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CREDIT OPINION
21 December 2023

Update

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RATINGS

Citizen Housing Group Limited

Domicile	United Kingdom
Long Term Rating	A3
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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Citizen Housing Group Limited (UK)

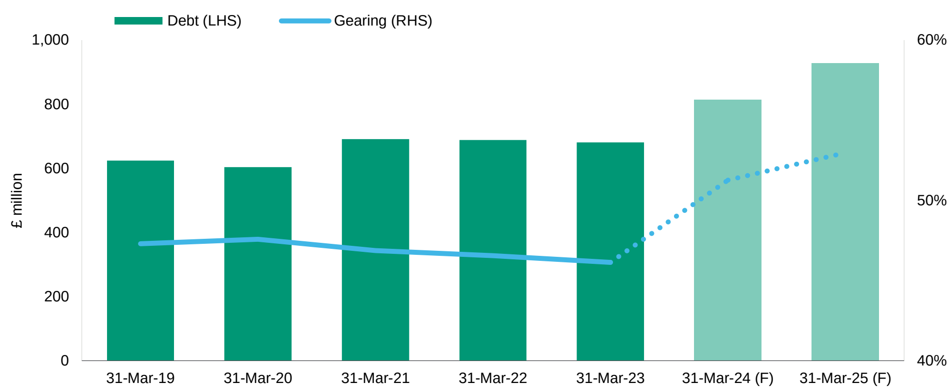
Update to credit analysis

Summary

The credit profile of Citizen Housing Group Limited (Citizen, A3 stable) reflects the high proportion of turnover coming from social housing lettings and a robust operating performance. It also incorporates an expected deterioration in debt metrics as well as a weakened liquidity position. The A3 rating benefits from the strong regulatory framework governing English housing associations and our assessment that there is a strong likelihood that the government of the United Kingdom (Aa3 stable) would intervene in the event that Citizen faced acute liquidity stress.

Exhibit 1

Citizen's debt metrics will weaken due to an ambitious capital expenditure programme
Debt and gearing (debt to assets at cost), fiscals 2019-2025



Forecasts are based on the 2023 business plan.
Source: Citizen, Moody's Investors Service

Credit Strengths

- Large housing association with a high proportion of turnover from social housing lettings
- Robust operating margin and interest coverage ratios
- Supportive institutional framework in England

Credit Challenges

- Debt metrics expected to deteriorate due to high capital spending
- Weakened liquidity and limited unencumbered assets

Rating Outlook

The stable outlook reflects the expected gradual reduction in inflation and associated cost pressures, which will support the credit profile of Citizen.

Factors that Could Lead to an Upgrade

Upward pressure on the ratings could result from a significant improvement in operating performance, a material reduction in debt or a significant increase in government support for the sector, especially significantly higher levels of capital grants.

Factors that Could Lead to a Downgrade

Downward pressure on the ratings could result from a prolonged weakening in operating performance, debt growing more quickly than forecasts, weaker liquidity or a failure to adapt strategies and risk appetite to mitigate against weaker economic conditions. 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

Citizen Housing 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.)	30,423	30,635	30,968	31,227	31,639	32,216	32,765
Operating margin, before interest (%)	27.4	21.8	24.9	25.1	24.2	24.5	27.1
Net capital expenditure as % turnover	3.0	29.3	22.8	21.4	37.6	69.7	47.9
Social housing letting interest coverage (x times)	1.6	1.2	1.4	1.4	1.5	1.3	1.4
Cash flow volatility interest coverage (x times)	2.7	1.1	1.0	2.1	2.4	1.4	2.0
Debt to revenue (x times)	4.1	4.0	4.1	3.9	3.7	4.0	3.8
Debt to assets at cost (%)	47.3	47.6	46.9	46.6	46.1	51.3	53.0

Forecasts are based on Citizen's 2023 business plan.
Source: Citizen, Moody's Investors Service

Detailed Rating Considerations

Citizen's ratings combine (1) its baseline credit assessment (BCA) of baa1 and (2) a strong likelihood of extraordinary support coming from the UK government in the event that Citizen faced acute liquidity stress.

Baseline Credit Assessment

Large housing association with a high proportion of turnover from social housing lettings

Citizen is a large registered provider of social housing, managing over 31,600 units throughout the Midlands. The group has seen significant growth since 2008, expanding from 6,000 units, primarily due to a series of mergers. Citizen has streamlined its structure since the mergers, enhancing the organisation's governance and oversight. The group's structure currently includes the parent entity, Citizen Housing Group, two operational subsidiaries and two treasury vehicles.

Citizen benefits from revenue stability, which is largely attributed to a substantial proportion of turnover stemming from low risk social housing lettings. In fiscal 2023, social housing lettings constituted 86% of turnover. We expect that Citizen will sustain this level over the medium term, with an average of 86% over the next five years. The residual turnover is expected to be generated by first tranche shared ownership sales (6%) and outright sales (6%).

Robust operating margin and interest coverage ratios

Citizen's operating margin stood at 24% in fiscal 2023, above the A3-rated peer median of 20%. Citizen projects an improvement in the operating margin to an average of 26% over the next three years, underpinned by assumptions of a return to consumer price index (CPI)-linked rent increases from fiscal 2025 and the recognition of additional grant income. However, the uptick in demand for repair and maintenance works could exert downward pressure on Citizen's operating margin.

Social housing letting interest coverage (SHLIC), which measures the ability to cover cash interest payments from the surplus on social housing lettings, stood at 1.5x in fiscal 2023. This is significantly higher than the A3-rated peer median of 1.0x. However, we anticipate a reduction in the SHLIC to an average of 1.2x over the next five years, primarily due to increasing interest expenses stemming from growing debt to finance the development programme and decarbonisation works.

Citizen renegotiated its covenants during fiscal 2023 to be based solely on EBITDA, rather than EBITDA MRI. Its interest coverage covenant, inclusive of the share of joint venture surplus, is set at a minimum of 150%. We expect that Citizen will maintain sufficient headroom on its interest coverage covenants going forward.

Supportive institutional framework in England

The sector's credit quality will continue to benefit from the strong institutional framework governing English housing associations 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 and annual reviews and by undertaking biennial In-Depth Assessments (IDAs) for large and complex housing associations. 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 housing associations remains supportive. Demand for social housing remains very high and the government has committed to increased capital grants on more flexible terms for new social housing. English housing associations retain some expenditure flexibility and have a track record of reducing costs to mitigate lower income.

However, due to high rates of inflation, the government has intervened on social rent policy with a 7% ceiling on social rent increases, which was implemented in April 2023 for one year. The ceiling of 7% will likely result in an adverse differential between rental income and cost growth, driving lower margins and interest coverage. The intervention introduced policy volatility to the sector as the ceiling superseded the allowable increase of CPI plus 1% under the current rent standard, which is in place until March 2025.

Debt metrics expected to deteriorate due to high capital spending

As of the end of fiscal 2023, Citizen's total debt stood at £681 million. This corresponds to 3.7x revenues and 46% of assets adjusted at cost, comparing favourably to the A3-rated peer medians of 4.4x and 51%. However, we expect that debt metrics will significantly deteriorate as debt increases to fund Citizen's development and decarbonisation expenditures. Gearing is projected to rise to 55% by fiscal 2026 and debt to revenue is expected to average 4.4x over the next five years, reaching 4.9x in fiscal 2028.

Citizen has maintained its development programme in line with its previous business plan despite a weaker operating environment, which weighs on its credit metrics. Citizen aims to develop approximately 3,100 units over the next five years at a total cost of £559 million, which is 8% more than the forecasted five-year expenditure in the previous business plan due to inflationary pressures. In addition, Citizen decided to upgrade all of its properties to EPC C by fiscal 2025, significantly ahead of the 2035 requirement, at a total cost of £71 million (£46 million net of grants).

Citizen's development programme is divided between social and affordable housing (56%), shared ownership (25%), rent to buy (11%) and outright sale (8%). Consequently, market sales are projected to constitute an average of 14% of turnover over the next three years (19% including joint ventures), with a roughly equal split between first tranche shared ownership sales and outright sales. This is an increase from the average of 9% over the past five years and further exposes the group to the housing market downturn.

Weakened liquidity and limited unencumbered assets

Citizen's liquidity amounted to £167 million as of August 2023, comprised of £37 million in cash and £130 million in immediately available facilities. With this liquidity level, our estimated liquidity coverage ratio for Citizen, which measures immediately available liquidity against projected net cash requirements over the next two years, stands at 0.6x. This is a significant decline from the 1.2x recorded in the previous year, primarily due to increased capital expenditures. Despite this weakening, Citizen continues to adhere to its treasury policy, which stipulates that total liquidity should cover 18 months of net cash flows, excluding uncommitted development expenditure, grants and sales income. Citizen is currently in negotiations to secure an additional £100 million revolving credit facility, which would improve its liquidity coverage to 1.0x. However, this will still remain below the A3-rated peer median of 1.2x.

Citizen's liquidity levels are constrained by its relatively low levels of unencumbered assets. Its unencumbered assets provide an additional borrowing capacity of approximately £355 million (excluding any potential security headroom in the existing secured debt), below the net funding requirements of around £420 million projected for the next five years. Citizen will therefore be dependent on the completion of new units or the release of additional security headroom to secure the necessary funding.

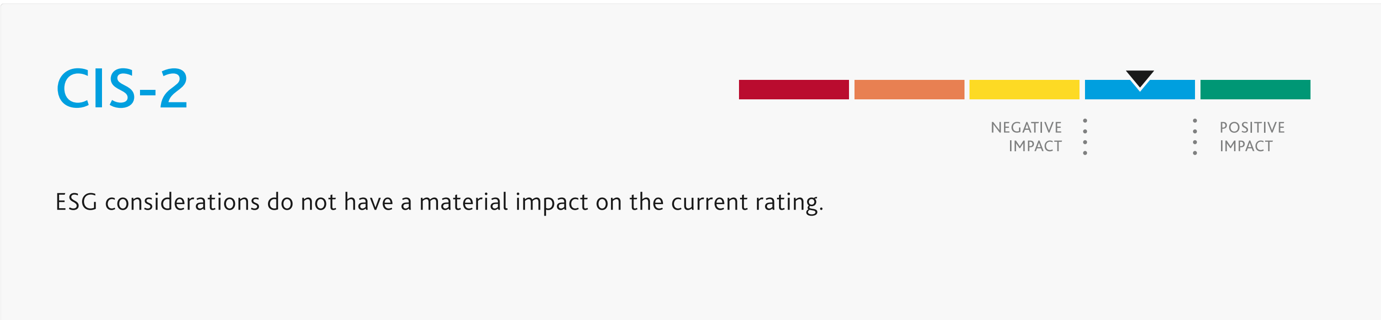
Extraordinary Support Considerations

The strong level of extraordinary support factored into the ratings 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 housing associations 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 housing association operations. In addition, our assessment that there is a very high default dependence between Citizen and the UK government reflects their strong financial and operational linkages.

ESG considerations

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

Exhibit 3
ESG credit impact score



Source: Moody's Investors Service

Citizen's **CIS-2** indicates that ESG risks have a limited impact on its ratings. Citizen has limited exposure to carbon transition risks as the majority of its stock already meets energy efficiency requirements and although social risks are prevalent we consider that Citizen 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

Citizen has limited exposure to environmental risks (**E-2**). English housing associations have the legislative requirement to improve the energy efficiency of their existing housing stock by 2035 (carbon transition risks), leading to increased expenditure. However, we assess that Citizen has a low exposure to this risk as the vast majority of its housing stock already meets the required efficiency standards.

Social

Citizen 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 Citizen has considerable expenditure requirements, which will weigh on its margins and interest coverage over the medium term. Citizen 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.

Governance

Citizen has limited governance risks (**G-2**). Its governance is fit for purpose, with strong financial management policies and processes, detailed reporting and a simple organisational structure. 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 baa1 is in line with the scorecard suggested BCA.

The methodologies used in this rating were European Social Housing Providers, published in April 2018, and Government Related Issuers, published in February 2020.

Exhibit 5
Citizen's 2023 Scorecard

Citizen Housing Group			
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%	31,639	a
Factor 3: Financial Performance			
Operating Margin	5%	24.2%	baa
Social Housing Letting Interest Coverage	10%	1.5x	baa
Cash-Flow Volatility Interest Coverage	10%	2.4x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.7x	baa
Debt to Assets	10%	46.1%	ba
Liquidity Coverage	10%	0.6x	baa
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**baa1**
Assigned BCA			**baa1**

Source: Citizen, Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
CITIZEN HOUSING GROUP LIMITED	
Outlook	Stable
Baseline Credit Assessment	baa1
Issuer Rating -Dom Curr	A3
CITIZEN TREASURY PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3

Source: Moody's Investors Service

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