Research Update:

Thrive Homes Ltd. Outlook Revised To Negative On Strategy To Increase Investments; 'A+' Ratings Affirmed

March 25, 2025

Overview

- Thrive Homes Ltd. (Thrive) intends to increase investment in existing and new homes, which will weaken its financial performance and liquidity position.
- While we consider Thrive could benefit from greater flexibility in its investment plans, we think its updated strategy may result in higher debt and weaker performance than we currently anticipate.
- We also think Thrive will not maintain the same level of liquidity as it has in the past due to increased capital expenditure for new developments.
- We therefore revised the outlook on Thrive to negative from stable. At the same time, we affirmed our 'A+' long-term issuer credit rating on the group.

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Rating Action

On March 25, 2025, S&P Global Ratings revised the outlook on U.K. social housing provider Thrive Homes Ltd. to negative from stable. At the same time, we affirmed our 'A+' long-term issuer credit rating on the group.

We also affirmed our 'A+' issue rating on the £200 million senior secured bond issued by Thrive Homes Finance PLC, Thrive's funding vehicle, which we view as a core subsidiary of the Thrive group.

Outlook

The negative outlook reflects the risk that Thrive's business strategy may lead to higher investments and increased debt, preventing the recovery of its financial performance that we currently expect in our base case.

Downside scenario

We could lower our ratings over the coming 24 months if Thrive's financial risk profile does not recover in line with our current base case because of increased investment in existing and new homes. This could lead to a structurally weaker interest coverage ratio and weigh on our view of its management practices.

We could also lower the rating if we believe there is a reduced likelihood of timely and sufficient extraordinary support from the U.K. government.

Upside scenario

We could revise the outlook on Thrive to stable if the group manages to control its cost increases while containing new debt funding. We expect this would lead to improved performance and a stronger debt profile more quickly than we forecast.

Rationale

Our outlook revision reflects the risks stemming from Thrive's strategy, which targets materially higher investments in existing properties and substantially increased debt for new developments. This could lead to structurally weaker financial performance and higher debt than our previous forecast, as Thrive works to enhance its stock quality and address the backlog of repairs and maintenance from previous years.

We also think a higher level of capital expenditure for new developments will weaken the group's liquidity position compared to previous exceptional levels. Therefore, we revised down to 'a' from 'a+' our stand-alone credit profile (SACP) on Thrive.

The rating continues to be supported by the group's strong focus on traditional social housing lettings, which provide stable and predictable revenues.

Enterprise profile: A focus on traditional social housing and strong demand for its properties support Thrive's credit quality

Thrive remains focused on England's predictable and countercyclical social housing sector. Thrive owns and manages more than 5,800 homes in the southeast of England. We forecast the group will contain its sales exposure--which is limited to shared ownership--to about 22% of its average adjusted revenue through our forecast.

Thrive's social and affordable rent, which stands at 39% of the market average across its area of operations and/as well as its proximity to London, supports the strong demand for its properties. This demand is also evident in the group's average vacancy rates, which have been 1.1% of rent and service charges receivable over the past three years. This is broadly in line with the sector average in England.

While Thrive's strategy targets higher investments in both new and existing homes, we consider the group will benefit from greater flexibility in its plans in order to avoid further deterioration of its financial indicators. We understand more than 90% of the group's capital expenditure for new developments is uncommitted and that Thrive has the capacity to remove or reprofile discretionary spending on its existing properties. At the same time, we understand Thrive has a small number of high rise buildings, which limits its exposure to fire safety risk. Additionally, about 85% of its properties have an Energy Performance Certificate rated C or above.

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).

Financial profile: Increased investment structurally weakens Thrive's financial performance and liquidity position

We expect Thrive's higher investment in existing homes will structurally weaken the adjusted EBITDA margins in our forecast to below 30% through fiscal year 2027 (ending March 31, 2027). We also expect its strategy to develop more shared ownership homes will weigh on its margins. Our forecast indicates that rent increases, which slightly exceed cost inflation, combined with cost efficiencies, will help the group stabilize its financial performance, albeit at levels lower than we previously expected.

We forecast the group will primarily use debt to fund its increased target for developing of new homes. We project higher debt combined with weaker nonsales adjusted EBITDA will result in a modest recovery in its debt metrics from the weaker position over the last two fiscal years, during which the group completed a debt-funded stock acquisition.

We consider higher levels of capital expenditure will weaken the group's liquidity position from previous robust levels but that it will remain at a very strong level. We estimate the group's liquidity sources will cover uses by about 1.8x in the next 12 months. We forecast liquidity sources of about £160 million, comprising cash, undrawn and available facilities, grant receipts, proceeds from fixed asset sales, and cash from operations (after adding back the noncash cost of sales). This will cover liquidity uses of about £88 million, mainly capital expenditure and debt service payments. We think Thrive will have satisfactory access to external liquidity when needed.

Government-related entity analysis

We think there is a moderately high likelihood that Thrive would receive timely extraordinary government-related support in the event of financial distress. This provides a one-notch uplift to the SACP. Given one of the Regulator of Social Housing (RSH)'s key goals is to maintain lender confidence and low funding costs across the sector, it is likely that the RSH would step in to try to prevent a default in the sector. We base this view on previous instances of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress, and we think this would also apply to Thrive.

Selected Indicators

Table 1

Thrive Homes Ltd.--Financial statistics

	--Year ended March 31--				
Mil. £	**2023a**	**2024a**	**2025bc**	**2026bc**	**2027bc**
Number of units owned or managed	5,750	5,826	6,028	6,076	6,247
Adjusted operating revenue	47.4	46.3	54.1	53.2	59.5

Table 1

Thrive Homes Ltd.--Financial statistics (cont.)

	--Year ended March 31--				
Mil. £	2023a	2024a	2025bc	2026bc	2027bc
Adjusted EBITDA	14.2	12.9	15.7	15.1	17.3
Nonsales adjusted EBITDA	8.3	8.4	13.1	13.1	14.6
Capital expense	108.2	35.4	22.0	54.1	49.0
Debt	250.0	250.0	250.0	275.0	290.0
Interest expense	10.7	11.3	10.9	12.2	13.1
Adjusted EBITDA/Adjusted operating revenue (%)	30.1	27.9	29.1	28.3	29.1
Debt/Nonsales adjusted EBITDA (x)	30.2	29.7	19.1	21.0	19.9
Nonsales adjusted EBITDA/interest coverage(x)	0.8	0.7	1.2	1.1	1.1

a--Actual. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Ratings Score Snapshot

Table 2

Thrive Homes Ltd.--Ratings Score Snapshot

	Assessment
Enterprise risk profile	2
Industry risk	2
Regulatory framework	3
Market dependencies	2
Management and governance	2
Financial risk profile	4
Financial performance	4
Debt profile	5
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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Non-U.S. Social Housing Sector Outlook 2025: Quality Maintenance Constrains Recovery, Jan. 14, 2025
- 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
- European Housing Markets: Better Days Ahead, July 17, 2024
- U.K. Social Housing Borrowing 2024: Borrowing capacity remains constrained, March 6, 2024
- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023

Ratings List

Ratings Affirmed		
Thrive Homes Finance PLC		
Senior Secured	A+	
Ratings Affirmed; Outlook Action		
	To	**From**
Thrive Homes Ltd.		
Issuer Credit Rating	A+/Negative/--	A+/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.