MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
28 January 2021

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RATINGS

Moat Homes

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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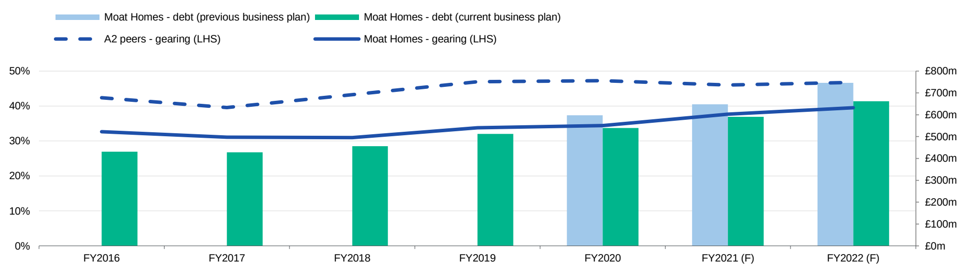
Moat Homes (United Kingdom)

Update to credit analysis

Summary

The credit profile of Moat Homes (A2 stable) (Moat) reflects its modest levels of debt, strong liquidity and a straightforward organisational structure. The rating also takes into account Moat's forecast increase to market sales exposure, and a forecast downward trend in social housing letting interest cover (SHLIC). In addition, Moat's A2 rating benefits from the strong regulatory framework governing English housing associations (HAs) and our assessment that there is a strong likelihood that the government of the United Kingdom (UK, Aa3 stable) would intervene in the event that Moat faced acute liquidity stress.

Exhibit 1
Debt to assets (gearing) to remain strong relative to peers following reduced borrowing plans



Fiscal year ended March 2021 and 2022 (FY2021 and FY2022) are forecast figures from Moat's Business Plan.
Source: Moat and Moody's Investors Service

Credit Strengths

» Reduced borrowing and strong liquidity

» Medium-sized association with a simple governance structure

» Supportive institutional framework in England

Credit Challenges

» Projected increase in exposure to riskier market sale activity

» Weakening SHLIC

Rating Outlook

The stable outlook on Moat reflects the currently stable operating environment, which is unlikely to undergo further material change in the medium-term.

Factors that Could Lead to an Upgrade

Positive pressure on the rating could result from one or a combination of the following; maintenance of an operating margin at or above 35%, maintaining social housing letting interest coverage (SHLIC) to historic levels at or around 2.0x, scaling back in Moat's development plan translating to reduced exposure to market sales activities and further enhancement in forecast debt metrics.

Factors that Could Lead to a Downgrade

Negative pressure could be exerted on the rating by one or a combination of the following; a material weakening in operating margin declining to 25%, SHLIC falling and maintaining at below 1.5x, debt to revenue and gearing metrics weakening relative to peers, and increased exposure to market sales above that outlined in the business plan. In addition, a weaker regulatory framework or a dilution of the overall level of support from the UK could also exert downward pressure on the rating.

Key Indicators

Exhibit 2

Moat Homes

	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21 (F)	31-Mar-22 (F)
Units under management (no.)	21,321	21,107	20,396	20,607	20,934	21,215.0	21,633.0
Operating margin, before interest (%)	37.3	36.3	34.1	30.4	29.0	28.0	24.9
Net capital expenditure as % turnover	36.9	49.1	69.9	80.2	59.5	51.7	37.1
Social housing letting interest coverage (x times)	1.7	1.8	2.1	1.8	1.7	1.6	1.4
Cash flow volatility interest coverage (x times)	2.6	2.4	0.7	0.6	1.5	1.9	1.8
Debt to revenues (x times)	3.6	3.5	3.7	3.9	3.8	3.9	3.6
Debt to assets at cost (%)	32.6	31.1	31.0	33.8	34.4	37.7	39.5

Note: Fiscal year ended March 2021 and 2022 (FY2021 and FY2022) are forecasted figures from Moat's Business Plan.
Source: Moat and Moody's Investors Service

Detailed Rating Considerations

The credit profile of Moat, as expressed in an A2 stable rating, combines (1) a baseline credit assessment (BCA) of a3, and (2) a strong likelihood of extraordinary support coming from the UK government in the event that the entity faced acute liquidity stress.

Baseline credit assessment

Reduced borrowing and strong liquidity

At fiscal 2020, Moat's debt was £540 million, equivalent to 3.8x revenues or 34% of assets at cost. Both these metrics have remained stable throughout the last two years, and while debt-to-revenues has performed in line with A2-rated peers (median: 3.9x), Moat's gearing continues to be stronger than that of peers (median: 47%). Moat has reduced its borrowing plans in its current business plan, which anticipates that debt will grow by 23% or approximately £120 million by fiscal 2022. This is equivalent to 4.4x forecast fiscal 2023 revenues or 42% of assets at cost, and a stronger credit position compared to 5.3x and 45% respectively in the previous business plan. Moat has historically performed better on debt metrics than A2-rated peers, a credit strength (Exhibit 1).

With regards to Moat's debt profile, The HA's treasury policy allows for 60-90% debt to be at a fixed rate and as at August 2020 Moat held approximately 75% of its debt at fixed rates. Moat has maintained the notional value of £143 million of its stand-alone swap portfolio, which had a mark-to-market valuation of £82.2 million as of August 2020, with all security covered by property and cash.

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Moat's unencumbered assets position is strong, and would allow for approximately £349 million of additional borrowing, as of March 2020, which equated to 65% of Moat's debt stock in fiscal 2020.

Available liquidity, represented by cash, short-term investments and undrawn secured facilities, stood at around £250 million at FYE2020. In November 2019, Moat tapped its 2041 bond, issuing a further £150 million (of which £50 million was retained and will be sold in April 2021) and boosting its liquidity. Net capital expenditure (capex) as a percentage of turnover was 60% in fiscal 2020, down from 80% in fiscal 2019, and is forecast to decline to 44% on average over the next two years. Consequently, Moat's liquidity position is able to cover a strong 1.7x the following two years of net capex, and is expected to remain strong in the medium term. Moat's liquidity coverage is supported by a strong treasury policy which stipulates that the committed development programme should be fully funded for 36 months, and assumes all asset sales are delayed for 12 months.

Medium-sized association with a simple governance structure

Moat is a medium-sized provider of social housing focused in the in the South East of England, with around 21,000 units under management. Moat has a very straightforward structure. Moat Homes Limited is a charitable registered provider and the asset holding parent of the group. While there are currently six subsidiaries, two of these are dormant, one has been discontinued, and a fourth, Moat Foundation, has been closed down. The remaining two subsidiaries are Moat Housing Group Limited (MHG), a non-charitable registered provider set up for the development of homes for market sale, and the group's financing vehicle named Moat Homes Finance PLC. The parent effectively retains control and oversight over the group. The HA continues to regularly appraise assets to determine whether they are underperforming and should be disposed, as well as identify stock to acquire in core areas, that match internal thresholds on price and quality.

Supportive institutional framework in England

The sector's credit quality will continue to benefit from the strong regulatory framework governing English HAs. 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. In response to the pandemic, the regulator adapted some aspects of its oversight temporarily, for example, extending its liquidity monitoring, briefly pausing the programme of IDAs and delaying regulatory submissions to reduce the operational burden on 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 has improved under more supportive policies for social rent increases and capital grant. Following four years of social rent reductions, HAs now benefit from a return to inflation-linked rent increases from April 2020 for five years. In addition, the government has committed to increased capital grant on more flexible terms for new social housing.

Counterbalancing the improvements, we expect policy to drive increased borrowing and development risk in the sector as it responds to the government's objective to deliver a significant increase in the construction of new homes.

Projected increase in exposure to riskier market sale activity

Moat's revenues sourced from market sales were 26% of turnover in fiscal 2020, up from 21% on average in the previous three years, and have consisted only of first tranche shared ownership (FTSO) sales. We consider Moat's current exposure to the cyclical property market as high[1], and while the current business plan rebalances development in favour of social and affordable rent compared to last year's plan, market sales exposure will be higher than historical levels. The forecast contribution to turnover of 31% on average over the next two years, peaking at 35% of turnover in fiscal 2022. Moat manages market sales risk through monthly monitoring at board and executive level, conservative appraisal assumptions, and regular assessments of the impact from house price movements by the Capital Projects Committee. Moreover, Moat has set an internal development cap on MHG of £70 million, as well as an on-lending constraint from the Parent of £50 million to limit exposure to market sales activity.

Moat has long standing experience in delivering FTSO development, demonstrated by an average margin of 16% on these sales over the last three years, and the receipts from the FTSO sales are set to make up the largest proportion of sales revenues in fiscal 2021. The development programme aims to begin generating revenues from outright sales in fiscal 2021, comprising of 12% of turnover, and

16% in the following year. The increasing trend in market sales as a proportion of revenue will remain a credit challenge for Moat, as these tenures deliver lower margins than core social housing letting and drag total operating margins. In addition, increased reliance on market sales exposes the HA to volatility in its turnover and operating cash flows which can adversely impact Moat's Cash Flow Volatility Interest Coverage (CVIC) ratio.

Weakening SHLIC

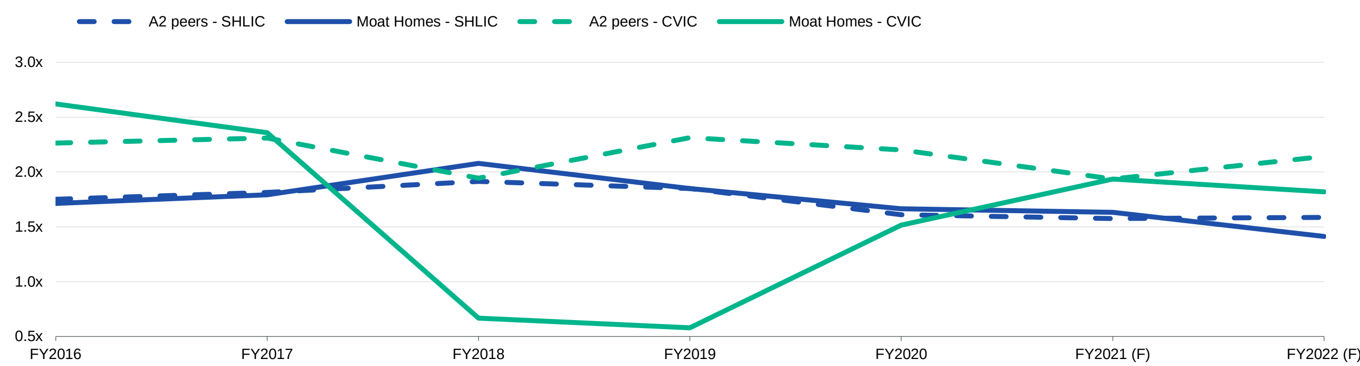
Moat's social housing letting interest cover (SHLIC) continues a trend of slight decline to 1.7x in fiscal 2020, from 1.8x in fiscal 2019, which is marginally stronger than the peer median of 1.6x for the year. This metric is set to continue on this trend to reach 1.6x in fiscal 2021 and dropping to 1.4x in fiscal 2022, slightly below A2 peers. This is due to a dip in the margin on social housing lettings, driven by management and fire safety costs and repairs, combined with higher interest payments as debt grows.

Moat's CVIC ratio improved significantly in fiscal 2020 to 1.5x from around 0.6x over the past two years, as the increase in housing stock for sale slowed down resulting in lower deviation in cash flows from operations. CVIC is forecast to catch up with A2 peers over fiscals 2021 and 2022 as operating cash flows grow faster than interest payments. However, the metric could be weaker than projected as it is sensitive to potential volatility in market sales.

Exhibit 3

Moat's SHLIC is aligned with peers but on a downward trend; CVIC is forecast to catch up with peers but is sensitive to potential volatility in market sales.

Interest coverage: Moat compared to A2-rated peers



Fiscal year ended March 2021 and 2022 (FY2021 and FY2022) are forecasted figures from Moat's Business Plan.
Source: Moat and Moody's Investors Service

Extraordinary Support Considerations

The strong level of extraordinary support factored into the rating reflects the wide-ranging powers of redress available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. 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 Moat and the UK government reflects their strong financial and operational linkages.

ESG Considerations

How environmental, social and governance risks inform our credit analysis of Moat

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Moat, the materiality of ESG to its credit profile is as follows:

Environmental considerations are not material to Moat's credit profile. In line with the rest of the UK, its main environmental risk exposures relate to water shortages and flood risk. Flood risk is managed by county and national authorities, and therefore the financial burden of adapting to increased flood risk will not fall on the issuer.

Social risks are material to Moat's credit profile. In particular, the sector is exposed to risks stemming from socially-driven policy agendas affecting social rents, benefits and capital grants in addition to the impact of demographic trends on demand which are captured in our assessment of the operating environment. We view the coronavirus outbreak as a social risk under our ESG framework given its impact on health and safety. Overall, we expect the outbreak to cause ongoing operational disruption for HAs but do not expect a material credit impact as higher arrears and lower market sales receipts will be offset by cash savings from reduced capital spending on development and repairs. HAs are also impacted by customer relations and product quality. The Grenfell fire tragedy in June 2017 has encouraged higher health and safety standards with many HAs planning on increasing spending on the quality of their existing stock.

Governance considerations are also material to Moat's credit profile and are captured in our assessment of governance and management. In general, housing association governance is strong with multi-year strategies supported by detailed forecasts, conservative liquidity policies, and robust risk management including stress testing.

Further details are provided in the "Baseline credit assessment" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

Rating Methodology and Scorecard Factors

The assigned BCA of a3 is in line with the scorecard suggested BCA.

The methodologies used in this rating were European Social Housing Providers, published in April 2018 and Government Related Issuers, published in February 2020.

Exhibit 4
Scorecard
31 March 2020

Moat Homes			
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%	20,803	a
Factor 3: Financial Performance			
Operating Margin	5%	29.0%	a
Social Housing Letting Interest Coverage	10%	1.7x	a
Cash-Flow Volatility Interest Coverage	10%	1.5x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.8x	baa
Debt to Assets	10%	34.4%	baa
Liquidity Coverage	10%	1.7x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Suggested BCA			**a3**

Source: Moat Homes, Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
MOAT HOMES	
Outlook	Stable
Issuer Rating -Dom Curr	A2
MOAT HOMES FINANCE PLC	
Outlook	Stable
Senior Secured -Dom Curr	A2

Source: Moody's Investors Service

Endnotes

1 We consider market sales exposure to be high when revenue sourced from market sales contributes 20% or more of turnover.

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