S&P Global
Ratings

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Bromford Housing Group Ltd.

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This report does not constitute a rating action.

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Credit Highlights

Overview

Enterprise profile	Financial profile
Bromford Housing Group Ltd.'s (Bromford's) contained exposure to sale activities and solid market position supports its strong business profile.	Prudent cost management, an expanding asset base, and a contained debt build-up, will partly help Bromford navigate times of rising inflation, the high investment needs in existing assets, and tightened funding conditions.
-- Bromford's primary focus on social and affordable tenures remains a strength, as revenues from these activities are more predictable and less cyclical in nature.	-- The expected narrowing of the gap between cost and rent increases, combined with the continued development of rental homes, will help gradually alleviate pressures on the group's financial performance.
-- Bromford operates in areas of high housing demand as evidenced in void levels contained to roughly 1% on average.	-- Lower funding needs, favorable cost of debt, and strong performance of its underlying social housing portfolio will support the group's relatively solid interest coverage.
-- We favorably view management's expertise and efforts to balance the current cost pressures by reprofiling and reducing investments in new homes.	-- Liquidity remains very strong, supported by solid levels of cash and available facilities.

Outlook

The negative outlook reflects the outlook on the U.K.

Downside scenario

We could lower the rating in the next two years if we were to lower our sovereign credit rating on the U.K. or if we revised downward our view of the likelihood of extraordinary support to Bromford from the U.K. government in the event of financial distress.

We could also lower the rating if we saw a material weakening in the group's financial metrics. This could happen if costs increased materially beyond our base-case assumptions, or the group significantly expanded its development ambitions and risk appetite during times of high inflation and tightened funding conditions.

Upside scenario

We could revise the outlook on Bromford to stable if we revised the outlook on the sovereign rating on the U.K. to stable, with Bromford performing largely in line with our latest base-case expectations. We could also revise the outlook to stable if we were to revise upward the stand-alone credit profile. This would materialize if management's strategy and efforts to control costs resulted 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

Bromford owns and manages a portfolio of close to 46,000 homes across the West Midlands and Southwest of England, with the majority of its footprint in South Gloucestershire, The Cotswolds, Lichfield, and Tewkesbury. We think the group's relatively low social and affordable needs rents, which we estimate to be just over 55% of the market average rent across the area of operations, reflects strong affordability levels that support the high demand for Bromford's properties. This high demand is also demonstrated by vacancy rates of about 1.2% on average over the past three years, which we estimate to be slightly below the sector's average. Following the cyber-attack incident on Bromford in July 2022, the group experienced a temporary spike in vacancy rates. However, management's swift response to handling the situation and with all the systems back on track, we expect void levels to return to normal levels by the end of financial year ending March 31, 2023.

The group's strategy continues to place strong emphasis on asset quality and achieving sustainability targets such as energy efficiency and carbon neutrality. This is evidenced in about 86% of its stock already meeting Energy Performance Certificate (EPC) C standards (or higher), in line with the key metrics referenced in one of Bromford's sustainability linked loans.

Bromford's strategy is aligned to its capabilities as evidenced in the group reprofiling its development program and reducing the delivery of homes by about 800 units, to 2031, in response to current operating challenges. We expect Bromford to complete close to 3,400 new homes over our forecast horizon (financial year ending March 31, 2023, to financial year 2025), with the majority of its development (about 75%) being social and affordable homes. With this, we estimate the group's exposure to sales activities, which includes shared ownership first tranche sales and outright sales, will remain contained to below 15% of revenues on average over the same period.

Management is currently working on a strategic cost review program to help generate cost efficiencies and maximize income. Though we acknowledge these efforts, we wait to see how these plans will materialize in the future.

We forecast Bromford's growing asset base and lower than expected increase in capitalized repair costs to support the improvement in its margins to close to 30% by the end of financial year 2025. Management spread out its capitalized repairs spend to the later years of the business plan, on the back of its relatively solid asset quality, which in our view would help gradually balance out inflationary pressures on the group's S&P Global Ratings adjusted EBITDA. We anticipate the estimated stress on margins in financial year 2023 will be temporary, driven largely by cost inflation materially exceeding the increase in rents.

We forecast Bromford's debt intake to be slightly lower in comparison with our previous base case, mainly owing to the reprofiled development plan and subsequent lower capital expenditure. We project the lower funding needs, in combination with the gradual recovery in EBITDA, will support the improvement in the group's debt-to-nonsales-adjusted-EBITDA ratio and interest coverage until financial year 2025.

We think there is a moderately high likelihood that Bromford would receive timely extraordinary government support in case of financial distress. Since one of the Regulator of Social Housing's (RSH) key goals is to maintain lender confidence and low funding costs across the sector, we think it is likely that the RSH would step in to try and prevent a default in the sector. We base this view on previous records of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to Bromford. Therefore, we currently apply one notch of uplift from the stand-alone credit profile. If we were to lower our rating on the U.K. government by one notch, we would no longer factor any notches of uplift into the rating on Bromford.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (for more information see "**Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers,"** published June 8, 2021).

Liquidity

We assess Bromford's liquidity as very strong, underpinned by the group's comprehensive liquidity policy. We estimate sources of liquidity will cover uses by about 2x over the next 12 months. We continue to view Bromford's access to external liquidity as satisfactory.

Liquidity sources include:

- Cash and cash equivalents of about £128 million;
- Our forecast of cash from operations of about £114 million, adding back the noncash cost of sales;
- Available facilities maturing beyond the next 12 months of £338 million;
- Proceeds from fixed asset sales of under £35 million; and
- Grant funding and other inflows close to £5 million.

Liquidity uses include:

- Capital expenditure of about £241 million, including spend on units for sale; and
- Interest and principal repayments of slightly exceeding £64 million.

Environmental, Social, And Governance

We think that U.K based social housing providers are exposed to elevated environmental and social risks that relate to affordability of services and increased investment in existing homes.

These include inflationary pressures, along with the need to enhance the quality of social housing stock, in particular around fire and building safety, as well as the government's environmental agenda to achieve energy efficiency and net zero carbon.

We think these risks apply to Bromford, in line with the sector. However, we note that the group has limited exposure to fire safety spend and a relatively high proportion of assets close to the government's energy efficiency target.

Key Statistics

Bromford Housing Group Ltd.-- Key Statistics

--Year ended March 31 --					
Mil. £	**2021a**	**2022a**	**2023bc**	**2024bc**	**2025bc**
Number of units owned or managed	44,962	45,658	46,487	47,408	48,235
Adjusted operating revenue	261.1	279.1	277.7	296.7	320.2
Adjusted EBITDA	86.1	81.8	76.0	88.8	96.6
Nonsales adjusted EBITDA	78.0	72.0	69.6	83.4	89.7
Capital expense	135.7	189.7	235.3	243.2	253.0
Debt	1257.8	1436.7	1429.5	1514.4	1590.5
Interest expense	45.0	47.1	50.1	51.9	55.2
Adjusted EBITDA/Adjusted operating revenue (%)	33.0	29.3	27.4	29.9	30.2
Debt/Nonsales adjusted EBITDA (x)	16.1	20.0	20.5	18.2	17.7
Nonsales adjusted EBITDA/interest coverage(x)	1.7	1.5	1.4	1.6	1.6

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

Rating Component Scores

Bromford Housing Group 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	3
Financial performance	4
Debt profile	4
Liquidity	2

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

- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022
- Non-U.S. Social Housing Sector Outlook 2023: The Most Negative Bias Since 2018 Implies Significant Pressure On Ratings, Dec. 1, 2022
- Inflation To Erode The Performance Of U.K. Public Finance Sectors, Nov. 29, 2022
- Cap On Rent Increases Is Consistent With Our Base Case For English Social Housing Providers, Nov. 17, 2022
- United Kingdom, Oct. 24, 2022
- The U.K. Social Housing Sector Now Displays A More Pronounced Negative Bias In Its Creditworthiness, Oct. 11, 2022
- Economic Outlook U.K. Q4 2022: Under The Pump, Oct. 3, 2022
- United Kingdom Outlook Revised To Negative On Rising Fiscal Risks; 'AA/A-1+' Ratings Affirmed, Sept. 30, 2022
- Launch Of Rent Cap Consultation Adds Uncertainty To Creditworthiness Across English Housing Sector, Sept. 1, 2022,
- Rated U.K. Social Housing Providers' Creditworthiness Could Suffer If The Gap Between Rent And Cost Increases Persists, Aug. 1, 2022
- Non-U.S. Social Housing Providers Ratings Risk Indicators: July 2022, July 27, 2022
- Non-U.S. Social Housing Providers Ratings History: July 2022, July 27, 2022
- Non-U.S. Social Housing Providers Ratings Score Snapshot: July 2022, July 27, 2022
- U.K. Social Housing Sector Borrowing Needs To Rise To Fund Investment In New Homes, March 31, 2022
- Global Regulatory Framework Report Card: Public And Nonprofit Social Housing Providers, June 8, 2021
- ESG Industry Report Card: Public And Nonprofit Social Housing Providers Outside The U.S., Aug. 4, 2020

Ratings Detail (as of January 23, 2023)*

Bromford Housing Group Ltd.	
Issuer Credit Rating	A+/Negative/--
Senior Secured	A+
Issuer Credit Ratings History	
07-Oct-2022	A+/Negative/--
18-Jan-2022	A+/Stable/--
22-Jan-2021	A+/Negative/--
18-Dec-2019	A+/Stable/--
18-Apr-2018	A+/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.