

Research Update:

U.K. Social Housing Provider Stonewater Ltd. 'A-' Ratings Affirmed; Outlook Stable

November 21, 2025

Overview

- Stonewater Ltd.'s increased investment in existing homes is weighing on its financial performance. This follows higher-than-expected costs, which weakened fiscal 2025 financial results (year ended March 31).
- The group has reduced its annual targets for development of new homes in the next two-to-three years, but projected capital expenditure remains material and will be largely debt-funded, keeping the group's debt burden elevated.
- We therefore expect weaker financial metrics with interest coverage ratios slightly below 1.0x.
- As a result, we affirmed our 'A-' issuer credit rating on Stonewater, although we revised our stand-alone credit profile downward to 'bbb'.
- The stable outlook reflects that management's effort to control costs should lead to a gradual recovery in financial metrics from fiscal years 2026-2027.

Rating Action

On Nov. 21, 2025, S&P Global Ratings affirmed its 'A-' long-term issuer credit rating on U.K. social housing provider Stonewater Ltd. The outlook is stable.

At the same time, we affirmed our 'A-' issue ratings on Stonewater Funding PLC's three senior secured bonds and £1 billion senior secured and unsecured medium-term notes program. Stonewater Funding was set up for the sole purpose of issuing bonds and lending the proceeds to the group, so we view it as a core subsidiary of Stonewater.

Outlook

The stable outlook reflects our view that management's cost-containment actions will mitigate the pressure from elevated investment in existing homes.

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Downside scenario

We could lower the rating if Stonewater cannot efficiently rein in costs, or it significantly expands its development ambitions beyond our forecasts, so that financial metrics are markedly weaker than our base-case expectations. Under this scenario, we expect that S&P Global Ratings-adjusted EBITDA margins will materially weaken and adjusted nonsales EBITDA interest coverage will be significantly and sustainably below 1x.

Furthermore, we could lower the rating if we revise downward our view of the likelihood of extraordinary support to Stonewater from the U.K. government in the event of financial distress.

Upside scenario

We could raise the rating if management efficiently controlled costs and contained debt buildup such that the group's credit metrics sustained a substantial improvement over our base-case forecasts.

Rationale

The affirmation reflects our expectations that pressure from investment in existing homes will be mitigated by cost growth management, which the group is committed to; and control on development spending, with the help of government grant funding and an expanded fixed asset disposal program. We understand the integration with Mount Green Housing Association, which merged with Stonewater in fiscal 2024, and strong financial controls should gradually support financial performance. We view positively the group's good understanding about its stock, which strengthens its investment planning. Further supporting the rating is the group's limited exposure to sales activities and solid liquidity position. Nevertheless, our projected financial recovery is slower than we assumed. This is because of higher investment in existing homes, building on the elevated costs in fiscal 2025 following a significant cost increase in repairs and maintenance (by 26% to £127 million). Therefore, we revised down our stand-alone credit profile on Stonewater to 'bbb' from 'bbb+'.

Enterprise profile: Stonewater's strong focus on social housing letting underpins its credit quality

Stonewater benefits from generating most of its earnings in the predictable and countercyclical social housing sector. We project the group will limit its exposure to sales income, which is predominately shared ownership sales, at about a moderate 7% of the group's adjusted revenue on average in the coming two-to-three years.

The demand for Stonewater's properties across England remains strong. This is supported by the group's social and affordable rent remaining at a fairly low 55% of the market rent. Such strong demand is evident in the group's vacancy rate, which has averaged at about 1.1% of the rent and service charge receivable over the past three years and which we consider on par with the sector in England.

In our view, Stonewater's management is proactively taking actions to mitigate the pressure from its higher investment in existing stocks. This includes reducing development targets, improving cost efficiencies, and pursuing additional grant funding to subsidize both investments in new homes and existing homes. The group's stock condition survey data, covering about 80% of its stocks within five years, should bolster the predictability of the investment forecasts. Still, the

group's investment program in existing homes is substantial, stretching the group's financial capacities and delaying financial recovery compared to our previous expectations.

We assess the regulatory framework, under which registered social housing providers in England operate, as strong (see "[Regulatory Framework Assessment: Strong For Social Housing Providers In The U.K.](#)," April 17, 2025).

Financial profile: Stonewater's higher costs will prolong the recovery of financial metrics

Stonewater's costs to repair and maintain existing homes will keep its financial performance subdued. Investment in existing homes has risen in the past year weakening the group's adjusted EBITDA margins to below 20% in fiscal 2025 at about 18%. We forecast this level of investment will continue to increase, reflecting its focus on its stock quality. Although we expect Stonewater's fire safety costs will be limited given its low exposure to high-rise buildings, it will require investments in bringing the rest of the homes (about 20% of the total) to Energy Performance Certificate C level or above by 2030, in addition to regular repairs and maintenance to meet increasing tenant demand. The group's rent increases that exceed inflation, cost efficiency program, and government grants should mitigate the negative impacts of increasing spending, leading to margins to slightly above 20% from fiscal 2027.

Stonewater's debt burden will stay high in our view, despite the reduction in new developments to slow the debt buildup. The group managed to lower capital expenditure in fiscal 2025 at about £170 million, from a relatively high £300 million a year earlier, and we project the level will remain controlled, at close to £200 million by fiscal 2028. Meanwhile, the grant funding through the Strategic Partnership Program with Homes England and the disposal proceeds from the group's expanded fixed asset disposal program will help offset some of development costs. Still, the group will require about £100 million of additional debt per year on average over the forecast period, such that the total debt will approach near £2 billion by fiscal 2028. Additional debt, together with weaker profitability, weigh on debt metrics, with nonsales adjusted EBITDA interest coverage slightly below 1x through our forecast, even after considering management's cost-containing plan.

We view Stonewater's liquidity as strong. The group's liquidity sources cover uses by approximately 1.9x in the next 12 months. This is based on our forecast of liquidity sources of about £570 million--comprising cash, undrawn and available revolving credit facilities, fixed-asset sales, grant receipts, and cash from operations (after adding back the noncash cost of sales)--which will cover liquidity uses of about £310 million (mainly capital expenditure and debt service payments). We think Stonewater retains satisfactory access to external liquidity when needed.

Government-related entity analysis

We think there is a moderately high likelihood that Stonewater 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 two-notch uplift for the rating from the stand-alone credit profile. One of the key goals of the RSH is to maintain lender confidence and low funding costs across the sector, so we think the RSH would likely try to prevent a default in the sector. We base this view on the RSH's history of mediating mergers or arranging liquidity support from other registered providers in cases of financial distress, and think this would also apply to Stonewater.

Key Statistics

Stonewater Ltd.--Financial statistics

(Mil. £)	--Year ended March 31--				
	2024a*	2025a	2026bc	2027bc	2028bc
Number of units owned or managed	39,488	40,531	41,058	41,432	42,010
Adjusted operating revenue	263.5	297.8	302.8	307.5	326.9
Adjusted EBITDA	53.6	52.8	59.8	63.5	72.3
Nonsales adjusted EBITDA	49.7	48.3	57.0	61.9	70.2
Capital expense	304.5	166.0	167.3	197.3	189.1
Debt	1,602.1	1,674.2	1,709.2	1,857.7	1,991.2
Interest expense	58.4	72.1	74.1	74.5	80.6
Adjusted EBITDA/adjusted operating revenue (%)	20.4	17.7	19.7	20.6	22.1
Debt/nonsales adjusted EBITDA (x)	32.2	34.7	30.0	30.0	28.4
Nonsales adjusted EBITDA/interest coverage(x)	0.9	0.7	0.8	0.8	0.9

*Includes two months of Mount Green Housing Association. a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

Rating Component Scores

Stonewater 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	4
Financial performance	4
Debt profile	6
Liquidity	2
Stand-alone credit profile	bbb
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 Providers Ratings Risk Indicators: Largely Stable](#), Nov. 17, 2025
- [Non-U.S. Social Housing Providers Ratings History: October 2025](#), Nov. 17, 2025
- [United Kingdom](#), Oct. 13, 2025
- [U.K. Economic Outlook Q4 2025: Inflation And Labor Costs Are A Persistent Challenge](#), Sept. 23, 2025
- [Regulatory Framework And Systemic Support Assessments For Nonprofit Social Housing Providers](#), Sept. 10, 2025
- [European Housing Markets: Strong Demand And Weak Supply Will Keep Prices High](#), July 10, 2025
- [U.K. Social Housing Providers: Extra Development Grants Won't Improve Financial Headroom](#), June 26, 2025
- [U.K. Social Housing Borrowing 2025: Focused On Containing Debt](#), April 24, 2025
- [Regulatory Framework Assessment: Strong For Social Housing Providers In The U.K.](#), April 17, 2025
- [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
- [Cyber Risk Brief: U.K. Public Sector Is Increasingly Under Threat](#), Oct. 24, 2024

Ratings List

Ratings List	
Ratings Affirmed	
<u>Stonewater Ltd.</u>	
Issuer Credit Rating	A-/Stable/--
<u>Stonewater Funding PLC</u>	
Senior Secured	A-

U.K. Social Housing Provider Stonewater Ltd. 'A-' Ratings Affirmed; Outlook 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.

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