MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
18 November 2021

Rate this Research

RATINGS

Bromford Housing Group Limited	
Domicile	United Kingdom
Long Term Rating	A2
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.

Contacts

Sebastien Hay +34.91.768.8222
Senior Vice President/Manager
sebastien.hay@moodys.com

Gleb Pilipenko
Associate Analyst 3
gleb.pilipenko@moodys.com

Zoe Jankel +44.20.7772.1031
VP-Senior Analyst
zoe.jankel@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Bromford Housing Group Limited (United Kingdom)

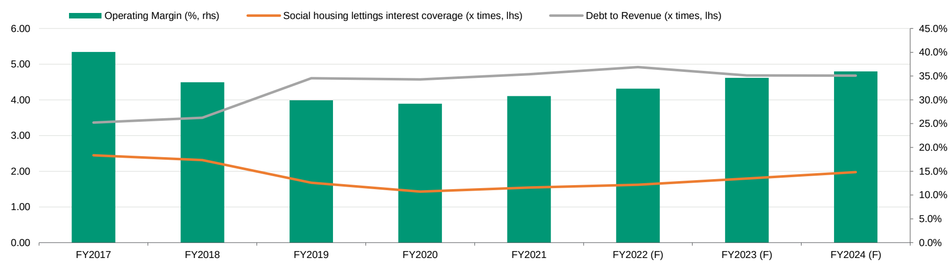
Update to credit analysis

Summary

Bromford Housing Group's (Bromford, A2 stable) credit profile reflects its stable operating performance, strong liquidity and favourable market position, in addition to its relatively high debt to revenues metric. It also incorporates our assumption of a strong likelihood that the government of the United Kingdom (UK, Aa3 stable) would intervene in the event of acute liquidity stress.

Exhibit 1

Bromford's profitability is set to strengthen, while debt to revenue and cash flow volatility interest coverage weaken



F: Forecast. Standalone pre-merger financials for FY2016-18; the merged entity's financials for FY2019-2021; the merged entity's board-approved business plan for FY2022-24.
Source: Bromford, Moody's Investors Service

Credit strengths

» Strong financial performance and market position and continued focus on core business

» Ample liquidity coverage coupled with substantial unencumbered assets

» Supportive institutional framework in England

Credit challenges

» Increased borrowing will moderately weaken debt to revenues, although gearing expected to remain stable

» Ambitious development programme, market sales exposure remains high beyond medium term adjustment driven by an increase in outright and shared ownership sales

Rating outlook

Bromford's stable outlook reflects our expectation that its financial performance will remain strong over the medium term and is supported by its ample liquidity.

Factors that could lead to an upgrade

One or a combination of the following could lead to an upgrade: 1) operating margins returning to historic levels at or above 40%; 2) SHLIC maintained at 2x or above; and/or 3) debt to revenues reducing to 3.5x.

Factors that could lead to a downgrade

One or a combination of the following could lead to a downgrade: 1) SHLIC weakening materially close to 1x; 2) debt increasing to above currently planned levels, with debt to revenues at or above 5x; 3) a weaker operating environment or a dilution of the overall level of support from the UK government.

Key indicators

Exhibit 2

Bromford Housing Group

	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22 (F)	31-Mar-23 (F)
Units under management (no.)	29,510	38,266	43,146	43,977	44,470	44,519	45,376
Operating margin, before interest (%)	40.0	33.7	29.9	29.2	30.8	32.3	34.6
Net capital expenditure as % turnover	22.9	50.8	50.8	51.1	29.2	44.5	60.3
Social housing letting interest coverage (x times)	2.4	2.3	1.7	1.4	1.5	1.6	1.8
Cash flow volatility interest coverage (x times)	2.3	1.8	2.1	1.4	2.2	2.0	2.6
Debt to revenues (x times)	3.4	3.5	4.6	4.6	4.7	4.9	4.7
Debt to assets at cost (%)	35.2	37.7	45.3	45.9	45.2	43.4	44.3

F : Forecast. Standalone pre-merger financials for FY2016-18; the merged entity's financials for FY2019-2021; the merged entity's board-approved business plan for FY2022-23.
Source: Bromford, Moody's Investors Service

Detailed credit considerations

The credit profile of Bromford, as expressed in its A2 stable rating, combines (1) its current Baseline Credit Assessment (BCA) of a3, and (2) a strong likelihood of extraordinary support from the UK government in the event that Bromford faces acute liquidity stress.

Baseline credit assessment

Strong financial performance and market position and continued focus on core business

Bromford is one of the largest HAs within the regions it operates, namely the West Midlands and the West of England, with approximately 45,000 units under management in FY2021, giving it strength in terms of political influence and operating efficiencies.

Bromford will continue to rationalise its housing stock, through a programme of strategic asset disposal in areas where it has less presence, increasing efficiencies in its stock management. Over FY2020-22, Bromford has disposed of 761 homes, exited 11 local authorities and completely exited student accommodation. Planned disposals are estimated to deliver a surplus of £9 million in FY2022 and a further £17 million over the following three years.

Bromford will continue to focus on its core business of managing and delivering social and affordable housing. Its proportion of revenues from core social housing lettings is 82% in FY2021, compared to 78% in FY2020. Over the next three fiscal years, social housing lettings as a % of revenue is expected to average 82%, slightly above the A2 rated peer median of 79% over the same period. From FY2025, social housing lettings as a percentage of turnover is set to decline to an average of 73% in line with A2 peers as exposure to outright sales increases in FY2026.

Bromford's operating margin is expected to increase to 32% in FY2022 from 31% in FY2021, an improvement from 29% in FY2020. We expect its operating margin to further improve, with the 3-year average expected to reach 34% over FY2022 to FY2024. The increase will be supported by its inflation-linked rent increase and Bromford's commitment to exercise cost levers to reduce operational spend and savings delivered by the transformation programme.

However, medium cost term pressures could impede the delivery of higher operating margins, particularly as a result of labour and materials cost inflation and any potential delays or overspending on the transformation programme. We note that Bromford is relatively insulated from the sector pressures of increased fire safety and decarbonisation costs, with limited fire safety expenditure required on its existing stock and a high proportion of stock at EPC-C or above (86%), with limited expenditure required to meet the target of 100% of stock at EPC-C or above by 2030 (in England).

Ample liquidity coverage coupled with substantial uncumbered assets

Bromford's strong management practices and well-documented procedures have ensured that it has sufficient funding in place to match the funding needs outlined in its business plan, which is reflected in its strong liquidity coverage. Its treasury policy continues to support strong liquidity, as it stipulates the need to keep on-hand cash covering three months rolling cash-flow (excluding uncommitted development and sales), facilities covering 18 months of expected committed and uncommitted spending, £25 million for contingency, and sufficient liquidity to cover a 20% slippage in forecasted sales income. Additionally its treasury policy also states that Bromford should maintain an additional £15 million buffer above its net mark-to-market position on callable stand-alone swaps, thereby providing sufficient mitigation against adverse movements in interest rates.

As a result, Bromford maintains ample liquidity coverage. As of FY2021, liquidity coverage is 2x of its net two year spending requirements which is in line with A2-rated peers. We expect liquidity to be maintained roughly in-line with A2-rated peers in future fiscal years.

As of August 2021, Bromford has significant headroom above the golden rule requirement of £100 million, driven by additional liquidity above the 18 month requirement and substantial unencumbered assets. The high level of unencumbered assets can further enhance liquidity, with unencumbered assets standing at £548 million, which could secure further borrowing of £491 million as of August 2021.

Lastly, only around 25% of its total development (FY2022-FY2026) spend is committed, providing further liquidity headroom and a counterbalance to the high planned capital expenditure as a % of turnover, with net capex expected to average 52% of turnover over the next three years (vs. an expected A2 peer median of 33%).

Supportive institutional framework in England

The sector's credit quality will continue to benefit from the strong regulatory framework governing English HAs. The regulator maintains strong oversight through quarterly returns, long-term business plans, annual reviews, and by undertaking biennial In-Depth Assessments (IDAs) for large and complex HAs. In response to the pandemic, the regulator adapted some aspects of its oversight temporarily, for example, extending its liquidity monitoring, briefly pausing the programme of IDAs and delaying regulatory submissions to reduce the operational burden on HAs. 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 HAs has improved under more supportive policies for social rent increases and capital grant. Following four years of social rent reductions, HAs now benefit from a return to inflation-linked rent increases from April 2020 for five years. In addition, the government has committed to increased capital grant on more flexible terms for new social housing.

Counterbalancing the improvements, we expect policy to drive increased borrowing and development risk in the sector as it responds to the government's objective to deliver a significant increase in the construction of new homes.

Increased borrowing will moderately weaken debt to revenues, although gearing expected to remain stable

Bromford will continue to increase its debt levels to fund its New Homes plan, which will weaken its debt to revenues metric. Bromford's debt totaled £1.25 billion in FY2021 or 4.7x of turnover, weaker than the A2-rated peer median of 4x. Bromford's debt levels are expected to increase to 4.9x of turnover in FY2022 due to an increase in debt levels to fund its development programme, which is ramping up following the pandemic-related lag over FY2021.

We expect gearing to remain stable over the medium term at 45% as debt growth keeps pace with the increase in asset levels and reserves. Bromford's gearing is marginally stronger than the A2-rated peer median of 47% for fiscal 2021.

Bromford's increased debt levels will result in interest costs reaching £52 million in FY2022, from £50 million in FY2021. The increase in financing costs will reduce cash interest coverage. Bromford's cash flow volatility interest cover (CVIC) is expected to decline to 2x in FY2022 from 2.2x in FY2021, which is also attributed to the development backlog as a result of COVID. Despite the drop, CVIC is expected to remain largely in-line with A2-rated peers for the next three fiscal years as cash flow from operations gradually increases and stabilises.

Bromford's social housing letting interest coverage (SHLIC) has improved from 1.4x in FY2020 to 1.5x in FY2021. SHLIC remained below the A2-rated peer median of 1.7x in FY2021, but is expected to rise slightly above A2-rated peers from FY2023. Bromford's forward looking three year average SHLIC is expected to reach 1.8x versus the A2-rated peer median of 1.7x, driven by an improvement in the social housing lettings operating margin.

Bromford actively manages its risk related to its debt portfolio. In FY2021, Bromford entered into two capital markets transactions, a £100 million private placement which was signed in May 2020 and drawn in May 2021 and also tapped £90 million of its 2056 bond which was signed in July 2020, generating proceeds of £100 million, which will be drawn in FY2022. This allowed Bromford to secure the low yields observed in the debt markets. The long-dated maturity of its debt (average of 23 years) results in low refinancing risk, a positive against increasing debt levels.

It also benefits from low interest-rate risk, as 97% of its debt portfolio is fixed and all of its swap portfolio (notional value of £86 million) is swapped to fixed rates. Bromford continues to maintain excess security against its mark-to-market position with £26 million headroom as of August 2021.

Ambitious development programme, market sales exposure remains high beyond medium term adjustment driven by an increase in outright and shared ownership sales

Bromford plans to deliver approximately 7,000 units over the next five years, equating to approximately 15% of its total stock. Within this, Bromford plans to deliver 1,899 affordable homes by FY2025, in partnership with Homes England.

Bromford's planned outright sales and shared ownership exposure has remained the same since the 2020 business plan, with outright sales and shared ownership expected to generate 16% of turnover in FY2022. However, beyond FY2024, Bromford plans to grow outright and shared ownership exposure to approximately 25% of turnover in FY2025, which adds to the existing economic risk as market forces have the potential to introduce volatility to cash flows.

Extraordinary support considerations

The strong extraordinary support factored into the rating reflects the wide-ranging powers of redressal available to the regulator in the event of financial distress, with the possibility of a facilitated merger or a transfer of engagements. 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 in (1) the increasing exposure to non-core social housing activities in the sector, which adds complexity to HA operations, and (2) the weakening of the sovereign's financial resilience, making an extraordinary intervention slightly more difficult. In addition, our assessment that there is a very high default dependence between Bromford and the UK government reflects their strong financial and operational links.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Bromford

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Bromford, the materiality of ESG to its credit profile is as follows:

Environmental considerations are material to Bromford's credit profile. Although the impact of physical climate risks such as water shortages and flood risk are unlikely to be material to HAs' credit profiles as they are managed by government authorities, energy efficiency and decarbonisation more broadly are becoming an increasingly acute priority for HAs with a target of all homes obtaining an energy performance certificate (EPC) of C or above by 2030 in England. We expect this to require material levels of capital expenditure for the sector - which would either divert cash flows away from development programmes or increase debt levels. However, Bromford benefits from high energy efficiency within its existing stock (86% at EPC-C or above), which compares favourably to peers resulting in a less material expenditure burden.

Social risks are material to HAs' credit profiles. In particular, the sector is exposed to risks stemming from socially-driven policy agendas affecting social rents, benefits and capital grants in addition to the impact of demographic trends on demand which are captured in our assessment of the operating environment. HAs are also impacted by customer relations and product quality. The Fire Safety Act, passed in 2021, tightens fire safety regulations for HAs and has already led to higher expenditure on building safety - we expect this to increase once the new regulations come into force at the end of 2021. Bromford is also committed to its social purpose and was the first issuer to issue a sustainability linked loan, which is linked to reducing the gender pay gap.

Governance considerations are also material to HAs' credit profiles and are captured in our assessment of governance and management. In general, housing association governance is strong with multi-year strategies supported by detailed forecasts, conservative liquidity policies, and robust risk management including stress testing.

Further details are provided in the "Baseline credit assessment" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

Rating methodology and scorecard factors

The assigned BCA of a3 is aligned with the scorecard-suggested BCA.

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

Exhibit 3
Bromford 2021 scorecard

Bromford 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%	44,470	a
Factor 3: Financial Performance			
Operating Margin	5%	30.8%	a
Social Housing Letting Interest Coverage	10%	1.5x	a
Cash-Flow Volatility Interest Coverage	10%	2.2x	aa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.7x	ba
Debt to Assets	10%	45.2%	ba
Liquidity Coverage	10%	2.0x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Suggested BCA			**a3**

Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
BROMFORD HOUSING GROUP LIMITED	
Outlook	Stable
Issuer Rating -Dom Curr	A2

Source: Moody's Investors Service

REPORT NUMBER 1309417

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
PUBLIC SECTOR EUROPE