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CREDIT OPINION
24 January 2024

Update

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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.

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Bromford Housing Group Limited (UK)

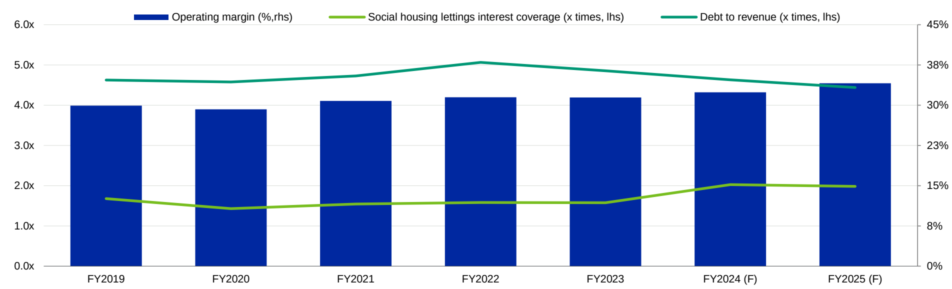
Update to credit analysis

Summary

Bromford Housing Group's (Bromford, A2 stable) credit profile reflects its strong and consistent financial management and 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 stable) would intervene in the event of acute liquidity stress.

Exhibit 1

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



F: Forecast.
Source: Bromford, Moody's Investors Service

Credit strengths

» Strong and consistent financial management and performance

» Strong and risk-averse investment and debt management with ample liquidity

» 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

Rating outlook

The stable outlook reflects our view that Bromford's financial performance will remain strong and its debt metrics will not worsen materially over the medium term.

Factors that could lead to an upgrade

Upward pressure on Bromford's ratings could result from a material reduction in debt, a significant increase in government support and/or an upgrade of the UK government's rating.

Factors that could lead to a downgrade

Downward pressure on Bromford's ratings could result from a prolonged weakening in operating performance or debt metrics. Lower government support for the sector, a downgrade of the UK government's rating or a dilution of the regulatory framework could also lead to downward pressure on Bromford's ratings.

Key indicators

Exhibit 2
Bromford Housing Group

Bromford Housing Group	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24 (F)	31-Mar-25 (F)
Units under management (no.)	43,146	43,977	44,470	45,140	45,986	47,444	48,401
Operating margin, before interest (%)	29.9	29.2	30.8	31.5	31.4	32.4	34.1
Net capital expenditure as % turnover	50.8	51.1	29.2	38.1	62.7	55.3	37.3
Social housing letting interest coverage (x times)	1.7	1.4	1.5	1.6	1.6	2.0	2.0
Cash flow volatility interest coverage (x times)	2.1	1.4	2.2	2.2	2.1	2.5	2.5
Debt to revenues (x times)	4.6	4.6	4.7	5.1	4.9	4.6	4.4
Debt to assets at cost (%)	45.5	45.9	45.2	43.9	45.8	47.8	47.6

F: Forecast.
Source: Bromford, Moody's Investors Service

Detailed credit considerations

The credit profile of Bromford, as expressed in its A2 stable rating, combines (1) its 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 management and performance

Bromford exhibits the ability to execute consistently its financial strategy, manage risk effectively and control its cost base, leading to stable and strong financial performance. In contrast to much of the rated sector, Bromford has maintained and in fact marginally improved its operating margin over the past five years, despite the rent cut, disruption posed by the COVID pandemic, increased building safety costs and high inflation over the past two years. The median operating margin for all rated HAs has declined from 29% to 22% from fiscal 2019 to fiscal 2023, and the same decline was seen for A2-rated HAs, whereas Bromford's margin has improved from 30% to 31% over the same period.

Contributory factors to its strong operating margin include: effective control of its cost base through in-house repairs and maintenance services, disposals of uneconomic stock, decent margins achieved on its market sales tenures, very limited fire safety works required due to the characteristics of its housing stock (c.70% are houses), and cost efficiencies implemented after its merger with Merlin in 2018.

We expect its operating margin to improve over the medium term to 34% by fiscal 2026, as a positive differential between rents (inflated by 7.7% in fiscal 2025) and inflation (4.0% on a YOY basis as of December 2023) opens up in fiscal 2025. Alongside limited

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fire safety costs, Bromford also has a high proportion of stock at EPC-C or above (88%), with a low level of expenditure required to meet the target of 100% of stock at EPC-C or above by 2030 (around £24 million cumulatively which represents less than 10% of its fiscal 2023 turnover). 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) was maintained at 1.6x in fiscal 2023 and is above the A2 peer median of 1.4x. Bromford's forward looking three year average SHLIC is expected to reach 2.0x versus the A2-rated peer median of 1.6x, driven by improvements in the SHL operating margin.

The group structure is simple, with two registered providers - Bromford Housing Association and Merlin Housing Association - that own and manage the group's housing stock, a development vehicle, design and build vehicle and another company that will be used for joint venture development.

Strong and risk-averse investment and debt management with continued ample liquidity

Bromford has a low risk debt profile, with 99% of its debt portfolio fixed (after swaps), and only £69 million or less than 5% of its drawn debt due for refinancing within the next five years. Its liquidity policy is conservative, stipulating the need to keep immediately available facilities covering 1.5 times 18 months' expected committed and uncommitted expenditure, after incorporating a £25m contingency and a 20% slippage in forecast sales income. It also maintains an additional £6 million buffer above its net mark-to-market position on callable standalone swaps. It has strong liquidity coverage of 1.9x of its net two year spending requirements as of December 2023, with a solid base of revolving credit facilities of £450 million. Its covenant headroom, particularly its interest cover headroom, is very strong at over 200bps on its tightest covenant in fiscal 2024.

In addition, as of October 2023, Bromford had chargeable assets valued at £623 million under MVT and £243 million under EUV, which can provide over £770 million in additional borrowing capacity. This compares favorably to Bromford's five-year net funding requirement of £670 million.

Supportive institutional framework in England

The sector's credit quality benefits 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 high rates of inflation in 2022, with CPI at 10.1% as of September 2022 on a year-on-year basis, the government implemented a 7% ceiling on social rent increases from April 2023 for one year. The ceiling of 7% results in an adverse differential between rental income and cost growth, which we expect will drive lower margins and interest coverage across the sector in fiscal 2024, although - as detailed above - Bromford is expected to mitigate this through its tight cost control. The UK government has confirmed that the English sector will return to rent increases of CPI plus 1% in fiscal 2025 (7.7%), which will be favourable, considering the recent reduction in CPI to 4.0% in December 2023.

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 spending on existing stock. Bromford's drawn debt totaled over £1.4 billion in FY2023 or 4.9x of turnover, weaker than the A2-rated peer median of 3.6x. Its total debt is projected to increase to £1.7 billion by fiscal 2026, which is a relatively moderate increase and will improve its debt to revenue metric to an average of 4.5x over the next three years.

We expect gearing to remain stable over the medium term at around 48%, 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.

Large development programme, but only moderate exposure to market sales

Bromford plans to deliver approximately 6,906 units over the next five years, including fiscal 2024, equating to approximately 15% of its total stock. Within this, Bromford plans to deliver over 4,500 homes for social rent and 2,300 homes for market sale (mostly shared ownership) by fiscal 2028, much of these attracting grant funding through its strategic partnership with Homes England. Its exposure to market sales will remain moderate over the medium term, at around 15% on average over fiscal 2024 to 2026, 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 11% of turnover on average, with only 4% turnover from outright sales.

Bromford also retains flexibility within its development programme - only around 22% of its total development spend from fiscal 2024 to 2028 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.

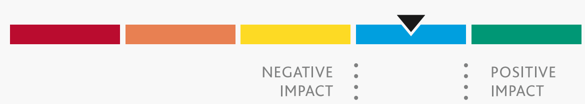
ESG considerations

Bromford Housing Group Limited's ESG credit impact score is CIS-2

Exhibit 3

ESG credit impact score

CIS-2

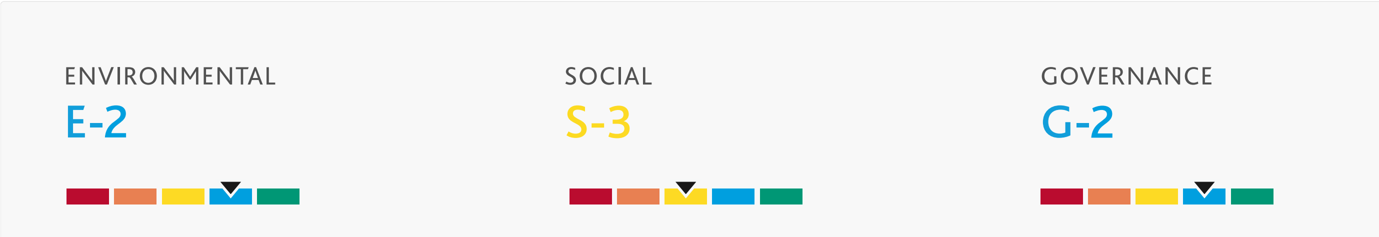


ESG considerations do not have a material impact on the current rating.

Source: Moody's Investors Service

Bromford's CIS-2 reflects that ESG risks have a limited impact on its rating. Bromford has low exposure to carbon transition risks as the majority of its stock already meets energy efficiency requirements, and, although social risks are prevalent, we consider that it has the ability to effectively mitigate them through its strong governance and management practices. We also consider that the supportive regulatory framework for the sector offsets some ESG risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Bromford has limited exposure to environmental risks (**E-2**). English housing associations have the legislative requirement to improve the energy efficiency of their existing houing stock by 2035 (carbon transition risks), leading to increased expenditure. However, we assess that Bromford has a low exposure to this risk as the vast majority of its housing stock already meets the required efficiency standards.

Social

Bromford has material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety of its existing housing stock (responsible production risks) which weights on expenditure and operating margins, and the impacts of cost of living or affordability pressures on social tenants (demographic and societal trends) which led to the UK government capping social rent increases below inflation in fiscal 2024 in England, which will also have a negative impact on margins.

Governance

Bromford has limited governance risks (**G-2**). Its governance is fit for purpose with strong financial management policies and processes, detailed reporting and a simple organisational structure. 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-indicated BCA outcome.

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 2023 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%	45,986	a
Factor 3: Financial Performance			
Operating Margin	5%	31.4%	a
Social Housing Letting Interest Coverage	10%	1.6x	a
Cash-Flow Volatility Interest Coverage	10%	2.1x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.9x	ba
Debt to Assets	10%	45.8%	ba
Liquidity Coverage	10%	1.9x	a
Factor 5: Management and Governance			
Financial Management	10%	a	a
Investment and Debt Management	10%	a	a
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	Stable
Baseline Credit Assessment	a3
Issuer Rating -Dom Curr	A2

Source: Moody's Investors Service

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