S&P Global Ratings

RatingsDirect®

Research Update:

U.K.-Based Social Housing Provider Aster Group Ltd. 'A' Ratings Affirmed; Outlook Stable

December 12, 2024

PRIMARY CREDIT ANALYST

Tim Chow, CFA

London

+44 2071760684

tim.chow
@spglobal.com

SECONDARY CONTACT

Noa Fux

London

+ 44 20 7176 0730

noa.fux
@spglobal.com

ADDITIONAL CONTACT

Sovereign and IPF EMEA

SOVIPF
@spglobal.com

Overview

- While Aster Group Ltd. is facing cost pressure from increased investment in existing homes, we expect management's mitigating actions will help financial indicators recover from a weak position in fiscal 2024 (year ended March 31), albeit slower than forecast.
- We expect Aster's debt will rise more slowly than our previous base-case assumptions, supported by the group's plan to moderate home development and the proceeds from disposing of uneconomical units.
- Combined with the projected recovery in S&P Global Ratings-nonsales-adjusted EBITDA, we expect that the group's debt metrics will gradually strengthen.
- We therefore affirmed our long-term issuer credit rating on Aster at 'A'. The outlook is stable.

Rating Action

On Dec. 12, 2024, S&P Global Ratings affirmed its 'A' long-term issuer credit rating on Aster Group Ltd. The outlook is stable. At the same time, we affirmed our 'A-1' short-term issuer rating on the group.

We also affirmed our 'A' issue rating on the senior secured debt and £1 billion senior secured medium-term note program issued by Aster Treasury PLC, which we consider a core subsidiary of the group. As well, we affirmed our 'A-1' short-term rating on Aster Treasury's commercial paper program.

Outlook

The stable outlook reflects our view that management's cost-containing measures will balance pressure from high levels of maintenance and repair spending such that financial metrics will recover by fiscal 2026, with nonsales-adjusted EBITDA interest coverage exceeding 1.25x and debt to nonsales-adjusted EBITDA going below 20x.

Downside scenario

We could downgrade Aster if the group fails to control investments in existing assets and new home development, and cannot manage challenges associated with integrating recently merged entities, resulting in its financial metrics not recovering as expected.

Upside scenario

We could raise the ratings if Aster demonstrates a track record of solidly strengthening financial indicators on a sustained basis, which could lead to a more positive view of management, all else being equal.

Rationale

The affirmation reflects our view that management's cost management will support our projected recovery of financial metrics. The improvement will be more gradual than previously forecast, largely due to high investment needs for existing assets. However, we expect Aster will tightly control the investment while ensuring its properties meet regulatory requirements. We also anticipate the projected rental growth will exceed inflation, which will mitigate the impact from the group's investment in existing homes and lead to a gradual strengthening of Aster's nonsales-adjusted EBITDA through fiscal 2027. Meanwhile, the group is using the flexibility in its plan to reduce spending for new developments. In our view, this development strategy, together with proceeds from its regular disposal program and grant funding for new developments, will alleviate the debt burden in our projections.

Enterprise profile: Aster's focus on traditional social housing rentals underpins its credit quality

Aster remains focused on predictable and countercyclical social housing activities in England. The group's sales exposure is largely skewed toward shared ownership, supplemented by outright sales. We understand the group has tightened its risk tolerance so that sales income will be contained below one-third of total adjusted revenue on average in the coming two-to-three years.

We view demand for Aster's properties as strong. Its general needs rents are a fairly low 58% of prevailing market rents, supporting demand for the group's rental units. Aster's vacancy rate, which averaged about 1.2% of rent and service charges over the past three years, also indicates strong demand and the group's effective reletting of empty units. We consider this rate on par with the sector in England.

We think Aster has robust risk management practices to navigate challenges that could otherwise stretch its financial and operational capacity. While the increasing demand for its maintenance and repair services from tenants is adding burden to costs, we understand the group taking measures to control the cost growth. It has gone through business expansion and integration through mergers with three entities since 2020. The three entities focus on lower-margin activities, mainly supported housing and care, and all have weaker financial profiles than Aster. We think the group has sufficient expertise and experience to manage the risks that come with this, although integration benefits might take time to materialize.

We assess the regulatory framework under which registered providers of social housing in

England operate as strong (see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published Oct. 23, 2023, on RatingsDirect).

Financial profile: The group's increased investment in existing homes pressure financial metrics, but we anticipate management's mitigating actions will support a recovery

We forecast Aster's financial performance will improve following a weak fiscal 2024, and adjusted EBITDA margins will exceed 20% in the next two-to-three years. This is because we project rental income will exceed cost inflation. This will help mitigate growth in maintenance and repair costs, which we forecast will be relatively stable after ramping up in fiscal years 2024 and 2025. We also expect the group will reprofile spending if credit metrics come under pressure, and the integration of merged entities could create cost efficiencies.

The projected improvement of nonsales-adjusted EBITDA, combined with lower-than-previously assumed debt-funded home developments, will shore up Aster's debt metrics, in our view. While the group continues to develop new homes, we understand that Aster has reduced its development targets, which we think will slow the debt buildup. We also consider that grant support from Homes England and the proceeds from disposal of existing properties will subsidize part of these investments.

We view Aster's liquidity as very strong. Its liquidity sources will cover uses approximately 2.1x in the next 12 months. This is based on our forecast of liquidity sources of about £670 million--comprising cash, undrawn and available revolving credit facilities; fixed asset sales; grant receipts; and cash from operations (adding back the noncash cost of sales)--that will cover liquidity uses of about £325 million (mainly capital expenditure and debt service payments). At the same time, we thinks Aster retains satisfactory access to external liquidity when needed.

Government-related entity analysis

We think there is a moderately high likelihood Aster would receive timely extraordinary support from the U.K. government, through the Regulator of Social Housing (RSH) in case of financial distress. This provides a one-notch uplift from the stand-alone credit profile. One of the RSH's key goals is to maintain lender confidence and low funding costs across the sector, so we think the RSH would likely step in to try to prevent a default in the sector. We base this view on RSH's previous mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to Aster.

Selected Indicators

Table 1

Aster Group Ltd.--Financial statistics

	--Year ended March 31--				
Mil. £	**2023a**	**2024a**	**2025bc**	**2026bc**	**2027bc**
Number of units owned or managed	36,414	37,217	37,884	38,581	39,425
Adjusted operating revenue	300.2	312.8	334.7	357.9	382.9
Adjusted EBITDA	61.3	59.4	69.3	80.7	93.2

Table 1

Aster Group Ltd.--Financial statistics (cont.)

	--Year ended March 31--				
Mil. £	2023a	2024a	2025bc	2026bc	2027bc
Nonsales adjusted EBITDA	51.0	51.5	62.9	73.1	84.6
Capital expense	250.3	241.7	231.1	256.7	261.2
Debt	1,202.2	1,307.9	1,367.6	1,450.1	1,546.3
Interest expense	38.8	50.5	55.0	57.7	60.8
Adjusted EBITDA/adjusted operating revenue (%)	20.4	19.0	20.7	22.6	24.3
Debt/nonsales adjusted EBITDA (x)	23.6	25.4	21.8	19.8	18.3
Nonsales adjusted EBITDA/interest coverage(x)	1.3	1.0	1.1	1.3	1.4

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

Ratings Score Snapshot

Table 2

Aster Group Ltd.--Ratings score snapshot

	Assessment
Enterprise risk profile	3
Industry risk	2
Regulatory framework	3
Market dependencies	3
Management and governance	3
Financial risk profile	3
Financial performance	4
Debt profile	4
Liquidity	2
Stand-alone credit profile	a-
Issuer credit rating	A

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- The Autumn Budget Kicks Off A Funding Regime Revision For U.K. Public Sector Entities, Nov. 5, 2024
- U.K. Social Housing Providers' Financial Capacity Shrinks On Investment Needs, Nov. 4, 2024
- Non-U.S. Social Housing Providers Ratings Risk Indicators: Ratings Pressure Has Eased, Oct. 31, 2024
- Non-U.S. Social Housing Providers Ratings History: October 2024, Oct. 31, 2024
- Cyber Risk Brief: U.K. Public Sector Is Increasingly Under Threat, Oct. 24, 2024
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 18, 2024
- U.K. Social Housing Borrowing 2024: Borrowing capacity remains constrained, March 6, 2024
- European Housing Markets: Forecast Brightens Amid Ongoing Correction, Jan. 25, 2024
- Non-U.S. Social Housing Sector Outlook 2024: At A Turning Point?, Nov. 29, 2023
- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023
- U.K. Social Housing Providers' Credit Headroom Could Tighten If The Operating Environment Deteriorates, Oct. 4, 2023

Ratings List

Ratings Affirmed	
Aster Group Ltd.	
Issuer Credit Rating	A/Stable/A-1
Aster Treasury PLC	
Senior Secured	A
Commercial Paper	A-1