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CREDIT OPINION
1 February 2024

Update

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RATINGS

Onward Group Limited

Domicile	United Kingdom
Long Term Rating	A1
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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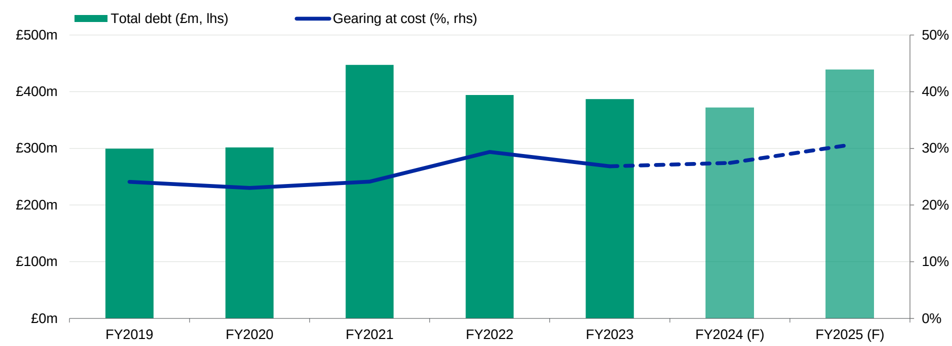
Onward Group Limited (United Kingdom)

Update to credit analysis

Summary

The credit profile of Onward Group Limited (Onward, A1 stable) is supported by its exceptional debt metrics and low treasury risk, strong interest cover ratios, and its conservative strategy. The credit profile also incorporates its weak profitability compared to peers in addition to our assumption of a strong likelihood that the government of the United Kingdom (Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1
Onward has a very strong balance sheet with low debt
Total debt (£m, lhs), gearing at cost (%, rhs), FY2019-2025 (F)



F: Forecast
Source: Onward Group Limited, Moody's Investors Service

Credit strengths

» Very strong balance sheet and low treasury risk

» Conservative strategy with focus on social housing, moderate development

» Strong interest cover ratios

» Supportive institutional framework in England

Credit challenges

» Very weak profitability

Rating outlook

The stable outlook balances Onward's exceptionally strong debt metrics and conservative strategy focused on social housing with its comparatively weak profitability.

Factors that could lead to an upgrade

An upgrade is unlikely given Onward's rating position relative to peers. However, upward pressure on the ratings could result from a significant improvement in operating margin, lower capital spending, or an increase in government support for the sector.

Factors that could lead to a downgrade

Downward pressure on the ratings could result from a material weakening in social housing lettings interest cover combined with a deterioration in debt metrics or higher treasury risks such as more variable rate debt. Lower government support for the sector or a dilution of the regulatory framework could also lead to downward pressure on the ratings.

Key indicators

Exhibit 2

Onward Group Limited

	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.)	34,786	35,094	35,232	35,617	35,484	35,832	36,587
Operating margin, before interest (%)	23.6	18.4	17.5	13.4	9.8	14.0	14.3
Net capital expenditure as % turnover	(0.8)	7.2	12.7	30.0	13.3	24.4	33.8
Social housing letting interest coverage (x times)	1.6	2.6	2.9	0.5	1.8	1.4	1.6
Cash flow volatility interest coverage (x times)	1.5	2.2	3.2	0.6	2.6	2.3	2.9
Debt to revenues (x times)	2.0	1.9	2.9	2.5	2.3	2.0	2.1
Debt to assets at cost (%)	24.1	23.0	24.1	29.4	26.8	27.4	30.6

F: Forecast
Fiscal 2022 includes a one-off loan breakage cost of £36.1 million. Omitting this one-off cost, SHLIC would have been 2.3x in fiscal 2022, and CVIC, 2.9x.
Source: Onward Group Limited, Moody's Investors Service

Detailed credit considerations

Onward's credit profile, as expressed in an A1 stable rating, combines (1) its baseline credit assessment (BCA) of a2, and (2) a strong likelihood that the UK government would act in a timely manner to prevent a default.

Baseline Credit Assessment

Very strong balance sheet and low treasury risk

Despite a planned increase in borrowing, Onward will retain debt metrics among the strongest of UK-rated housing associations. As of fiscal 2023, the group had £387 million of debt, equivalent to 2.3x revenue and 27% debt to assets at cost (gearing).

Debt metrics will weaken slightly over the next few years as debt increases to fund development, reaching £439 million by fiscal 2025. Debt to revenues will average 2.1x. Gearing will increase by 4 percentage points to 31% by fiscal 2025 but remain very strong relative to the rated peer median of 51% for fiscal 2025. Though debt will rise, Onward has reduced its development programme in light of a challenging operating environment with high inflation, interest rates and contractor failures.

Onward's credit profile benefits from low treasury risk driving its 'a' score for Investment and Debt Management. The group's refinancing risk is low with 15% of debt due within five years. Interest rate risk is also low with 89% of drawn debt at fixed rates (as at October 2023). Covenant headroom is very strong; as at January 2024 interest cover stood at 3.8x against a minimum of 1.5x and gearing at 23% against a limit of 65%.

In 2023, Onward boosted its liquidity by increasing its revolving credit facilities (RCFs) to £365 million from £190 million the year before. Onward also secured covenant carve outs which improved headroom. Together with modest capex, its high liquidity drives a very strong liquidity coverage ratio of 2.9x. The group's liquidity policy is aligned with peers, calling for 18 months excluding both capital grant and 50% of sales income.

Conservative strategy with focus on social housing, moderate development

The group's risk averse strategy is a driver for its 'a' score for Financial Management. This includes its focus on social housing, response to adverse events, de-risking of its business plan and adherence to golden rules.

Onward remains focused on low-risk social housing lettings with modest exposure into market sales. In fiscal 2023, 89% of Onward's income was derived from social housing lettings compared to a rated peer median of 75% of income.

Onward's exposure to market sales - first tranche shared ownership only - was just 5% of turnover in fiscal 2023, considerably below the rated peer median of 14%. Shared ownership sales exposure will increase, averaging 9% over the next three years, but the group has no outright sales until fiscal 2027. Exposure was reduced in the business plan in response to the difficult economic climate in the past couple years.

The development programme has been de-risked, with lower planned spend, smoother cash flows, and more grant per unit compared to the previous business plan. Net capex to turnover was low at 13% in fiscal 2023 compared to a rated peer median of 34%. The ratio will rise as capital spend increases, averaging 28% over the next three years but remain moderate. In response to rising costs, Onward has scaled back its Homes England development programme to 2,100 homes from 3,200.

Strong interest cover ratios

Onward will maintain strong interest cover ratios despite the group's comparatively weak profitability because of its low debt. The group reported social housing lettings interest cover (SHLIC) of 1.8x in fiscal 2023, considerably higher than the peer median of 1.1x. SHLIC will remain strong over the next three years, averaging 1.6x.

Similarly, the cash flow volatility interest cover (CVIC) ratio will remain very strong and among the highest of rated HAs driven by the group's stable operating cash flows. CVIC for fiscal 2023 was 2.6x, and will average 2.8x over the next three years compared to the rated peer median of 2.1x.

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, although Onward is expected to mitigate this through efficiencies. 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.

Very weak profitability

Onward's operating margin will remain weak compared to peers, a key credit challenge. The group's operating margin stood at 10% in fiscal 2023, among the lowest of rated housing associations, compared to a rated peer median of 21%, driven by underlying weak profitability on core social housing lettings in addition to one-offs including impairment and higher energy costs. The operating margin is expected to improve, averaging 15% over the three years, driven by higher margins on its social housing lettings, realised benefits of cost savings programme, and conclusion of one-off costs.

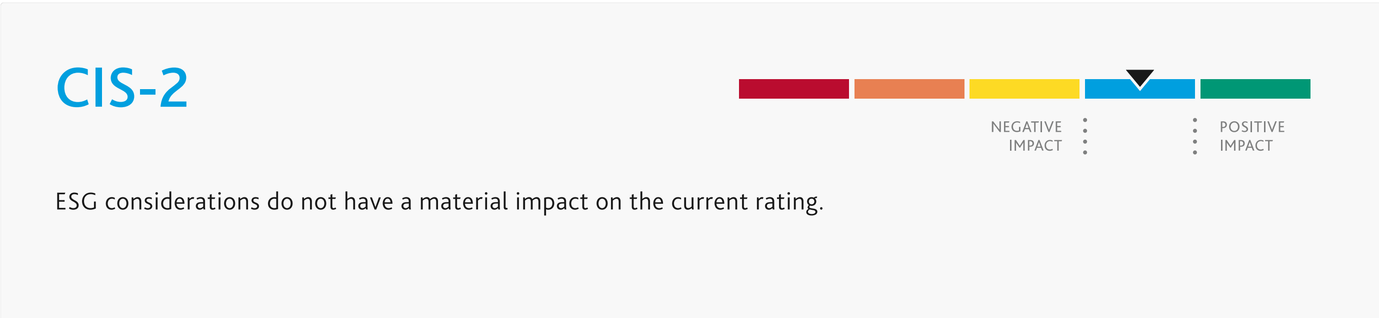
Extraordinary support considerations

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, making an extraordinary intervention slightly more challenging. In addition, our assessment that there is a very high default dependence between Onward and the UK government reflects their strong financial and operational linkages.

ESG considerations

Onward Group Limited's ESG credit impact score is CIS-2

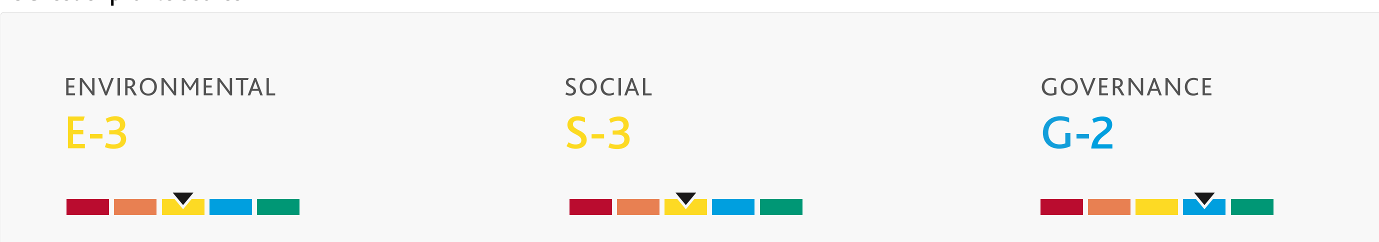
Exhibit 3
ESG credit impact score



Source: Moody's Investors Service

Onward's **CIS-2** indicates that ESG risks have a limited impact on its rating. Onward has exposure to carbon transition risks as a material proportion of its stock requires retrofit investment to meet energy efficiency requirements. Although social risks are prevalent we consider that Onward 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

Onward 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

Onward has a 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

Onward has limited governance risks (**G-2**). Its governance is stronger than rated peers with a risk averse strategy with limited market sales exposure and proactive de-risking, including a reduction in development, in response to a weaker operating environment. 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 BCA of a2 is the same as the scorecard-indicated BCA outcome of a2.

The methodologies used in this rating are European Social Housing Providers, published in April 2018 and Government-Related Issuers Methodology, published in January 2024.

Exhibit 5

Onward's 2023 scorecard

Onward Group Limited			
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%	35,484	a
Factor 3: Financial Performance			
Operating Margin	5%	9.8%	ba
Social Housing Letting Interest Coverage	10%	1.8x	a
Cash-Flow Volatility Interest Coverage	10%	2.6x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	2.3x	a
Debt to Assets	10%	26.8%	a
Liquidity Coverage	10%	2.9x	aa
Factor 5: Management and Governance			
Financial Management	10%	a	a
Investment and Debt Management	10%	a	a
Scorecard - Indicated BCA Outcome			**a2**
Assigned BCA			**a2**

Source: Moody's Investors Service, Onward Group Limited

Ratings

Exhibit 6

Category	Moody's Rating
ONWARD GROUP LIMITED	
Outlook	Stable
Baseline Credit Assessment	a2
Issuer Rating -Dom Curr	A1
ONWARD HOMES LIMITED	
Senior Secured -Dom Curr	A1

Source: Moody's Investors Service

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