26% 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.

Riverside's has a strong liquidity position as of December 2023, with 27 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 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 in 2022, the government implemented a 7% ceiling on social rent increases from April 2023 for one year. The ceiling of 7% results in an adverse differential between rental income and cost growth, which we expect will drive lower margins and interest coverage across the sector in FY2024. The UK government has confirmed that the English sector will return to rent increases of consumer price inflation (CPI) plus 1% in FY2025, which will be favourable resulting in a rent increase of 7.7% in April 2024, compared to the recent reduction of CPI to 3.9% in November 2023.

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. As of December 2023, 33% of Riverside's debt was at variable rates, compared to a median of 11% for rated peers. Over fiscal 2024-28, 40% of Riverside's drawn debt will mature. Riverside's debt is complex with many lenders and non-harmonised covenants, which also adds risks. Despite a recent switch to EBITDA-only from EBITDA MRI, 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.

Riverside's goal is to simplify its debt, reducing the number of lenders and targeting to have 90% of its debt as long-term and fixed, 10% short-term and variable. The HA plans to continue to reimburse early small loans and to have a smaller number of lenders with harmonised covenants. A £365 million private placement will be drawn before March 2024 to accelerate Riverside's debt restructuring.

We will monitor the progress and risk reduction, as well as negative externalities. Given the increased interest rates, Riverside may face higher 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 very weak at 14% on average over FY2024-2026. This is lower than peers, which we expect to record a median of 25% over the next three years, and will depend on the transfer to another entity of OHG's poorly performing luxury care scheme.

In addition to inflationary pressures, Riverside's margin will be weaker than peers primarily due to fire safety costs inherited from OHG. The group identified 81 high-rise buildings with potential flammable cladding issues, and expects to spend £238 million over the next 5 years on safety and compliance costs, an average of 7% of turnover per year. Riverside also faces impairments on OHG's market sales schemes. 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, which will generate savings. Riverside's operating margin could return to a 20% level by FY2030, however this is contingent on the timely realisation of fire safety works, within budget.

Its fire safety works, inflationary pressures especially on its repairs budget, high service costs in relation to the supported housing activities, and the social rent ceiling underpin Riverside's much weaker Social Housing Letting Interest Coverage (SHLIC), 0.3x the lowest among rated peers.

Riverside's cash flow volatility interest coverage (CVIC) stood at 1x in FY2023, which compares adversely to the peer median of 1.7x.¹ We expect CVIC to remain weaker than peers going forward, averaging 1.2x over the next three years as Riverside continues to face challenges on its operations and is also exposed to interest rate risk as it aims refinance debt in less favorable market conditions.

Extraordinary Support Considerations

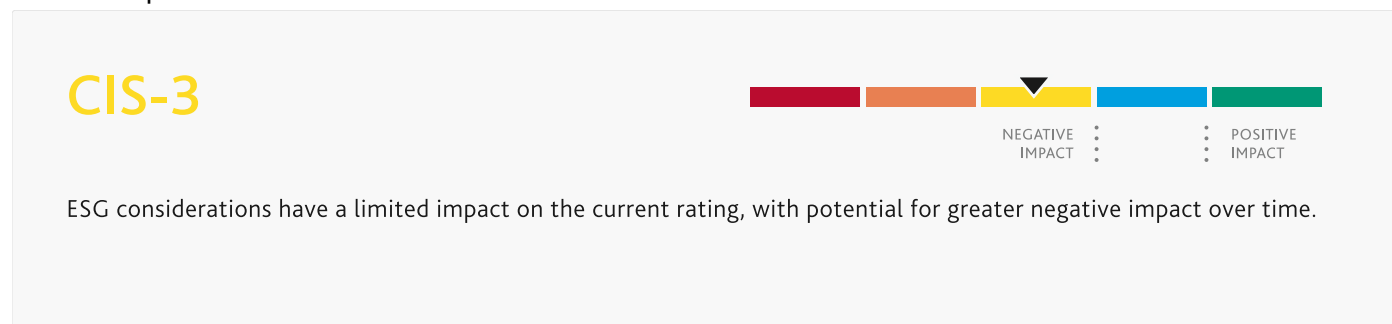
The strong level of extraordinary support factored into the rating reflects our view of the UK government's support for the housing association sector due to its political, economic and social importance. Extraordinary support for the sector is predominantly exercised through sector regulators whose 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 Investors Service

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 Investors Service

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 2035 (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 of existing housing 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 affected by 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. 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 FY2023.

The methodologies used in this rating were [European Social Housing Providers](#), published in April 2018, and [Government Related Issuers](#), published in January 2024.

Exhibit 5

FY2023 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%	75,088	aa
Factor 3: Financial Performance			
Operating Margin	5%	5.1%	ba
Social Housing Letting Interest Coverage	10%	0.3x	b
Cash-Flow Volatility Interest Coverage	10%	1.0x	ba
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.8x	baa
Debt to Assets	10%	50.6%	b
Liquidity Coverage	10%	1.0x	baa
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 and Moody's Investors Service

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 Investors Service

Endnotes

- 1 CVIC reflects the ability of pre-interest cash flow from operations, adjusted by the historical volatility (using the standard deviation of pre-interest cash flow from operations over the last three years) to cover net interest. In Riverside's case, it is distorted in FY2023 (at 1x) as it compares one year of the merged entity (FY2023), with a year with four months of OHG (FY2022) and one year of Riverside only (FY2021).

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