Hyde Housing Association Limited

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Local Currency

Long-Term IDR	A+
Short-Term IDR	F1

Senior Secured

Long-Term Foreign-Currency IDR	A+

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

Hyde Housing Association Limited

	31 Mar 18	31 Mar 17
Operating revenue (GBPm)	405.8	379.6
Revenue from public sector (GBPm)	0.0	0.0
Operating balance after revenue from public sector (GBPm)	161.0	156.0
Total debt (GBPm)	1,649.5	1,369.6
Total assets (GBPm)	3,480.3	3,290.6
Equity and reserves (GBPm)	393.6	349.9
EBITDA/operating revenue including revenue from public sector (%)	50.0	52.3
ROA (%)	0.8	1.9
ROE (%)	7.1	17.5
Total debt/EBITDA (%)	8.1	6.9

Related Research

English Housing Associations Dashboard (January 2019)

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Key Rating Drivers

Stable and Predictable Revenue: The ratings of Hyde Housing Association Limited (Hyde) reflect continued high demand for social housing in London and southeast England, and the consistent cash flows from its core rental business.

They also factor in Hyde's secured cash flow from public funds (Greater London Authority and Homes England), and the tight control and oversight provided through the Regulator of Social Housing (RSH). At 31 March 2019, Hyde owned or managed more than 49,000 housing units, and was a constituent of the G15, the largest registered providers (RPs) in London.

Rating Approach: Fitch rates RPs in the UK 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 the strength of linkage and incentive to support factors.

Revenue Defensibility – Demand: This is assessed as 'Stronger'. Fitch expects demand to remain strong in London and the southeast, the main regions within which Hyde operates. Annualised mean monthly market rent prices absorb over 50% of the mean annual earnings in the capital, increasing demand for social and affordable housing compared to the rest of the country. Changes in rent charged by Hyde would be unlikely to materially affect demand.

Revenue Defensibility – Pricing: This is assessed as 'Stronger'. The core social housing business has limited revenue flexibility, as the UK government determines the levels of social rent movement allowable year to year. Hyde has had a growing share of revenue from non-social housing activities, where there is more flexibility in pricing in order to cross-subsidise.

Operating Risk – Operating Costs: This is assessed as 'Stronger'. Hyde has a conditional, phased development plan for material capex in the medium term, preventing additional capex spending without the sale of certain units. If there were financial stress discretionary spending could be limited in several areas, and one-off required fire safety works will no longer impact financial results after 2019.

Operating Risk – Resource Management: This is assessed as 'Stronger'. Hyde has no supply constraints for labour or resources in terms of amount, cost or timing. It has flexible expenditure and limited committed operating spending on staff costs.

Stable Financial Profile: This is assessed as 'Stronger'. Fitch considers Hyde to be performing strongly due to continued high demand for low-cost housing, active diversification of the business and de-risking coupled with improved liquidity levels including risk cushion, which should maintain revenue flows for debt-servicing and cross-subsidising its core business.

Rating Sensitivities

Reassessment of Rating Factors: An upgrade could result from an improvement in the net direct risk to Fitch-calculated EBITDA ratio to below 8x on a consistent basis. If this ratio were to experience sustained decline, the rating could be downgraded if accompanied by a weakening of liquidity, revenue defensibility or operating risk. A downgrade of the UK sovereign (AA/RWN/F1+) could affect the government-related entity assessment uplift.

Profile and Overview

Hyde[1] was established in 1967 and through mergers and acquisitions it has grown to be one of the largest housing associations in the UK, providing decent affordable homes to lower-income households. The group comprises 18 legal entities, including four RPs: Hyde Southbank Homes Limited, Hillside Housing Trust Limited, Martlet Homes Limited and the parent, Hyde Housing Association Limited (asset holding entity), and five unregistered legal entities, eight JVs and one private company limited by guarantee. The most significant recent merger was in 2007, when Martlet Homes joined the group bringing 5,000 homes.

Hyde, as a member of the G15 group, which brings together London's largest housing associations, owns and manages over 49,000 homes on balance sheet, and is landlord for more than 105,000 residents across London, the southeast and east of England.

Almost 60% of Hyde homes are general needs properties, charged at social or affordable rent levels. Hyde also offers over 2,000 properties with extra care and supported accommodation for older people and other vulnerable groups. It also provides temporary accommodation, shared ownership properties, private market rent and private market sales.

Hyde, using a mainly land-led development programme, aims to deliver on average 1,100 new homes annually in the next five years on balance sheet, and 1,700 including strategic partnerships with Homes England and the Greater London Authority, public and private partnerships such as with central and local authorities, housebuilders, other RPs and institutional investors. Through these partnerships Hyde completed 1,006 housing units in 2019, down 22% from 2018 due to the timing of scheme completion.

Rating Approach

Fitch rates RPs in the UK under its *Revenue-Supported Rating Criteria* and takes into account factors such as revenue defensibility, operating risk and the financial profile. We apply a one-notch uplift to the standalone ratings, reflecting the application of the *Government-Related Entities Rating Criteria* and Fitch's assessment of the strength of linkage and incentive to support factors.

Principal Rating Factors under Revenue-Supported Debt Criteria

Summary of Rating Factors

Revenue defensibility	Operating risk	Financial profile
Stronger	Stronger	Stronger

Source: Fitch Ratings

Revenue Defensibility

The Revenue Defensibility assessment covers two factors: demand and pricing. Fitch assesses both as 'Stronger'. Overall Revenue Defensibility is therefore assessed as 'Stronger'.

Demand Characteristics

There is high demand for social and affordable rents nationwide, demonstrated by a five-year shortfall in homes across the UK of 482,905 units. More than half of this shortfall is in London and the southeast, where most of Hyde's portfolio is based. With annualized mean monthly market rent prices absorbing over 50% of the mean annual earnings in the capital, this demand is magnified.

Solid demand for Hyde's affordable housing is further supported by a high occupancy rate of 99.5% during FY18 (FY17: 99%). Average rent collected during FY17 and FY18 was 100%.

[1] Accounts refer to the consolidated group accounts

Rating History

Date	Long-Term Foreign IDR	Long-Term Local IDR
12 Mar 19	A+	A+

Social Housing

Social housing	Units FY19	Units FY18
General needs	27,815	28,131
Shared ownership	4,050	3,985
Supported/housing for older people	2,879	3,144
Other social housing	710	672
Leasehold management	6,250	5,991
Non-social rental units	69	123
Contract management	7,023	7,036
Total owned and managed	**48,796**	**49,082**

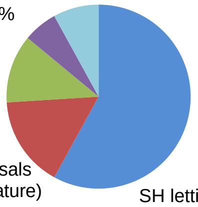
Source: Fitch Ratings, Hyde

Related Criteria

Public Sector, Revenue-Supported Entities Rating Criteria (May 2019)

Government-Related Entities Rating Criteria (October 2018)

Hyde Turnover - FY18



Source: Fitch Ratings, Hyde

Pricing Characteristics

UK RPs have had a significant fall in turnover from social lettings (estimated by the government to be a 12% average reduction in social rent by 2020) between 2016 and 2020. This is due to the annual social housing rent reduction of 1% introduced in 2015. Rent will be allowed to increase by CPI+1% a year from 1 April 2020, which should help alleviate the constraints. This provision will be in place for five years. Hyde's average weekly rent for general needs properties varies greatly depending on property size and location.

Hyde, like many other RPs, has been diversifying its business to non-core activities such as outright property sale, market rent and housing management to gain flexibility in price-setting. Prices are set at market rates driven by demand and supply, rather than government-set formula. These are not subject to regulative restrictions, so Hyde has independent flexibility to collect revenues sufficient to cover all related costs.

The housing association sector has been undergoing changes over the past 15 years, with housing grant funding declining (Hyde's grant funding has increased in FY19) and rent increases cut by the central government, which hampered their operating environment to deliver the supply of homes needed nationwide.

Fitch considers London-based, or southeast England RPs to have much more flexibility on pricing than RPs operating in other areas. In addition, diversification into non-core business activities such as market rent and sales give them full flexibility to steer their revenue generation and cross-subsidize their core social housing business. In general, demand is high on both market rented/sold properties and social rented/sold properties. Hyde has the flexibility to rent out some affordable stock to tenants at market rates, as there is no legal obligation for RPs to rent to low-income tenants, apart from the stock they have agreed to rent to customers from the local authorities' waiting lists and units that have been contracted as part of housing law section 105.

Hyde, which largely operates in a high-demand region, generally has the flexibility to change the housing tenure from social affordable to market rents, or vice versa. On average Hyde will generate, 33% of its turnover from non-social housing sector activities over the forecast five years, including property sales, market rent and asset disposals.

In FY19 Hyde sold 978 units (FY18: 491) as part of a stock rationalisation programme, generating turnover of GBP109.8 million (FY18: GBP41.3 million). Fitch expects revenue from the social housing business, based on our rating case, will be maintained at 65%-75% of total turnover during the next five years, securing a stable revenue stream.

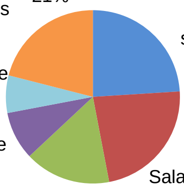
Operating Risks

The Operating Risk assessment covers two factors: Operating Cost Flexibility and Resource Management, both assessed as 'Stronger' for Hyde. Therefore we also assess overall Operating Risk as 'Stronger'.

Operating Cost Flexibility

Hyde has well-identified cost drivers and limited volatility is likely on major items. In Fitch's rating case overhead per-unit costs are expected to increase due to the increased asset sales, but rigid costs such as staff salaries are likely to remain below 30%, on average, of the operating spending. We expect the cost of sales to increase over the forecast period in Fitch's rating case; however, this is due to the planned increase in property sales, and to converge with its five-year mean of about 23% after 2022, with the expected decline of the property sales.

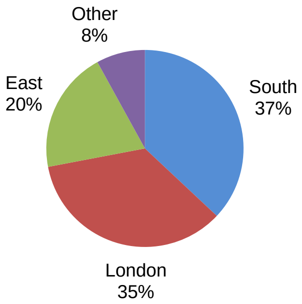
Operating Spending Breakdown - FY18



Source: Fitch Ratings, Hyde

Major repairs have a stable track record and can be postponed as long as required standards are met (set by the Decent Homes Standard). The recent major change in fire safety requirements following Grenfell Tower tragedy has been fully provisioned and will not affect operating spending after FY19.

Housing Stock by Region - FY18



Source: Fitch Ratings, Hyde

Hyde complies with Decent Homes Standards (statutory minimum standard for housing set by the central government), under which the group regularly carries out stock condition survey on a rolling five-year basis. New surveys are budgeted for annually, which influence asset management strategy and future planned programmes. They include all new units and any stock swaps.

Hyde has achieved cost gains of about GBP1.2 million annually by reorganising the housing management staff relating to customer service in FY18. In-house maintenance provider, Hyde Property Services, achieved customer satisfaction above its target at 86% (2017: 85%, 2016: 81%). Hyde has reduced operating expenditure by 2.4% (excluding cost of sales and fire safety works) as a result of efficiency savings.

Hyde introduced a new energy performance standard for around 10,000 homes in line with the government's fuel poverty legislation, ensuring EPC B and C standards for all fuel-poor homes by 2030. This aims to reduce the risk of condensation and mould, which will avoid expensive repair costs and also help reduce the risk of rent arrears due to occupants' ill-health. Through better monitoring, customer satisfaction has increased to 83% in 2018, from 77% in 2017, due to responsive repairs.

Hyde saved GBP4.1 million in maintenance through investment of GBP38 million in improving facilities (800 kitchens, 600 bathrooms, and 1,000 heating and hot water systems) of existing homes, to help offset the 1% reduction in rent imposed by the central government since 2016.

Hyde invested GBP67 million in repairs and maintenance to preserve the standards of the existing stock in 2018; of that amount, GBP42 million was major and planned maintenance, GBP23.7 million of which was capitalised. The rest was routine maintenance. Through efficiency gains the operating cost per unit improved to GBP4,230 in 2018 from GBP4,473 in 2017. Hyde plans to limit maintenance costs by selling older properties and replacing them with newer.

Geographic Distribution of Housing Stock

Region	2018 (%)	Units
London	35	17,055
East	20	10,023
South	37	18,262
Other	8	3,833
Total	**100**	**49,173**

Source: Fitch Ratings, Hyde

Benchmarking Hyde's Operating Indicators

Total cost per property (GBP)	Hyde FY19	G15 median FY18	Hyde FY18
Headline social housing cost per unit	4,325	4,545	4,013
Management cost per unit	1,287	1,433	1,378
Maintenance cost per unit	1,067	1,067	1,067
Rent collected as % of rent due (General needs)	100	100	100
Operating margin (social housing lettings) (%)	39	33	38
EBITDA MRI (% of interest)	143	182	124

Source: Fitch Ratings, Hyde

Hyde's operating headline operating costs are below the average of their peers within the G15. This has also been due to a reduction in high-cost property provision, such as health accommodation, and focus on core social and affordable housing. Hyde has sold investments in healthcare units to other organisations that specialise in the area.

Hyde has material capex projects planned over the next five years. These projects have great flexibility and phaseability as the plans are conditional: only specific aspects of each development will be approved without certain sales targets being met for property disposals. This demonstrates both a flexible and agile development plan, and containing safeguards to make sure the capital recycling policy is maintained. Hyde is also limiting risk through the use of grant funding, partnerships and joint ventures (JVs) to meet its building targets with minimal capital employed. Examples include the Homes England Strategic Partnership, Homes for Brighton and Hove and EVERA homes.

Resource Management Risk

Hyde has no supply constraints for labour or resources in terms of amount, cost or timing. During FY19 Hyde's staff costs were GBP51.8 million, with around 1,050 employees. Staff costs accounted for around 16% of operating expenditure, demonstrating the ability to reduce operating costs without reducing staffing.

Capital Planning and Management

Capital Planning and Management are assessed as 'Neutral'. Hyde has adequate policies for capital planning and funding. These are managed effectively by a stable team within treasury and strategic asset management. Capex is carefully planned and conditional on funding availability planned in advance. In FY18 Hyde financed 62%, or GBP1,999.5 million, of its investments from reserves and loans (49% from loans and 13% from reserves) and the rest from grants.

Development Programme and Partnerships

Hyde, including all JVs, developed 1,006 homes during FY19 (FY18: 1,285) and plans to deliver on average 1,100+ units per year over the next five years. An additional 2,900 will be developed by Hyde's JV partners but will not appear on balance sheet. The tenure is projected to be split as follows: 33% affordable rental, 30% affordable ownership, 4% private rental, 32% private sale and 1% affordable care home.

Development Programme of Annual Housing Units

FY	Units developed/ completed	Development plan
16/17	465	
17/18	1,285	
18/19	1,006	
19/20		1,025
20/21		1,169
21/22		1,504
22/23		2,057
23/24		2,638

Source: Fitch Ratings, Hyde

Affordable development requires subsidisation, and this comes from local government grants (Greater London Authority and Homes England) and cross-subsidy from the private sales of new or old properties. Each stage of the development plan has the ability to phase out construction or limit the risk to Hyde. Hyde could reduce risk after construction by limiting the number of properties it purchases from the new tranche of homes, which is an option in most of the projects planned.

The development programme is designed in a conditional manner: for example if the property disposals expected do not occur it has the flexibility to delay the build of committed schemes, or not purchase certain affordable housing units available within each phase of projects.

Hyde has developed six different funding models for future developments. These are: commercial joint ventures, local authority engagement, housing association partnerships, grant funding, strategic asset management and institutional capital and capital recycling. Each of these approaches has been established to limit risk to Hyde and maintain the development programme.

Total Stock and Estimate Market Value

	FY15	FY16	FY17	FY18	FY19
Total owned and managed (000 units)	49.7	48.2	49.2	49.1	48.8
Estimated Value (GBPbn)[a]	n.a.[b]	n.a.	10.3	10.5	10.4

[a] On a vacant possession basis
[b] Hyde did not value stock until FY17
Source: Fitch Ratings, Hyde

Financial Profile

During FY19 Hyde reported turnover of GBP515 million (FY18: GBP406 million), with an operating surplus of GBP181 million. Turnover for FY19 increased in line with expectations presented in our rating case (GBP523 million expected, 27% actual increase compared 29% expected). Core social housing activities accounted for 72% of total turnover2, while 28% was from property sales, demonstrating the recurring cross-subsidy between income streams for a healthy financial profile. Fitch's rating case expectation is for the core business to represent 67% on average of total turnover during the forecast five-year period.

[2] Fitch ratings adjusts overall turnover to remove non-cash, non-operating turnover to establish total turnover.

Liquidity Profile Assessment

The Liquidity Profile for Hyde is assessed as 'Neutral'. Hyde has a prudent approach to liquidity management. It held GBP111 million in cash and cash equivalents, of which GBP20 million was restricted cash at FYE19 (FYE18: GBP80 million, of which GBP19.7 million was restricted) and had access to GBP515 million in undrawn facilities (FYE18: GBP435 million) through a revolving credit facility (RCF), although this serves as a risk cushion.

Hyde operates with a portfolio comprising material risks from ambitious developments that require active management. There have been consistent operating surpluses for several years, and these are likely to continue, based on the Fitch rating case, generating significant reserves (FY18: GBP395.6 million) for sustainable business development.

Hyde is focusing on lowering the costs of debt and has restructured GBP350 million of existing debt. This has reduced the weighted average cost of debt from 4.6% to 4.3% in FY19.

Hyde had a liquidity cushion of 0.36 at FYE2019, as the cash available was GBP91.1 million, Annual cash flow after financing was GBP30.7 million and annual operating costs were GBP333.9 million (GBP30.7 million + GBP91.1 million/ GBP333.9 million = 0.36).

Total debt at FYE19 was GBP1,597.9 million (FYE18: GBP1,649.5 million)secured on 29,941 properties within Hyde's portfolio, leaving 11,785 available assets available to be collateralised, if necessary. This would be likely to yield an additional GBP1,273.4 million of loans if needed, alongside the undrawn facilities and cash positions

Hyde plans to make significant disposals of existing stock over the next five years, to lower the age of properties and generate cash to reinvest, improving liquidity in the medium term. The current average age of their portfolio is 37 years. Older properties are less energy efficient and have high running costs, and therefore are not best suited to social housing.

Leverage (Net Debt/EBITDA) Assessment – Compatible with 'A' Category

Fitch believes Hyde has strong performance compared with its peers. The net direct risk/EBITDA at FYE18 was 7.8x as Hyde deleveraged in 2017. As a diversified business (30% non-core in FY19) with high demand for social and affordable housing, Hyde should be able to maintain sufficient revenue to service debt and limit risk.

We expect the share of non-social housing activity to have peaked in FY20, based on Fitch's rating case (57% core business). A return to core business is likely with the introduction of rent increases in the social rent sector.

Hyde's operating surplus has developed, and increased, since 2016 due to increases in shared ownership and recurring asset disposals. Fitch's rating case expects operating surplus to peak in FY19 at GBP183 million, then decline due to lower turnover figures.

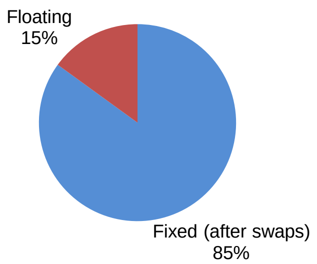
In its rating case scenario, which is more conservative than the management case, Fitch expects Hyde's solid performance to continue, with leverage gradually increasing year on year until FY23, then set to decline. Within Fitch's rating case scenario, over the next five years the ratio would increase to 9x-10x, remaining in line with 'A' category peers.

Long-Term Financial Forecast

The long- and medium-term financial forecasts are presented to, and approved, annually by the board. The board is mainly focused on providing financially accessible homes in London and the southeast, generating profit to reinvest, working with other organisations to implement their vision and providing a customer-focused landlord service.

Hyde plans to take advantage of the mixed-tenure development plan to provide maximum levels of affordable accommodation across London and the southeast. The share of non-social housing turnover is likely to peak in FY19, with greater focus on social and affordable rental in the medium and long term. We also expect debt to have peaked in FY19, with active deleveraging to de-risk.

Debt Stock by Interest Type FY19



Source: Fitch Ratings, Hyde

Hyde's stress tests, based on the Bank of England stress test, included delays of sales for extended periods, zero future profits from JVs, a one-third reduction in the value of disposal properties, significant increase in building costs and the failure of a JV.

Throughout the stress test all covenants were met, with decreased headroom as would be expected. If no corrective measures were implemented Hyde would still be likely to meet its covenant requirements. It is unlikely that management would not implement corrective action, as it already has plans for these eventualities, including converting from market sale or rent, halting construction and cancelling developments if necessary. This indicates that the medium and long-term financial profiles for Hyde are strong as the stress test has not identified any concerns relating to liquidity.

Fitch will continue to monitor Hyde's resilience. We will review the robustness of the stress-testing relative to its ratings and peers, in particular the impact of the Brexit outcome on its financial and development plans, and management's flexibility to adapt to changing market conditions.

Asymmetric Additive Risk Factors

Summary of Rating Factors

Debt characteristics	Governance management	Legal and regulatory	Information quality	Country ceiling legal regime
Neutral	Neutral	Neutral	Neutral	Neutral

Source: Fitch Ratings

Maturity Schedule

As at 31 March 2018	(GBPm)	(%)
Debt maturing within one year	30.8	1.9
2-5 years	681.4	41.3
6-10 years	323.0	19.6
After 10 years	614.2	37.2
Total debt	**1,649.5**	**100.0**

Source: Fitch Ratings

Debt Characteristics

Hyde's debt repayment profile is medium term. Short-term repayment pressure is mitigated by extending the maturities into long-term maturity buckets. During FY19, GBP350 million of these facilities were renegotiated and their maturities extended from three to five to seven to 10 years, moving the liquidity risk into the longer term. On average 4.5% annually for the next five years of Hyde's debt will mature, and after that 2% on average for the subsequent 35 years. The weighted average cost of debt has fallen as a result of refinancing from 4.6% in 2018 to 4.3% in 2019. Hyde has only 6% of debt maturing over the next three years, demonstrating liquidity security in the short to medium term.

At 31 March 2019, 85% of Hyde's debt was fixed (after swap) and 15% has floating rates.

Internal loan covenants are forecast to be met over the medium term in a stress scenario, with a maximum gearing ratio of 49%, with covenants allowed at 70%, and would not breach the 1.4x interest coverage required.

The implications of Brexit on the sector are uncertain but are likely to be limited. Specific areas of impact are likely to be turbulence in the financial and housing markets delaying planned debt restructures or indicating a lowering of demand for property purchases. Hyde has refinanced for the medium term, and had GBP515 million in undrawn facilities at FYE19. The phased construction plan also allows for changes to capex in an uncertain climate.

Governance and Management

Governance and management are assessed as 'Neutral'. Management has extensive experience in the sector, with limited turnover. The CEO will leave the organisation in 2019 but will be replaced through promotion by the current CFO, Peter Denton, maintaining continuity in the management structure. The policies and procedures in place will continue.

Hyde is governed by the group board, which comprises nine non-executive members and two executive members. The board delegates certain responsibilities to five committees: Audit and Risk, Group Treasury, Remuneration and Appointments, Group Investment and Group Housing Services. The group board focuses on strategy and performance of the overall entity and allows the committees responsibility for their specific matters.

Legal and Regulatory

RSH has confirmed that Hyde complies with the financial viability and governance requirements it issues. Hyde's most recent assessment was 'G1/V2'. The external auditors, PWC LLP, raised no significant concerns on the FY19 unqualified accounts. The RSH judged Hyde's business plan to be fully funded and that Hyde has the financial capacity to deal with a reasonable range of exposures presented within the stress testing, but should continue to actively manage material risks.

Information Quality

Fitch assesses Information Quality as 'Neutral' to the rating. There is audited financial data available in its annual report and accounts and substantial amounts of public information provided on its website. Hyde is required to present detailed business plans to the RSH on a regular basis. It also provides Fitch with forecasts of detailed cash flows factoring in a range of possible stress and base scenarios.

Country Ceiling and Legal Regime

The Country Ceiling and legal regime are assessed as 'Neutral' in the United Kingdom. The Country Ceiling for the UK is 'AAA', above Hyde's credit profile, resulting in no limitations for any entity. The legal system has a history of impartiality and respects contracts within the rule of law. The UK has a long-term stable economy notwithstanding the Rating Watch Negative on its rating and a supportive regulatory regime, with political and nationwide support for the social housing sector.

Principal Factors under Government-Related Entity Criteria

Summary of Rating Factors

Strength of linkage		Incentive to support	
Status, ownership and control	**Support track record and expectations**	**Socio-political implications of default**	**Financial implications of default**
Strong	Moderate	Moderate	Weak

Source: Fitch Ratings

The assessment under the *Government-Related Entities Rating Criteria* for all RPs is 12.5 points. An SCP of 'A' for Hyde under the *Revenue-Supported Rating Criteria*, which is greater than three notches away from the current UK government' rating, would result in a bottom-up +1 notch under the Notching Guideline Table.

Strength of Linkage

Status, Ownership and Control – Assessed as 'Strong'

Hyde is a private, not-for-profit entity. For entities that do not have, in strict terms, a legal ownership (due to their structure or their status), Fitch looks primarily at the level of control by the government. We consider the regulatory framework for English social housing as having a robust legal basis, and the overseeing RSH as maintaining sound control and tight monitoring of RPs. The regulator's history of oversight and (non-financial) intervention in (rare) cases of distress is a key factor behind the sector's solidity.

The RSH periodically publishes regulatory judgements on individual RPs. These judgements comprise a viability report and a governance report, which are conducted through an in-depth assessment of the individual RP (evaluation of the risks it faces – e.g. financial, market, liquidity – and the management team's ways of coping with them).

RPs also have to submit their multi-year business plans (which include a development plan, an operating plan, a means of financing, and stress testing) for regulatory assessment.

Fitch has therefore factored in the financial involvement of the government in the provision of housing benefit and housing grants (through Greater London Authority and Homes England), the fact that RPs are carrying out an important public policy mission and ensuring that government co-financed public assets remain in the sector.

Support Track Record and Expectations – Assessed as 'Moderate'

Policy influence is moderately supportive of the financial stability of RPs. Regulatory restrictions on government support are unlikely to prevent timely intervention in exceptional circumstances. Although the regulator does not provide a direct guarantee for RP borrowers, and the UK government does not have any ownership in the entities, the RSH can use its statutory powers to intervene where there are serious concerns about the performance of an RP.

Cosmopolitan's merger with Sanctuary in March 2013 showed that the regulator's support was available for entities also heavily involved in non-social housing activity. We therefore consider that, if necessary, support would ultimately be forthcoming for all RPs.

Incentive to Support

Socio-Political Implications of Default – Assessed as 'Moderate'

In the unlikely event of financial default, other RPs can act as substitutes with only minor or temporary disruption to the service offered by the RP, not materially affecting the provision of service. Support for this sector ranges from merely ensuring continuation of activities while a substitute is found to actively seeking to prevent a default and ensure continued financial viability of the government-related entity.

The RSH can place a poorly performing RP under supervision and make statutory appointments to the board. In some extreme cases, it can direct an independent statutory inquiry, which could result in an RP being required to transfer its assets to another RP to protect the interests of tenants and other relevant parties. Fitch considers that RPs facing difficulties would probably be forced to merge with larger or financially stronger entities.

Financial Implications of Default – Assessed as 'Weak'

Default would have a minimal impact on either the availability or cost of domestic financing of other RPs. Fitch considers that if a default occurred, it would be treated as an isolated case of mismanagement or viability concerns; it should therefore not affect the sector at large.

Bonds Issued by Hyde

Issuer	ISIN code	Issue date	Maturity date	Issue volume (GBPm)	Coupon (%)
Hyde Housing Association Limited	XS0526582761	23 July 2010	23 July 2040	250	5.125
Martlet Homes Limited	XS1602093483	09 May 2017	09 May 2052	400	3.000

Source: Fitch Ratings

Appendix A

Hyde Housing Association Limited (Consolidated Group Accounts)

(GBPm)	2014	2015	2016	2017	2018
Income statement					
Operating revenue[a]	281.7	338.3	395.2	379.6	405.8
Staff expenses	-49.8	-53.8	-54.6	-55.4	-55.6
Depreciation	-25.6	-33.7	-33.6	-37.0	-38.3
Other operating revenues and expenditure	-127.2	-145.9	-149.0	-131.2	-150.9
Operating balance before grants and subsidies	79.1	104.9	158.0	156.0	161.0
Revenue from public sector	-	-	-	-	-
Operating balance after revenue from public sector	79.1	104.9	158.0	156.0	161.0
Interest revenue	11.0	7.2	2.5	2.0	2.0
Interest expenditure	-78.6	-68.4	-69.1	-70.5	-72.2
Operating balance after financing	11.5	43.7	91.4	87.5	90.8
Surplus on disposal of fixed assets	20.4	33.5	-	0.2	0.0
Non-operating revenue and expenditure	37.0	-106.0	-69.0	-26.1	-62.7
Profit (loss) before taxation	68.9	-28.8	22.4	61.6	28.1
Taxation	0.0	-0.2	-0.3	0.0	0.0
Profit (loss) after tax	68.9	-29.0	22.1	61.6	28.1
Minority interests	-	-	1.8	0.1	0.2
Profit or loss for the financial year	68.9	-29.0	20.3	61.5	27.9
Balance sheet					
Assets					
Tangible assets	1,496.2	2,726.5	2,764.3	2,895.4	2,954.1
Intangible assets	-	-	-	-	-
Other long-term assets	33.5	51.0	61.1	54.3	73.7
Long-term investments	21.5	60.6	70.1	82.4	86.1
Stock	82.2	102.7	133.7	182.7	250.1
Trade debtors	25.7	25.9	30.2	31.3	35.8
Other current assets	-	-	-	-	-
Cash and liquid investments	147.1	146.7	87.4	44.5	80.5
Total assets	1,806.2	3,113.4	3,146.8	3,290.6	3,480.3
Liabilities and equity					
Long-term liabilities	122.4	255.0	320.4	357.2	216.7
Pension	7.0	16.2	10.8	24.9	13.3
Long-term debt	1,324.1	2,501.6	2,408.2	2,427.3	2,707.5
Trade creditors	27.4	29.2	72.0	85.7	84.1
Other short-term liabilities	41.7	36.1	31.5	43.6	63.1
Short-term debt	-	-	-	-	-
Equity	283.6	275.3	302.1	349.9	393.6
Reserves	-	-	-	-	-
Minority interests	-	-	1.8	2.0	2.0
Liabilities and equity	1,806.2	3,113.4	3,146.8	3,290.6	3,480.3
Debt statement					
Short-term debt	8.1	8.4	52.9	62.2	59.3
Long-term debt	1,295.9	1,301.1	1,267.2	1,307.4	1,590.2
Total debt	1,304.0	1,309.5	1,320.1	1,369.6	1,649.5
Other Fitch-classified debt	-	-	-	-	-
Total risk	1,304.0	1,309.5	1,320.1	1,369.6	1,649.5
Cash, liquid deposits and sinking fund	119.7	99.3	21.1	18.1	60.8
Net risk	1,184.3	1,210.2	1,299.0	1,351.5	1,588.7
Contingent liabilities	-	-	-	-	-
Net overall risk	1,184.3	1,210.2	1,299.0	1,351.5	1,588.7
% debt in foreign currency	-	-	-	-	-
% issued debt	23.9	24.9	25.2	24.0	43.6
% debt and fixed interest rate	-	-	-	-	-

[a] Fitch adjusted turnover including asset disposals with a recurring nature
Source: Fitch Ratings, Issuer and Fitch calculations

Appendix B

Hyde Housing Association Limited (Consolidated Group Accounts)

	2014	2015	2016	2017	2018
Cash flow statement					
Changes in working capital	3.4	-21.1	-63.6	-18.9	-83.8
Cash flow before net capital expenditure	31.7	27.6	-7.1	26.0	-36.1
Net capital expenditure	-23.6	-33.3	-52.1	-117.6	-22.8
Cash flow before financing	8.1	-5.7	-59.2	-91.6	-58.9
New Borrowing	115.9	0.0	59.0	105.5	1,104.7
Other cash financing	-0.1	13.0	0.0	0.6	-190.6
Debt repayment	-18.5	-7.7	-59.1	-57.3	-819.3
Cash flow after Financing	105.4	-0.4	-59.3	-42.8	35.9
Ratio analysis					
Profitability ratios					
Personnel costs/operating revenue including revenue from public sector (%)	17.68	15.9	13.82	14.59	13.7
Revenue from the public sector/operating revenue including revenue from public sector	-	-	-	-	-
EBITDA/operating revenue including revenue from public sector (%)	41.57	43.07	49.8	52.29	50
Balance sheet ratios					
Current assets/total assets (%)	14.12	8.84	7.99	7.86	10.53
Current assets/total liabilities (%)	16.75	9.7	8.84	8.8	11.88
Return on equity (%)	24.29	-10.53	7.27	17.5	7.1
Return on assets (%)	3.81	-0.93	0.7	1.87	0.81
Debt ratios					
Net debt/EBITDA (x)	10.1	8.3	6.6	6.8	7.8
Long-term debt/operating revenue including revenue from public sector (%)	460.03	384.6	320.65	344.42	391.87
Total debt/EBITDA (x)	11.1	9.0	6.7	6.9	8.1
Debt/equity (%)	459.8	475.66	436.97	391.43	419.08
EBITDA/gross interest expenditure (x)	-	-	-	-	-
Debt servicing/operating balance before revenue from public sector (%)	122.76	72.55	81.14	81.92	541.3
Debt servicing/operating balance after revenue from public sector (%)	122.76	72.55	81.14	81.92	541.3

n.a.: Not available
Source: Issuer and Fitch calculations

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.