

Research Update:

U.K.-Based Social Housing Provider Bromford Housing Group Ltd. 'A+' Rating Affirmed; Outlook Stable

July 22, 2024

Overview

- In our view, Bromford Housing Group Ltd.'s solid management expertise and flexibility in plans will support the group's robust financial indicators.
- We project the group's growing rental asset base and prudent cost management will support the improvement in S&P Global Ratings-adjusted EBITDA.
- Combined with the group's favorable cost of debt, we expect the non-sales-adjusted EBITDA interest coverage to remain relatively solid.
- We therefore affirmed our 'A+' long-term issuer credit rating on Bromford and maintained the stable outlook.

Rating Action

On July 22, 2024, S&P Global Ratings affirmed the 'A+' long-term issuer credit rating on Bromford Housing Group Ltd. The outlook is stable.

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

Outlook

The stable outlook reflects our view that strong demand for Bromford's properties and management's sound practices will help mitigate the sectoral challenges around cost and investment pressures.

Downside scenario

We could lower the rating if we saw a material weakening in the group's credit metrics. This could

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happen if management's strategy proves less risk averse, resulting in costs increasing markedly beyond our base-case assumptions and the group significantly expanding its debt-funded development program.

The rating could also come under pressure if the financial impact of a potential business combination materially weakened the credit metrics without obvious prospects for recovery.

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 more resilient.

Rationale

The affirmation of the rating reflects our view that Bromford's prudent cost planning and financial headroom, along with expected improvement in economic conditions, will support the group's solid credit metrics. With rents expected to increase faster than inflation and a relatively modest growth in investments in existing homes, underpinned by the group's solid asset quality, we project Bromford's financial performance will remain solid. We think this projected growth in adjusted EBITDA will continue supporting the group's relatively favorable interest coverage, despite an increase in nominal debt. The group's liquidity remains very strong.

Bromford recently announced that it had entered into discussions with Flagship Housing Group regarding a potential business combination. In our opinion, Bromford's currently strong financial indicators would mitigate pressure of the potential business combination, and hence we do not expect it to have an immediate impact on our rating on Bromford (see "Bromford's Strong Financials Will Absorb Pressure From A Potential Business Combination With Flagship," published June 28, 2024, on RatingsDirect).

Enterprise profile: Bromford's operational metrics will continue to benefit from strong demand, robust planning, and contained exposure to sales activities

We view Bromford as a traditional social housing provider, with solid demand for its properties. It owns and manages a portfolio of over 47,000 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 just over 55% of the average market rent across the area of operations, points to strong affordability of its services, supporting demand. This is also demonstrated by the group's vacancy rates of about 1.3% on average over the past three years, which we estimate to be slightly below the sector's average.

We think Bromford's management has extensive experience in the social housing sector, along with a good understanding of its business opportunities and challenges. In our view, the strengths in the group's strategy and planning continue to support Bromford's solid credit indicators amid cost and investment pressures.

We view favorably Bromford's flexibility over its investments in new and existing homes. With a proven track record, we expect the group to continue generating some cost efficiencies. This, along with the solid quality of the group's existing assets, will provide Bromford the headroom to

adjust costs, if needed. Close to 90% of its existing stock already meets Energy Performance Certificate C standards (or higher), which we view as more favorable than sector peers. In terms of new development, we understand that a material part (about 50% on average over the fiscal year ending March 31, 2025 [fiscal 2025] to fiscal 2027) of the group's capital program remains uncommitted, providing the group with the flexibility to scale back spending, if needed.

We anticipate most of the development program will continue to constitute 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, to remain at about 15% of revenue on average.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published Oct. 23, 2023).

Financial profile: Robust performance, solid interest coverage, and high levels of liquidity buffers underpin Bromford's financial metrics

We expect the group's financial performance to remain robust, with adjusted EBITDA margins anticipated to remain above 30% through fiscal 2027. We think the group's tight cost controls, expanding asset base, and growing rental income will support the strengthening of adjusted EBITDA.

This projected improvement in non-sales-adjusted EBITDA will in our view largely offset the anticipated increase in nominal debt in relation to the group's capital program. We therefore expect the debt ratio to remain comfortably below 20x, and interest coverage at about 1.7x over fiscal 2025-fiscal 2027.

We assess Bromford's liquidity as very strong, underpinned by high levels of cash and undrawn committed facilities. We estimate sources of liquidity will cover uses by about 2.3x over the next 12 months. This is based on our forecast of liquidity sources of about £921 million (mainly comprising cash and undrawn available facilities, grant receipts, proceeds from fixed asset sales, and cash from operations after adding back the noncash cost of sales) compared with liquidity uses of about £402 million (primarily capital expenditure, interest, and principal repayments). We continue to view Bromford's access to external liquidity as satisfactory.

Government-related entity analysis

We believe there is a moderately high likelihood that Bromford would receive timely extraordinary support from the U.K. government in case of financial distress. This is neutral to the rating, which is at the same level as the stand-alone credit profile. One of the key goals of the Regulator of Social Housing (RSH) is to maintain lender confidence and low funding costs across the sector. As such, we believe it is likely that the RSH would step in to try and prevent a default in the sector. We base this view on previous instances 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.

Selected Indicators

Table 1

Bromford Housing Group Ltd.--Key statistics

Mil. £	--Year ended March 31--				
	2023a	2024e	2025bc	2026bc	2027bc
Number of units owned or managed	46,437	47,304	48,185	49,118	50,105
Adjusted operating revenue	285.2	309.0	337.6	355.5	389.4
Adjusted EBITDA	88.5	93.2	108.4	118.8	130.3
Non-sales adjusted EBITDA	77.5	84.9	101.9	111.5	121.1
Capital expense	218.7	258.8	313.9	349.5	367.5
Debt	1,407.3	1,540.1	1,726.2	1,862.2	2,012.3
Interest expense	47.4	49.4	61.0	67.2	73.0
Adjusted EBITDA/Adjusted operating revenue (%)	31.0	30.2	32.1	33.4	33.5
Debt/Non-sales adjusted EBITDA (x)	18.2	18.1	16.9	16.7	16.6
Non-sales adjusted EBITDA/interest coverage(x)	1.6	1.7	1.7	1.7	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

	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
Stand-alone credit profile	a+
Issuer Credit Rating	A+

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

Related Research

- Bromford's Strong Financials Will Absorb Pressure From A Potential Business Combination With Flagship, June 28, 2024
- United Kingdom, April 22, 2024
- Non-U.S. Social Housing Providers Ratings Score Snapshot: March 2024, March 11, 2024
- Non-U.S. Social Housing Providers Ratings Risk Indicators: March 2024, March 11, 2024
- Non-U.S. Social Housing Providers Ratings History: March 2024, March 11, 2024
- U.K. Social Housing Borrowing 2024: Borrowing Capacity Remains Constrained, March 6, 2024
- European Housing Markets: Forecast Brightens Amid Ongoing Correction, Jan. 25, 2024
- Non-U.S. Social Housing Sector Outlook 2024: At A Turning Point?, Nov. 29, 2023
- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023
- U.K. Social Housing Providers' Credit Headroom Could Tighten If The Operating Environment Deteriorates, Oct. 4, 2023
- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022

Ratings List

Ratings Affirmed

Bromford Housing Group Ltd.

Issuer Credit Rating A+/Stable/--

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings

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