S&P Global
Ratings

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Research Update:

U.K.-Based Bromford Housing Group Outlook Revised To Stable From Negative; 'A+' Rating Affirmed

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Overview

- We expect the expanding asset base and reduced exposure to sale activities to support a gradual recovery in the financial performance of U.K.-based social housing provider Bromford Housing Group Ltd.
- We also believe that increased grant funding and strong performance of the underlying social housing portfolio would contain the debt build-up and maintain the solid interest coverage.
- We have therefore revised our outlook on Bromford to stable from negative and affirmed the 'A+' long-term issuer credit rating.

Rating Action

On Jan. 18, 2022, S&P Global Ratings revised to stable from negative its outlook on U.K.-based social housing provider Bromford Housing Group Ltd. (Bromford). At the same time, we affirmed our 'A+' long-term issuer credit rating on Bromford.

We also affirmed our 'A+' long-term issue ratings on the £300 million and £250 million senior secured bonds issued by Bromford.

Outlook

The stable outlook reflects our view that the gradual recovery in Bromford's S&P Global Ratings-adjusted EBITDA offsets the risks associated with the group's increasing investments in existing assets and new developments.

Downside scenario

We could lower the rating on Bromford if the group expanded its development ambitions and exposure to market sale activities materially beyond our base-case assumptions. We think the increased revenues from low-margin sales activities in combination with further debt accumulation stemming from higher capital expenditure will likely put pressure on the group's profitability and weigh on its debt metrics. We could also lower the rating if liquidity deteriorates materially, or we assessed the likelihood of support from the government to have weakened.

Upside scenario

We could raise the rating on Bromford if the management's strategy and efforts to control costs result in a structural improvement in the group's profitability. In combination with a stronger market position and lower debt burden, this could build significantly more resilience in its business.

Rationale

The outlook revision reflects our expectation that the pressure on Bromford's financial metrics will be gradually alleviated, despite a weakening operating environment and risks associated with its investment needs. This is reflected in the upward trajectory of the profitability margins, which we project will reach close to 30% by the end of our forecast horizon. The recovery in margins, combined with the lower debt intake in comparison to our previous forecast, should help contain pressure on the group's leverage position.

Bromford owns and manages a large portfolio of close to 45,000 homes spread across West Midlands and Southwest of England. The group continues its development efforts within its existing core geographies while rationalizing stock in areas it has a lower concentration of properties. We think Bromford benefits from strong demand for its properties, as reflected in the group's average social and affordable rent, which we estimate at close to 60% of the average market rent in their areas of operations. This is also supported by the low vacancy rates of 1.1% on an average over the past three years, slightly below the sector's average.

We assess the regulatory framework under which registered providers of social housing in England operate as strong, underpinned by their public policy mandate to provide affordable homes. We also consider that the sector benefits from solid ongoing oversight by the RSH. Offsetting these strengths, we consider that providers in England receive relatively low levels of grant funding for the development of affordable homes. We note that providers in England can develop homes for outright sale, using the proceeds as an alternative funding source; however, we think this exposes them to risks and potential volatility compared with providers in other regions. Providers in England are also subjected to negative intervention from the U.K. government in the form of rent-setting constraints or additional spending responsibilities, without adequate additional funding. This weighs on our view of the regulatory framework assessment.

As with other English housing associations, we believe there is a moderately high likelihood that Bromford would receive extraordinary support from the government in case of financial distress. As such, we apply one notch of uplift to the stand-alone credit profile to derive the long-term issuer credit rating. Bromford's primary purpose is to provide affordable homes, supporting important policy objectives of the U.K. government. We consider that the Regulator of Social Housing (RSH), a government agency, regulates Bromford to promote a viable, efficient, and well-governed social housing sector, and maintain lender confidence and low funding costs across the sector. It is therefore our view that the RSH would step in to prevent a default in the sector, based on its record of being willing and able to provide extraordinary support on a timely basis.

We consider that the management continues to demonstrate the skill and expertise required to manage Bromford's diversity and scale of operations. The group's strategy remained consistent in terms of energy efficiency targets in its existing assets, maintaining solid liquidity and pre-funding of the development plan. On energy efficiency, the group embedded these targets as a part of its wider environmental, social, and governance (ESG) framework, and it is also a key metric referenced in one of Bromford's sustainability-linked facilities.

We expect the group to deliver close to 3,700 homes over our forecast horizon. Over the past year, the group has slightly reprofiled its "New Homes Plan" and is now expected to deliver around 600 additional homes by 2029 (5% higher than its previous target). Supporting the increase in delivery targets are higher levels of grant funding than previously anticipated, secured in relation to the group's Strategic Partnership with Homes England.

We view positively the management's decision to spread out its development program to balance the cost pressures on existing assets. The tenure mix of the updated plan has also been revised favorably to incorporate a higher delivery of affordable homes, thus reducing the proportion of high-risk sales activities. We estimate that over our forecast period, sales exposure will average about 15% of revenues, well below the group's golden rule of 30%.

The growing asset base will contribute to a gradual recovery in EBITDA margins over our three-year forecast period, although we expect it to weaken when compared to historical performance and remain slightly below 30%. This is largely the result of the increase in investments in existing properties combined with the lower margins associated with sales activities. The estimated drop in adjusted EBITDA margins to 28% in FY2022 is driven by a catch-up in repairs works following the pandemic-induced delays suffered in FY2021.

We expect the reprofiling of the development plan, higher grant receipts, and proceeds from the group's stock rationalization plan over the projected base-case period to contain the increase in debt levels. We project the debt-to-non-sales adjusted EBITDA to remain below 20x on an average over our five-year base-case period, with non-sales-adjusted EBITDA interest coverage averaging about 1.6x over the same period. We estimate the peak in the debt ratio to above 20x in FY2022 to be a one-off and driven by the drawdown of about £200 million of deferred funding, which was secured by the group in the prior year to lock in the favorable interest rates. These drawdowns will also result in high levels of available cash balances by the end of FY2022.

Liquidity

Liquidity remains a rating strength for Bromford, underpinned by the group's comprehensive liquidity policies and golden rules. Over the next 12 months, we estimate sources of liquidity will cover uses by 2.2x. We continue to view Bromford's access to external liquidity as satisfactory.

We expect sources of liquidity over the next 12 months will include:

- Cash flow from operations, adding back noncash cost of sales of about £115 million;
- Current cash and liquid investments of £195 million;
- Fixed-asset sales receipts of just under £35 million;
- Committed and undrawn facilities expiring beyond 12 months of about £440 million; and
- Grant receipt of just over £50 million.

We expect uses of liquidity over the same period will include:

- Capital expenditure including development spending on homes for sale of just under £320 million; and

- Interest and principal repayments of about £65 million.

Key Statistics

Table 1

Bromford Housing Group Ltd. Key Statistics

	--Year ended March. 31--				
(Mil. £)	**2020a**	**2021a**	**2022bc**	**2023bc**	**2024bc**
Number of units owned or managed	44,480	44,962	45,549	46,350	47,083
Adjusted operating revenue	266.0	261.1	273.0	283.2	295.9
Adjusted EBITDA	80.2	86.1	75.6	79.9	88.0
Non-sales adjusted EBITDA	68.4	78.0	67.5	73.0	80.3
Capital expense	159.8	135.7	239.2	338.8	323.3
Debt	1239.7	1257.8	1441.1	1425.9	1488.5
Interest expense	44.0	45.0	46.9	48.4	48.6
Adjusted EBITDA/adjusted operating revenue (%)	30.2	33.0	27.7	28.2	29.7
Debt/non-sales adjusted EBITDA (x)	18.1	16.1	21.3	19.5	18.5
Non-sales adjusted EBITDA/interest coverage(x)	1.6	1.7	1.4	1.5	1.7

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

Ratings Score Snapshot

Table 2

Bromford Housing Group Ltd. Ratings Score Snapshot

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S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Social Housing Outlook 2022: Green Agenda Takes Root In Investment Plans, Nov. 23, 2021
- How U.K. Public Finance Sectors Fare Under Latest Spending Review, Nov. 11, 2021
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 22, 2021
- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers Published, June 8, 2021
- Building Up Debt: U.K. Social Housing Sector Braces Itself For Borrowing, March 16, 2021
- Outlook 2021: Strong Liquidity Should Help Social Housing Providers Remain Resilient, Dec. 8, 2020
- ESG Industry Report Card: Public And Nonprofit Social Housing Providers Outside The U.S., Aug. 4, 2020

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Bromford Housing Group Ltd.		
Issuer Credit Rating	**A+/Stable/--**	**A+/Negative/--**
Ratings Affirmed		
Bromford Housing Group Ltd.		
Senior Secured	A+	

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 www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.