

**CREDIT OPINION**

4 December 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 (UK)**

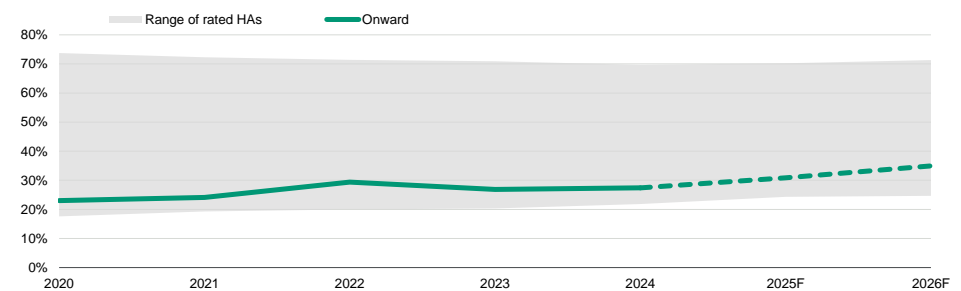
Update to credit analysis

**Summary**

The credit profile of [Onward Group Limited](#) (Onward, A1 stable) balances its conservative strategy, which is reflected in its much stronger debt metrics than peers and good interest cover, against weak operating margins. Onward benefits from the strong regulatory framework governing English housing associations and our assessment that there is a strong likelihood that the government of [UK](#) (Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1

**Onward has an exceptionally strong gearing ratio compared to peers**  
Gearing at cost (%)



F: Forecast  
Source: Onward and Moody's Ratings

**Credit strengths**

- » Very strong balance sheet and low treasury risk
- » Conservative strategy with focus on social housing
- » Supportive institutional framework in England

**Credit challenges**

- » Very weak profitability

## Rating outlook

The stable outlook reflects our expectations that Onward will maintain strong debt metrics, supported by its conservative policies and strategy. We also expect cost savings initiatives to drive stronger margins.

## 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 a significant increase in government support for the sector, especially significantly higher levels of capital grants. An upgrade of the UK government's rating could also exert positive pressure on the ratings.

## Factors that could lead to a downgrade

Downward pressure on the ratings could result from a weakening of interest cover metrics 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. A downgrade of the UK government's rating would also be negative for the ratings.

## Key indicators

Exhibit 2

Onward Group Limited	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25 (F)	31-Mar-26 (F)
Units under management (no.)	35,094	35,232	35,617	35,484	35,453	36,029	36,519
Operating margin, before interest (%)	18.4	17.5	13.4	9.8	12.2	13.7	13.4
Net capital expenditure as % turnover	7.2	12.7	30.0	13.3	18.9	49.1	51.9
Social housing letting interest coverage (x times)	2.6	2.9	0.5	1.8	1.5	1.2	1.2
Cash flow volatility interest coverage (x times)	2.2	3.2	0.6	2.6	2.1	1.7	2.2
Debt to revenues (x times)	1.9	2.9	2.5	2.3	2.0	2.3	2.6
Debt to assets at cost (%)	23.0	24.1	29.4	26.8	27.4	30.9	34.9

Fiscal 2023 and 2024 include a one-off pension exit cost of £0.7 and £1.5 million, respectively. Omitting this one-off cost in fiscal 2023, its operating margin would have been 10%, SHLIC 1.9x and CVIC 2.7x. In fiscal 2024, its operating margin would have been 13%, SHLIC 1.6x and CVIC 2.2x.

Source: Onward and Moody's Ratings

## Detailed credit considerations

Onward's A1 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

Onward has the strongest debt metrics among English rated peers with debt to revenue of 2.0x and gearing of 27% as of fiscal 2024. This reflects a history of deleveraging. Debt metrics will weaken over the next three years as debt increases to fund development. Debt to revenue will average 2.6x and gearing will increase by 10 percentage points to 38% by fiscal 2027. This remains very strong relative to the rated peer medians for fiscal 2027 of 4.1x and 50%.

Onward's low debt is associated with good interest cover ratios, despite its weak profitability. As of fiscal 2024, Onward reported social housing lettings interest cover (SHLIC) of 1.5x, higher than the peer median of 1.0x. We expect SHLIC to weaken close to the median of rating peers over the next three years, averaging 1.2x, due to the planned ramp-up in debt.

Onward has moderate refinancing risk and some exposure to variable rate debt. As of fiscal 2024, 20% of its debt is due within the next five years and 20% is at variable rate. We expect those risks to reduce in coming years as Onward refinances its maturing revolving credit facilities (RCFs) with long-dated fixed-rate debt. Cash and undrawn facilities of £350 million as of September 2024 comfortably cover upcoming debt maturities. Onward's liquidity is sufficient to cover 1.7x its net funding needs for the next two years.

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.

Onward has significant borrowing capacity supported by a very strong covenant headroom and large unencumbered asset base. As at March 2024, interest cover stood at 3.7x against a minimum of 1.5x and gearing at 26% against a limit of 65%. In addition, Onward has sufficient unencumbered assets to cover more than two times its funding needs of the next five years.

#### **Conservative strategy with key focus on social housing**

Onward is a medium-sized housing association managing around 35,000 units in the north west of England. Its focus on low-risk social housing lettings, which account for 90% of its turnover, generates stable and reliable cashflows. Its exposure to market sales is small at 6% of turnover in fiscal 2024 and only comprises first-tranche shared ownership. However, we note that Onward plans to start developing outright sales in fiscal 2029, which will increase risks, although the schemes remain uncommitted.

Onward plans to develop 2,800 units over the next five years (8% of its current stock), mostly for social rent. The group reduced its development plans for market sales in response to the challenging operating environment. Onward also scaled back its Homes England development programme to 2,100 units from 3,200 over the period 2021-2026. Net capex to turnover was low at 19% in fiscal 2024 compared to 47% for the median of rated peers. The ratio will rise substantially as capital spend increases, averaging 48% over the next three years. This also reflects spending on existing stock, including retrofitting needs to bring the remaining 17% of its stock to EPC-C by 2030.

#### **Supportive institutional framework in England**

The sector's credit quality benefits 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 regular programmed inspections for HAs with more than 1,000 units. The regulator has a strong track record of intervention in cases of mismanagement or financial stress.

The operating environment for English housing associations remains supportive. Demand for social housing is very high and English housing associations retain some expenditure flexibility, with a track record of controlling costs to mitigate lower income. The UK government confirmed that for fiscal 2026, rent increases within the English sector will be pegged at the September Consumer Price Index (CPI) plus 1%. A consultation is currently ongoing to extend the policy out to at least fiscal 2031, which would provide more certainty to the sector.

#### **Very weak profitability**

Onward's operating margin is among the lowest of rated housing associations and is a key credit challenge. As of fiscal 2024, its operating margin stood at 12%, compared to 21% for the median of rated peers. Its low margin reflects the weak underlying profitability of its social housing lettings as well as low sales margins. Margins have been affected by a number of one-off costs associated with its savings programme, which we expect to reduce after fiscal 2026. Onward has taken a series of action to reduce cost such as internalising its repairs and maintenance services, disposing of uneconomical properties or exiting one of its pension schemes. We expect that those savings, which are expected to reach £3.8 million by fiscal 2027, will drive an improvement in operating margins to 16% from fiscal 2027.

#### **Extraordinary support considerations**

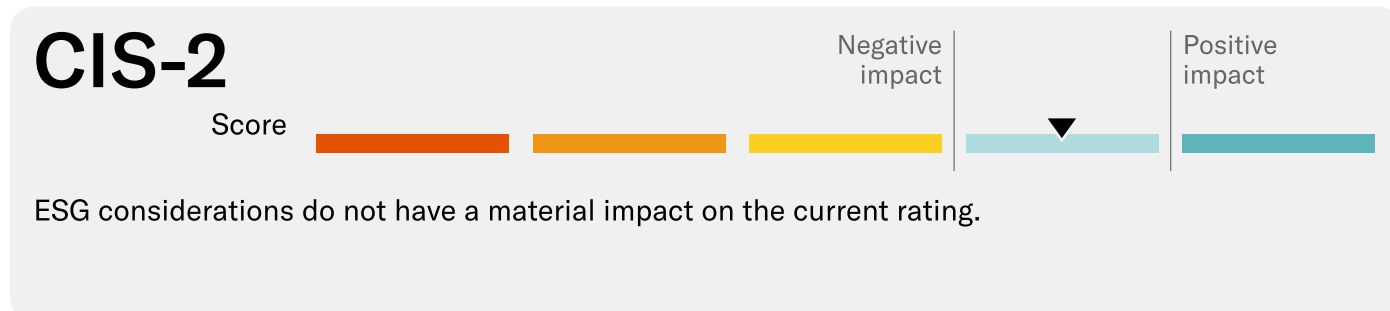
The strong level of extraordinary support factored into the rating reflects our view of the UK government's support for the housing association sector due to its political, economic and social importance. Extraordinary support for the sector is predominantly exercised through sector regulators whose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

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.

Exhibit 4

ESG issuer profile scores



Source: Moody's Ratings

### Environmental

Onward has a material exposure to environmental risks (**E-3**), mostly carbon transition because 13% of its stock will need to be retrofitted to meet EPC-C by 2030, which will require significant capital spending.

### Social

Onward has a material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety and quality of existing stock (responsible production risks) and the vulnerability of the sector to tenant affordability considerations through the government's social rent policy. Those risks can materialise in the form of reduced operating margin and interest cover metrics.

### Governance

Onward has limited governance risks (**G-2**). Its governance is stronger than rating peers, supported by a risk-averse strategy with limited market sales exposure and proactive de-risking 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 Moody's.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 in line with scorecard-indicated BCA outcome.

The methodologies used in this rating are [European Social Housing Providers](#), published in July 2024 and [Government-Related Issuers Methodology](#), published in January 2024.

Exhibit 5

### Onward Group Limited

Fiscal 2024

Onward Group Limited			
Baseline Credit Assessment	Sub-factor Weighting	Value	Score
<b>Factor 1: Institutional Framework</b>			
Operating Environment	10%	a	a
Regulatory Framework	10%	a	a
<b>Factor 2: Market Position</b>			
Units Under Management	10%	35,453	a
<b>Factor 3: Financial Performance</b>			
Operating Margin	5%	12.2%	baa
Social Housing Letting Interest Coverage	10%	1.5x	a
Cash-Flow Volatility Interest Coverage	10%	2.1x	a
<b>Factor 4: Debt and Liquidity</b>			
Debt to Revenue	5%	2.0x	a
Debt to Assets	10%	27.4%	a
Liquidity Coverage	10%	1.7x	a
<b>Factor 5: Management and Governance</b>			
Financial Management	10%	a	a
Investment and Debt Management	10%	a	a
<b>Scorecard - Indicated BCA Outcome</b>			<b>a2</b>
<b>Assigned BCA</b>			<b>a2</b>

Source: Moody's Ratings

## Ratings

Exhibit 6

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

Source: Moody's Ratings

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