MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
27 January 2022

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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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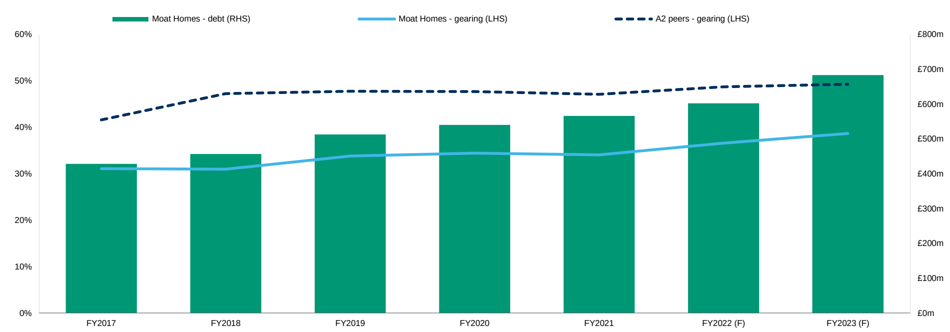
Moat Homes (United Kingdom)

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 increase in market sales exposure, and weakening interest coverage metrics. Moat's A2 rating benefits from supportive institutional framework for 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) is expected to remain strong relative to peers



Fiscal years ended March 2022 and 2023 (FY2022 and FY2023) are forecasted figures.
Source: Moat and Moody's Investors Service

Credit Strengths

» Low indebtedness relative to peers and strong liquidity

» Medium-sized association with a simple governance structure

» Supportive institutional framework in England

Credit Challenges

» Exposure to riskier market sale activity

» Weakening social housing lettings interest coverage

Rating Outlook

The stable outlook reflects our expectation that Moat will retain its strong debt metrics and decent financial performance over the medium term.

Factors that Could Lead to an Upgrade

An upgrade could result from one or a combination of the following; operating margins at or above 35%, maintaining social housing letting interest coverage (SHLIC) to historic levels at above 2.5x, a scaling back of its development programme and/or improvement in its debt metrics.

Factors that Could Lead to a Downgrade

A downgrade could result from one or a combination of the following; a material weakening in operating margins, a material weakening in interest coverage to below 1.5x on a sustained basis, and a significant increase in debt levels alongside an increase in market sales development. 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

Moat Homes	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22 (F)	31-Mar-23 (F)
Units under management (no.)	20,512	20,258	20,472	20,803	21,097	21,895	22,552
Operating margin, before interest (%)	36.3	34.1	28.9	27.0	30.4	25.0	27.5
Net capital expenditure as % turnover	49.1	69.9	80.2	59.5	26.4	39.4	50.7
Social housing letting interest coverage (x times)	1.8	2.1	1.8	1.7	1.9	1.8	1.4
Cash flow volatility interest coverage (x times)	2.4	0.7	0.6	1.5	2.4	1.6	1.6
Debt to revenues (x times)	3.5	3.7	3.9	3.8	3.7	3.2	4.3
Debt to assets at cost (%)	31.1	31.0	33.8	34.4	34.0	36.6	38.7

Note: The operating margin for fiscal years 2020 and 2019 has been restated to reflect impairment charges. Fiscal year ended March 2022 and 2023 (FY2022 and FY2023) are forecast figures.
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

Lower indebtedness relative to peers and strong liquidity

As at fiscal 2021, Moat's debt stood at £566 million, equivalent to 3.7x relative to revenue or 34% of assets at cost, with the metrics remaining fairly stable over the last two years. While debt to revenue has performed broadly in line with A2-rated peers (previous two year average: 3.9x), Moat's gearing continues to be stronger than the A2-rated peer median of 47% as at fiscal 2021, following a reduction of planned borrowing in fiscal 2020. Gearing is expected to gradually increase as Moat funds its development programme, reaching 41% in fiscal 2024 versus the A2-rated peer median of 50%.

With regards to Moat's debt structure, its treasury policy allows for 60-90% of debt to be at a fixed rate and as at March 2021, Moat held 89% of its debt at fixed rates (with the inclusion of interest rate swaps). Moat has maintained the notional value of £143 million of its stand-alone swap portfolio, which had a mark-to-market valuation of approximately £66 million as of March 2021, with all of the 9 swaps covered by property and cash. Moat's unencumbered assets position is strong, and would allow for approximately £398 million of additional borrowing (an increase from £349 million in the previous year) as of March 2021, which equated to 70% of Moat's total debt in fiscal 2021.

Available liquidity, represented by cash and cash equivalents alongside undrawn secured facilities stood at approximately £224 million (£27 million in cash and £197 million in undrawn facilities) at fiscal year end 2021. In April 2021, Moat sold £50 million of retained bonds, which generated proceeds of £73.9 million, with the funds used to repay maturing RCFs and increase overall liquidity. The liquidity position is comfortable, and is able to cover 1.4x of the following two years of net capex or the equivalent of maintaining facilities to cover approximately 37 months of net capital expenditure. Moat's liquidity position is underpinned 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 just over 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 five subsidiaries, three of these are dormant. The remaining two active 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 - Moat Homes Finance PLC. The parent retains control and oversight over the group.

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 a2 and a Regulatory Framework score of a1. These scores are assigned at a national level and reflect the following credit considerations:

The English 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.

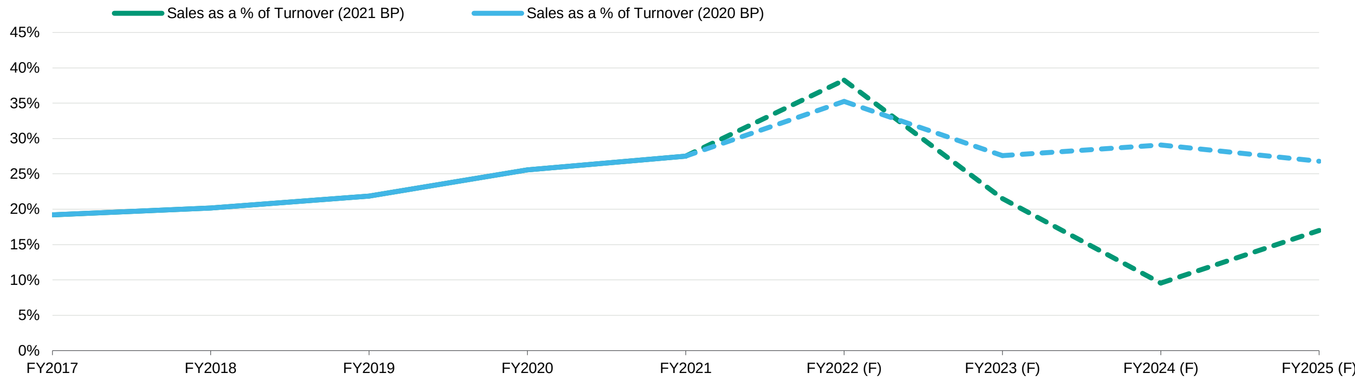
Exposure to riskier market sale activity

Moat's revenues derived from market sales (including first tranche shared ownership and outright sales) amounted to 28% of turnover in fiscal 2021, up from 23% on average over the previous three years, with fiscal 2021 being the first year including outright sales. We deem Moat's current exposure to the cyclicality of the property market as high, given that over 20% of turnover is derived from market sales. However, we do note that Moat has reduced its market sales ambitions to increase covenant headroom in later years of its business plan from FY2023 onwards (Exhibit 3). We also note that Moat has reduced the internal development cap on lending to its subsidiary MHG from £70 million to £50 million, while retaining the on-lending constraint from the Parent of £50 million to limit exposure to market sales activity. 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.

The market sales exposure over the next three years is mainly driven by shared ownership, with the sales margin (incorporating both shared ownership and outright sales) expected to be at an average of 8%, relative to the previous three-year average of 16%, driven by a substantial reduction in expected margins on shared ownership, as a result of higher competition and costs for securing land, particularly as Moat is shifting more towards land-led development.

The low margins associated with market tenures does present a credit challenge, as both outright sales and shared ownership deliver substantially lower margins than social housing lettings (SHL) and therefore reduce the overall operating margins. In fiscal 2021, Moat achieved a 15% margin on shared ownership and 1.6% on outright sales (including favorable impairment adjustments), relative to the SHL margin which averages at approximately 30%.

Exhibit 3
Market sales exposure reduced to increase covenant headroom and reduce impairment risk

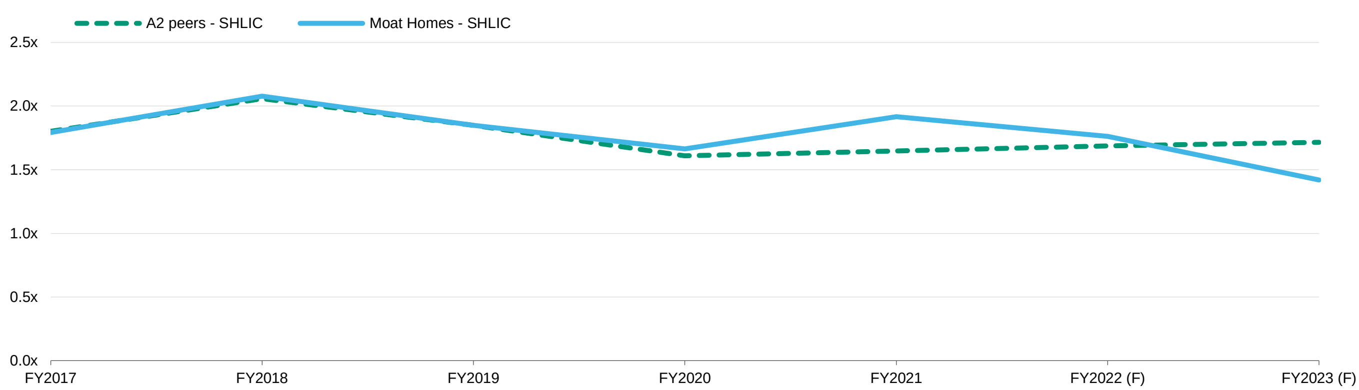


Note: Fiscal year ended March 2022 and 2023 (FY2022 and FY2023) are forecasted figures.
Source: Moat and Moody's Investors Service

Weakening social housing lettings interest coverage

Moat's social housing lettings interest coverage (SHLIC) has increased to 1.9x in fiscal 2021 from 1.7x in the prior year, as turnover growth outpaced the rise in operating costs by £3 million. However, its SHLIC is expected to decline, leveling off at an average of 1.5x over the next three years, compared to the A2 peer median of 1.7x for the same period. The long-term downward trend will be driven by a reduction in surplus derived from social housing lettings, as operating costs per social housing unit is expected to increase, primarily driven by expenditure on fire safety, with the 10 year spend rising from £36 million to £50 million as of fiscal 2021, and decarbonisation costs (for all properties to achieve EPC C or above by 2030) incorporated from fiscal 2025. The increase in debt levels will also reduce interest coverage. However, we expect Moat to manage these costs well and the stability of the core business will continue to support strong operating performance.

Exhibit 4
Moat's SHLIC is aligned with peers but on a downward trend;
Interest coverage: Moat compared to A2-rated peers



Note: Fiscal year ended March 2022 and 2023 (FY2022 and FY2023) are forecasted figures.
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 material to Moat's credit profile. Although the impact of physical climate risks such as water shortages and flood risk are unlikely to be material to HAs' credit profiles as they are managed by government authorities, energy efficiency and decarbonisation more broadly are becoming an increasingly acute priority for HAs with a target of all homes obtaining an energy performance certificate (EPC) of C or above by 2030 in England. We expect this to require material levels of capital expenditure - which would either divert cash flows away from development programmes or increase debt levels.

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 the same as the scorecard-indicated BCA.

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

Scorecard
31 March 2021

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%	21,097	a
Factor 3: Financial Performance			
Operating Margin	5%	30.4%	a
Social Housing Letting Interest Coverage	10%	1.9x	a
Cash-Flow Volatility Interest Coverage	10%	2.4x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.7x	baa
Debt to Assets	10%	34.0%	baa
Liquidity Coverage	10%	1.4x	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 6

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

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