

Research Update:

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

July 10, 2023

Overview

- S&P Global Ratings forecasts that U.K. social housing provider Bromford Housing Group Ltd. will maintain comparatively strong financial metrics despite the current challenges in the housing sector.
- In our view, Bromford management's ability to generate cost efficiencies is a key differentiator that supports the strengthening of its EBITDA, as adjusted by S&P Global Ratings.
- This, alongside Bromford's favorable cost of debt, leads us to expect that the group's interest coverage will remain solid.
- We therefore revised our outlook on Bromford to stable from negative and affirmed our 'A+' long-term issuer credit rating.

Rating Action

On July 10, 2023, S&P Global Ratings revised its outlook on Bromford Housing Group Ltd. to stable from negative, and affirmed its 'A+' long-term issuer credit rating.

We also affirmed our 'A+' long-term issue ratings on Bromford's senior secured bonds.

Outlook

The stable outlook reflects our view that Bromford's management will prudently execute its business plan and manage costs, while keeping enough financial headroom to mitigate current operating challenges.

Downside scenario

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

Upside scenario

A positive rating action would hinge on Bromford improving its key financial indicators beyond our expectations. A stronger market position, from a growing portfolio size, could support such developments and make the business significantly more resilient.

Rationale

The outlook revision reflects our view of Bromford's strengthened intrinsic credit quality. We think that management's sound ability to deliver cost efficiencies will help balance pressure from inflation, high investment needs in existing assets, and tighter funding conditions. This should support the strengthening of the group's EBITDA, in turn improving the group's financial headroom. These developments supported a stronger stand-alone credit profile (SACP) of 'a+' versus 'a' previously.

Enterprise profile: Robust business planning, cost management, and only limited exposure to open market sales underpin solid operational metrics

Bromford owns and manages a portfolio of over 46,000 homes across the West Midlands and Southwest of England, with most 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 close to 55% of the market average rent across the area of operations, points to strong affordability of its units and, in our view, supports the high demand for Bromford's properties. This is demonstrated by vacancy rates of about 1.3% on average over the past three years, which we estimate to be slightly below the relevant market's average.

We have positively reassessed Bromford's strategic planning and management. We think that management's actions have supported solid credit indicators, notably amid sector challenges. In particular, Bromford has demonstrated an ability to generate cost efficiencies under a strategic review program, which will bolster its performance.

Management continues to strongly emphasize asset quality and sustainability targets, such as energy efficiency and carbon reduction. This is apparent in about 87% of its stock already meeting Energy Performance Certificate (EPC) C standards (or higher), which is relatively more favorable than sector peers.

In our view, Bromford's development strategy remains well aligned to its capabilities. We expect the group to deliver close to 3,700 new homes over our forecast horizon--from the financial year ending March 31, 2024, to financial 2026--with most of its development (about 75%) being social and affordable homes. With this, we estimate that the group's exposure to sales activities which includes shared-ownership first tranche sales and outright sales, will remain contained at only about 15% of revenue on average over the same period.

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

Financial profile: Robust performance, moderate capital investments, and solid liquidity support Bromford's financial metrics

We expect the efficiencies now being embedded in Bromford's cost base, teamed with the expanding asset base and growing rental income, to strengthen the group's EBITDA, as adjusted by S&P Global Ratings, to levels above our previous forecast. In our view, this will keep adjusted EBITDA margins above 30% over financial 2024 to financial 2026.

In our view, the projected improvement in non-sales EBITDA and the group's favorable weighted-average cost of debt will also largely offset the anticipated increase in nominal debt from Bromford's development program. We therefore expect the debt ratio to comfortably remain below 20x, and interest coverage close to 1.7x, over our forecast horizon until 2026.

We assess Bromford's liquidity as very strong, reflecting the group's prudent liquidity policy. We estimate sources of liquidity will cover uses by about 1.9x over the next 12 months. This is based on our forecast of liquidity sources of about £600 million (mainly comprising cash and undrawn available facilities, grant receipts, and cash from operations after adding back the noncash cost of sales) compared with liquidity uses of about £323 million (primarily capital expenditure, interest, and principal repayments). We expect the group to moderately increase its revolving credit facilities over the next few months, which should further underpin solid liquidity coverage. Given Bromford's prior successful placements in the capital markets, we consider that the group has satisfactory access to external funding when needed.

Government-related entity analysis

We believe there is a moderately high likelihood that Bromford would receive timely extraordinary government support in case of financial distress. As such, the upward revision of our SACP on Bromford to 'a+' is neutral to the long-term issuer credit rating. Since one of the key goals of the U.K.'s Regulator for Social Housing (RSH) 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 expect this would also apply to Bromford.

Table 1

Bromford Housing Group Ltd.--Key Statistics

Mil. £	--Year ends March 31--				
	2022a	2023e	2024bc	2025bc	2026bc
Number of units owned or managed	45,658	46,437	47,456	48,428	49,438
Adjusted operating revenue	279.1	285.2	303.1	335.6	363.0
Adjusted EBITDA	81.8	91.5	98.3	112.4	118.7
Non-sales adjusted EBITDA	72.0	80.3	91.9	104.1	108.3
Capital expense	189.7	220.3	253.6	255.7	336.0
Debt	1436.7	1407.3	1492.1	1603.2	1714.2
Interest expense	47.1	47.4	51.3	56.6	61.9
Adjusted EBITDA/Adjusted operating revenue (%)	29.3	32.1	32.4	33.5	32.7
Debt/Non-sales adjusted EBITDA (x)	20.0	17.5	16.2	15.4	15.8

Table 1

Bromford Housing Group Ltd.--Key Statistics (cont.)

Mil. £	--Year ends March 31--				
	2022a	2023e	2024bc	2025bc	2026bc
Non-sales adjusted EBITDA/interest coverage(x)	1.5	1.7	1.8	1.8	1.7

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

Table 2

Bromford Housing Group Ltd.--Ratings Score Snapshot

	Assessment
Enterprise risk profile	2
Industry risk	2
Regulatory framework	3
Market dependencies	3
Management and Governance	2
Financial risk profile	3
Financial performance	3
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

- United Kingdom Outlook Revised To Stable From Negative On Moderating Fiscal Risks; 'AA/A-1+' Ratings Affirmed, April 21, 2023
- U.K. Social Housing Borrowing 2023: On Pause, March 28, 2023
- Non-U.S. Social Housing Providers Ratings Score Snapshot: March 2023, March 27, 2023

- Non-U.S. Social Housing Providers Ratings Risk Indicators: March 2023, March 27, 2023
- Non-U.S. Social Housing Providers Ratings History: March 2023, March 27, 2023
- 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
- The U.K. Social Housing Sector Now Displays A More Pronounced Negative Bias In Its Creditworthiness, Oct. 11, 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
- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers, June 8, 2021

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Bromford Housing Group Ltd.		
Issuer Credit Rating	A+/Stable/--	A+/Negative/--

Ratings Affirmed

Senior Secured	A+	A+
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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/sourceld/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; or Stockholm (46) 8-440-5914

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