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CREDIT OPINION
24 January 2023

Update

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RATINGS

Bromford Housing Group Limited

Domicile	United Kingdom
Long Term Rating	A2
Type	LT Issuer Rating - Dom Curr
Outlook	Negative

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.

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Bromford Housing Group Limited (UK)

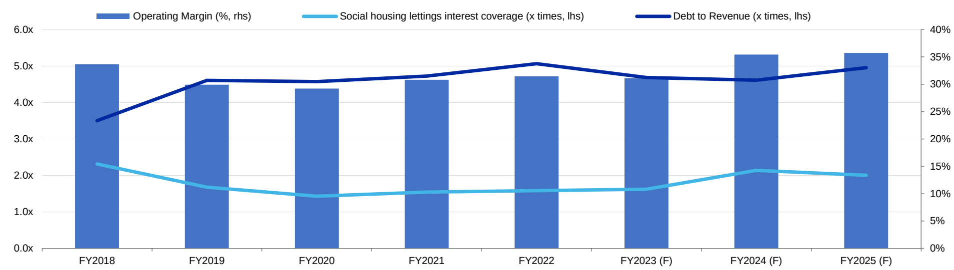
Update to credit analysis

Summary

Bromford Housing Group's (Bromford, A2 negative) credit profile reflects its strong financial performance and liquidity, as well as its large development programme. It also incorporates our assumption of a strong likelihood that the government of the United Kingdom (UK, Aa3 negative) would intervene in the event of acute liquidity stress.

Exhibit 1

Bromford's profitability is set to strengthen, with social housing lettings interest coverage and debt to revenue marginally improving over the medium term



F: Forecast. Standalone pre-merger financials for FY2017-18.
Source: Bromford, Moody's Investors Service

Credit strengths

- » Strong and consistent financial performance and market position
- » Ample liquidity coverage coupled with substantial unencumbered assets
- » Supportive institutional framework in England

Credit challenges

- » Increased borrowing, although gearing is expected to remain stable
- » Large development programme, although moderate levels of exposure to market sales over medium term

Rating outlook

The negative outlook reflects the sector's high exposure to weaker economic and financial conditions in the UK. A 7% ceiling on social rent increases in England combined with high cost inflation will weigh on operating margins over the next 12 to 18 months. Rising interest costs will also make financing more expensive, however over the medium term Bromford has limited exposure due to a very high proportion of fixed-rate debt and very limited re-financing needs. The likelihood of a decline in home prices continues to increase, which would affect profitability and surpluses from market sales, however Bromford has only a moderate level of exposure to this risk due to limited reliance on sales turnover over the medium term.

Factors that could lead to an upgrade

A rating upgrade is unlikely due to the negative outlook. The outlook could be stabilised if Bromford is able to maintain relatively stable financial and debt metrics over the medium term. This could be driven by operating performance improving more than anticipated, including the ability to contain cost pressures, and reductions in development leading to lower debt levels than anticipated.

Factors that could lead to a downgrade

The ratings could be downgraded as a result of one or a combination of the following: a failure to adapt to weaker economic conditions; a sustained weakening in operating margins and interest coverage ratios; increases in debt levels beyond that anticipated; significant deteriorations in liquidity; significant scaling up in market sales exposure or material deterioration in market sales performance; or any weakening of the regulatory framework or dilution of the overall level of support from the UK government. A downgrade of the UK sovereign rating would also place downward pressure on the ratings.

Key indicators

Exhibit 2

Bromford Housing Group

Bromford Housing Group	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23 (F)	31-Mar-24 (F)
Units under management (no.)	38,266	43,146	43,977	44,470	45,140	46,504	47,527
Operating margin, before interest (%)	33.7	29.9	29.2	30.8	31.5	31.1	35.4
Net capital expenditure as % turnover	50.8	50.8	51.1	29.2	38.1	70.5	49.5
Social housing letting interest coverage (x times)	2.3	1.7	1.4	1.5	1.6	1.6	2.1
Cash flow volatility interest coverage (x times)	1.6	2.1	1.4	2.2	2.2	1.6	2.5
Debt to revenues (x times)	3.5	4.6	4.6	4.7	5.1	4.7	4.6
Debt to assets at cost (%)	37.7	45.3	45.9	45.2	43.8	43.8	44.8

F: Forecast. Standalone pre-merger financials for fiscal 2018. Fiscal 2023's cash flow volatility interest coverage metric is impacted by a one-off pension cost amounting to £24.9 million. Excluding this exceptional cost, the metric amounts to 2.3x.
Source: Bromford, Moody's Investors Service

Detailed credit considerations

The credit profile of Bromford, as expressed in its A2 negative 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 and consistent financial performance and market position

Bromford is one of the largest HAs within the West Midlands and the West of England, with approximately 45,000 units under management in fiscal, supporting operating efficiencies and policy influence. One of the advantages of its large size is its ability to have in-house contractors for development and repairs and maintenance, which reduces its exposure to broader labour shortages in the sector and also rising prices which will support its strong operating performance.

Bromford's operating margin is expected to remain largely unchanged in fiscal 2023 at 31%. Its business plan presents improving operating margins, with the 3-year average expected to reach 34%. We consider this will be challenging to achieve in the current environment, given the below-inflation rent cap of 7% in fiscal 2024, which is likely to also be applied to shared ownership properties, and high inflation on prices for labour and materials. However, Bromford does have a good track record of implementing efficiencies and is relatively insulated from the sector pressures of increased fire safety and decarbonisation costs which will help contain costs. Bromford has limited fire safety expenditure required on its existing stock - the vast majority of its properties are individual houses (70%+) which do not require fire safety improvements, and it only has three blocks over five storeys high for which the improvements have already been made, with all of its properties now fully compliant with the legislation. It also has a high proportion of stock at EPC-C or above (86%), with a low level of expenditure required to meet the target of 100% of stock at EPC-C or above by 2030 (around £23 million cumulatively which represents less than 10% of its 2022 turnover), and the majority of this expenditure will be capitalised and therefore have no impact on its operating margin. Bromford aims to achieve the EPC-C target by 2028, two years ahead of the 2030 deadline.

Bromford's social housing letting interest coverage (SHLIC) marginally improved to 1.6x in fiscal 2022 from 1.5x in the previous year and is above the A2 peer median of 1.4x. Bromford's forward looking three year average SHLIC is expected to reach 1.9x versus the A2-rated peer median of 1.5x, driven by improvements in the SHL operating margin.

Bromford has rationalised its housing stock over the past four years, through a programme of strategic asset disposal in areas where it has less presence, increasing efficiencies in its stock management. Over fiscal 2018 to 2022, Bromford has disposed of 759 homes, exited 11 local authorities and completely exited student accommodation and sold the majority of its housing on market rent tenures. Fixed asset disposals are planned to generate £56 million in fiscal 2023 and almost £30 million annually to fiscal 2027.

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 of 1.3x of its net two year spending required - £635 million of cash and undrawn committed facilities. 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.

In addition, as of October 2022, Bromford had chargeable assets valued at £700 million under MVT and £103 million under EUV, which can provide over £700 million in additional borrowing capacity. This compares favorably to Bromford's five year net funding requirement of £440 million.

Supportive institutional framework in England

The sector's credit quality will continue to benefit from the strong institutional framework governing English housing associations (HAs) reflected in an Operating Environment score of a3 and a Regulatory Framework score of a1. These scores are assigned at a national level and reflect the following credit considerations:

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. 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 remains supportive. Demand for social housing remains very high and the government has committed to increased capital grant on more flexible terms for new social housing. English HAs retain some expenditure flexibility and have a track record of reducing costs to mitigate lower income.

However, due to presently very high rates of inflation, the government has intervened on social rent policy with a 7% ceiling on social rent increases to be implemented from April 2023 for one year. The ceiling of 7% will likely result in an adverse differential between rental income and cost growth, driving lower margins and interest coverage. The intervention introduces policy volatility to the sector as the ceiling will supersede the allowable increase of consumer price inflation (CPI) plus 1% under the current rent standard, which is in place until March 2025.

Increased borrowing, although gearing is expected to remain stable and debt to revenue will improve modestly

Bromford will continue to increase its debt levels over the medium term to fund its development programme and spend on existing stock. Bromford's drawn debt totaled over £1.4 billion in FY2022 or 5.1x of turnover, weaker than the A2-rated peer median of 3.8x. Its total debt is projected to increase to £1.7 billion by fiscal 2025, which is a relatively moderate increase and will improve its debt to revenue metric to an average of 4.8x over the next three years.

We expect gearing to remain stable over the medium term at 44%, as debt growth keeps pace with the increase in asset levels and reserves - this is also a reflection of the limited number of units developed for market sale - at only 34% of its five year development programme. Bromford's gearing is marginally stronger than the A2-rated peer median of 48% for FY2022.

Bromford actively manages its risk related to its debt portfolio. During FY2022, Bromford has drawn £200 million of new funding from its deferred capital market debt, and it plans to issue more capital market debt in fiscal 2024.

It has very low refinancing risk, with only £72 million of drawn debt requiring refinancing over the next 5 years. It also benefits from low interest-rate risk, as 98% of its debt portfolio is fixed and all of its swap portfolio (notional value of £66 million) is swapped to fixed rates.

Large development programme, but only moderate exposure to market sales

Bromford plans to deliver approximately 6,460 units over the next five years, including fiscal 2023, equating to approximately 14% of its total stock. Within this, Bromford plans to deliver close to 4,300 homes for social rent and 1,800 homes for shared ownership by FY2027, much of these attracting grant funding through its strategic partnership with Homes England. In response to the rent cap it has reduced its development plan over the next four years by around 800 homes, to reduce its borrowing needs and therefore preserve affordability. Its exposure to market sales will remain moderate over the medium term, at around 13% on average over fiscal 2023 to 2025, and the majority of this exposure relates to first tranche shared ownership for which Bromford has a strong history of performance with an average margin of 22% over the past three years. Over this period, first tranche shared ownership is expected to account for 10% of turnover on average, with only 3% turnover from outright sales.

Bromford also retains flexibility within its development programme - only around 36% of its total development spend from fiscal 2023 to 2027 is committed and therefore can be flexed depending on market conditions.

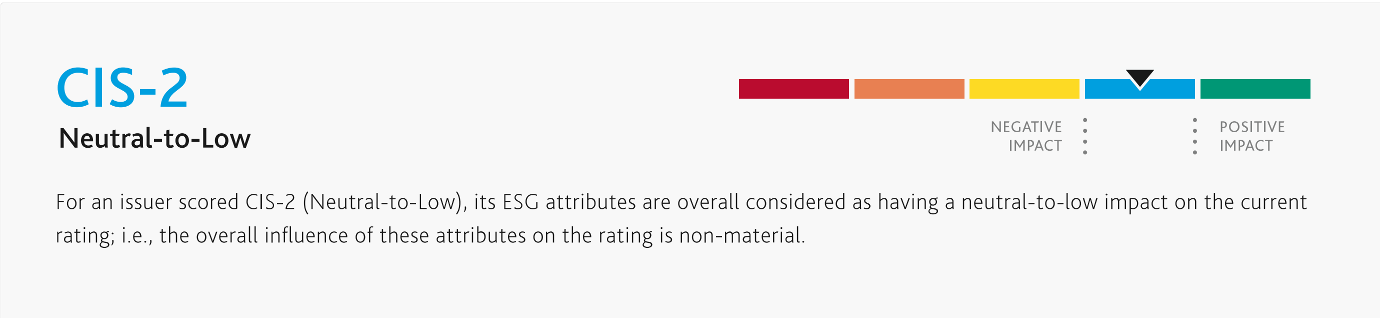
Extraordinary support considerations

The strong level of extraordinary support factored into the rating reflects the wide-ranging powers available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. However, the process can be protracted and is reliant on HAs agreeing to merge, which could be more challenging in a weakening operating environment. 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 increasing exposure to non-core social housing activities in the sector, that add complexity to HA operations, and the weakening of the sovereign’s financial resilience, making an extraordinary intervention slightly more challenging. In addition, our assessment that there is a very high default dependence between Bromford and the UK government reflects their strong financial and operational linkages.

ESG considerations

Bromford Housing Group Limited's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

Bromford's CIS is neutral-to-low reflecting neutral-to-low exposure to environmental risks, moderately-negative exposure to social risks and neutral-to-low exposure to governance risks, combined with our view of a supportive regulatory framework and support from the UK government which limits the impact of ESG risks on its rating.

Exhibit 4
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental
Its E issuer profile score is neutral-to-low (**E-2**). Bromford faces limited exposure to environmental risks - the main environmental risk facing the sector relates to carbon transition risk from the legislative requirement for English housing associations to improve the energy efficiency of their existing housing stock by 2035. Bromford's exposure to this risk is low because a high proportion of its stock is already at the required standard, leaving limited expenditure remaining.

Social
We assess its S issuer profile score as moderately negative (S-3). This is due to moderately negative exposure to responsible production risks and highly negative exposure to demographic and societal trends risks. Responsible production risks include the legislative requirement to improve the safety of its existing housing stock which will increase expenditure over the medium term. Demographic and societal trends risks reflect the vulnerability of the sector to tenant affordability challenges and to government policy which controls rent setting in England and Wales, which weighs on revenue. The government's recent intervention on social rent policy with a consultation on a ceiling on social rent introduces policy volatility to the sector and will have a negative impact on financial performance.

Governance
We assess its G issuer profile score as neutral-to-low (**G-2**). Governance in the sector is generally fit for purpose, with good oversight of business risks, strong financial planning and risk management processes, detailed reporting and simple organisational structures. The regulatory framework also supports good governance in the sector.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of a3 is the same as 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 5
Bromford 2022 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%	45,140	a
Factor 3: Financial Performance			
Operating Margin	5%	31.5%	a
Social Housing Letting Interest Coverage	10%	1.6x	a
Cash-Flow Volatility Interest Coverage	10%	2.2x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	5.1x	b
Debt to Assets	10%	43.8%	ba
Liquidity Coverage	10%	1.3x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			a3
Assigned BCA			a3

Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
BROMFORD HOUSING GROUP LIMITED	
Outlook	Negative
Baseline Credit Assessment	a3
Issuer Rating -Dom Curr	A2

Source: Moody's Investors Service

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