

CREDIT OPINION

11 December 2017

Rate this Research >>

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.

Contacts

Edward Demetry 44-20-7772-1720
Analyst
edward.demetry@moodys.com

Matt Fawcett 44-20-7772-5326
Associate Analyst
matt.fawcett@moodys.com

Sebastien Hay 34-91-768-8222
Senior Vice President/
Manager
sebastien.hay@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
Asia Pacific 852-3551-3077
Japan 81-3-5408-4100
EMEA 44-20-7772-5454

Moat Homes

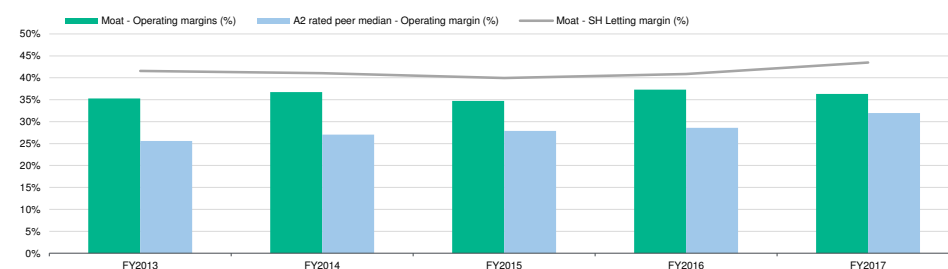
Update to credit analysis

Summary

The credit profile of Moat Homes (A2 stable) reflects its healthy margins, ample social housing interest coverage and modest levels of debt. The rating also takes into account Moat's forecast increase to market sales exposure and anticipated rise in debt to fund its development programme. In addition, Moat's A2 rating benefits from the strong regulatory framework governing English housing associations and our assessment that there is a strong likelihood that the [UK government \(Aa2 stable\)](#) would intervene in the event that Moat faced acute liquidity stress. Moat is rated at the upper end of Moody's-rated English housing associations, whose ratings span from A1 to Baa2.

Exhibit 1

Moat has benefited from a consistently stronger operating margin over its peers, driven by a strong margin on their core social housing business.
Operating margin (%) and social housing letting margin (%)



Note: FY2015 and FY2016 have been restated in FRS102 format.
Source: Moat and Moody's

Credit Strengths

- » Strong margins and Social Housing Letting Interest Coverage (SHLIC) metrics
- » Medium-sized association with a straightforward structure
- » Strong regulatory framework

Credit Challenges

- » Projected increase in exposure to riskier market sale activity
- » Debt levels expected to rise from relatively low base
- » Operating environment remains challenging but policy is more stable

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, and the stable outlook on the sovereign rating.

Factors that Could Lead to an Upgrade

Positive pressure on the rating could result from one or a combination of the following; reduced exposure to market sale activities, maintenance of a healthy operating margin and Social Housing Letting Interest Coverage (SHLIC) rising to, and remaining at or above, 1.9x

Factors that Could Lead to a Downgrade

Downward ratings pressure would be prompted by further deterioration of the UK sovereigns' creditworthiness. Additionally, any sector or issuer-specific risks emerging in this context would exacerbate downward ratings pressures. Negative pressure could be exerted on the rating by one or a combination of following; a deterioration of Social Housing Letting Interest Coverage (SHLIC) ratio in relation to peers, persistent weakness in the Cash Flow Volatility Interest Coverage (CVIC) ratio, weakening of the liquidity position, and increased reliance on shared ownership and outright sales above current levels. In addition, a weaker regulatory framework, a dilution of the overall level of support from the UK government or a downgrade of the UK sovereign rating would also exert downward pressure on the rating.

Key Indicators

Moat Homes	31-Mar-13	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18*	31-Mar-19*
Units under management (no.)	20,951	20,922	21,115	21,321	21,107	21,374	21,749
Operating margin, before interest (%)	35.3	36.7	34.7	37.3	36.3	30.0	27.3
Net capital expenditure as % turnover	39.9	53.4	55.1	36.9	49.1	89.4	81.1
Social housing letting interest coverage (x times)	1.8	1.6	1.5	1.7	1.8	1.9	1.6
Cash flow volatility interest coverage (x times)	2.1	2.3	1.7	2.6	2.4	1.7	1.6
Debt to revenues (x times)	3.7	3.9	3.7	3.6	3.5	4.6	4.4
Debt to assets at cost (%)	30.8	31.6	32.1	32.6	31.2	38.1	42.4

*FY2018 and FY2019 are forecasted figures.

Note that FY2015 and onwards are prepared in FRS102 format while prior years were prepared using the old UK GAAP.

Source: Moat and Moody's

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 national government in the event that the entity faced acute liquidity stress.

Baseline credit assessment

SOLID SOCIAL HOUSING LETTING INTEREST COVERAGE AND STRONG MARGINS

Moat benefits from continued strong interest coverage metrics with social housing letting interest coverage (SHLIC) at 1.8x in FY2017, in-line with the A2 peer median. Moat's cash interest coverage reached 2.9x this year, above A1 peer median of 2.7x, and has remained consistently above 2.0x since FY2012. Moat's Cash Flow Volatility Interest Coverage (CVIC) ratio was 2.4x in FY2017, and is forecast to decrease to 1.7x in FY2018, falling below Moody's-rated peer median (in FY2017) of 2.2x. This is driven by an upswing in development for sale leading to volatility in operating cash flow (CFO). Current business plan forecasts show Moat's CVIC returning to 1.7x in FY2018 and remaining at this level up to 2020. A key credit driver will be how effectively Moat can achieve CVIC levels closer in-line with peers throughout their proposed development programme.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Moat's total revenue stayed at £121 million in FY2017 (2016: £121 million), while operating margins declined slightly to 36%. Despite this decline, Moat's operating margins remain amongst the highest of Moody's rated peers, comparing favourably to an A2-rated peer median of 32%, because they are supported by Moat's core social housing letting business, which recorded margins of 43% this year (Exhibit 1). Total operating margins are forecast to continue a downward trend to reach 30% in FY2018, driven by losses of 12% from other social housing activity. Moat's business plan for FY2018-22 projects operating margins will fall closer to the peer median in FY2018 and FY2019, as interest expenses increase to service rising debt.

MEDIUM-SIZED ASSOCIATION WITH A STRAIGHTFORWARD GOVERNANCE STRUCTURE

Moat is a medium-sized provider of social housing in England, with around 21,000 units under management. Located in the south east of England, Moat operates in areas where demand for social housing is high, supporting social housing letting turnover stability. Moat has achieved an asset management plan target to further consolidate operations to 30 key local authority areas, identified as "growth areas", as Moat works to achieve operational efficiencies.

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 and one has been discontinued. The remaining three include Moat Foundation, a charitable arm that focuses on supporting community development activities, 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.

Social housing letting as a percentage of Moat's turnover grew slightly from last year to 79% (FY2016: 77%), and is in line with Moody's A2 rated peers (78% in FY2017). Moat's business plan forecasts social housing letting will deliver 81% of turnover in FY2018, before dropping to 71% in the subsequent year. As Moat plans to increase development with an element of sale, including first-tranche shared ownership and outright sale, turnover from social housing letting is expected to fall to 50% of total turnover in FY2020.

PROJECTED INCREASE IN EXPOSURE TO RISKIER MARKET SALE

With sales revenues at 19% of turnover in FY2017 (currently consisting only of first tranche shared ownership (FTSO) sales), we consider Moat's exposure to the cyclical property market as high relative to peers. Although this is set to reduce to 16% in FY2018 during a period of construction, the business plan forecasts that sales revenue as a proportion of turnover would grow to 28% in FY2019 and 48% in FY2020. Moat has delivered shared ownership development for several years, considering itself to be a sector specialist, and the receipts from the FTSO sales are set to make up the largest proportion of sales revenues up to FY2019. Moat had no outright market sales this year and are not forecasting any in FY2018. However, the development programme aims to deliver five units for market sale in FY2019, and 120 units in the subsequent year, contributing 5% and 35% to total turnover, respectively, and surpassing the contribution to revenue made by FTSO sales in FY2020. The increasing trend in market sales (FTSO and outright sale combined) as a proportion of revenue is a continuation from last year's business plan, which aimed to have 30% of revenue sourced from market sales by FY2020. Given that social housing lettings receipts are far more predictable than those generated from market sales, this exposure will be a key credit challenge for Moat.

Moat's experience in the shared ownership market is demonstrated by both the proportion of turnover from FTSO sales (19% in FY2017) as well as the 31% margin on these sales. However it is noted that operating margins on FTSO sales decreased from FY2016 levels of 41%, and are forecast to decrease further in FY2018 to 20%. Moat's FY2018-FY2022 development pipeline plans for approximately 2,780 units, of which shared ownership would make up 54% of the tenure mix, 27% allocated as sub-market affordable rent, 6% as market rent and 13% as outright sales. The strength of Moat's core social housing business will partially mitigate some of the risks associated with market sales activity. Historically, Moat have used conservative assumptions in long term business planning, which incorporated layers of contingency and helped mitigate market sales risk further. The current Long Term Plan (LTP) states that contingency areas have been minimised as to properly assess development capacity and forecast performance, while still retaining a prudent approach to assumptions. Currently, Moat's business plan assumptions can be considered overall realistic, such as CPI at 2.8% in FY2018 and a return to social rent growth in FY2020, however Moat's assumption on house price inflation at 3.5% in FY2018 are currently over national and regional (South-East) forecasts.

Net capital expenditure (capex) as a percentage of turnover was 49% in FY2017 and is forecast to rise to 89% in FY2018, driven by planned development and a significant regeneration project. Moat's liquidity is sufficient to cover this rise in expenditure, however, as measured by Moody's liquidity metric, Moat's position in FY2017 was somewhat weaker than peers. Moody's liquidity coverage metric measures the ability of available liquidity to cover the following two years of net capex. Due to the anticipated rise in net capex in FY2018 and FY2019, Moat's liquidity coverage ratio as of March 2017 was 0.75x. However, net capex is projected to decrease in FY2020, contingent on sales revenues materialising as expected and an uplift to cash flows. The reduction in net capex combined with the availability of facilities leads to an expected improvement in the liquidity coverage metric to 1.04x in FY2018 and 1.20x in FY2019.

Moat Homes Group Limited (MHG) will act as the group's commercial subsidiary overseeing outright sales activity. The subsidiary has four non-executive board members with expertise in property development that monitor activity on a scheme by scheme basis. In FY2017 MHG made a loss of £108,000, as there were no outright sales made. Moat is currently assessing the option of building reserves in MHG through its future operations, instead of the subsidiary gift aiding profits to the parent (MHL).

DEBT RISING, BUT FROM A RELATIVELY LOW BASE

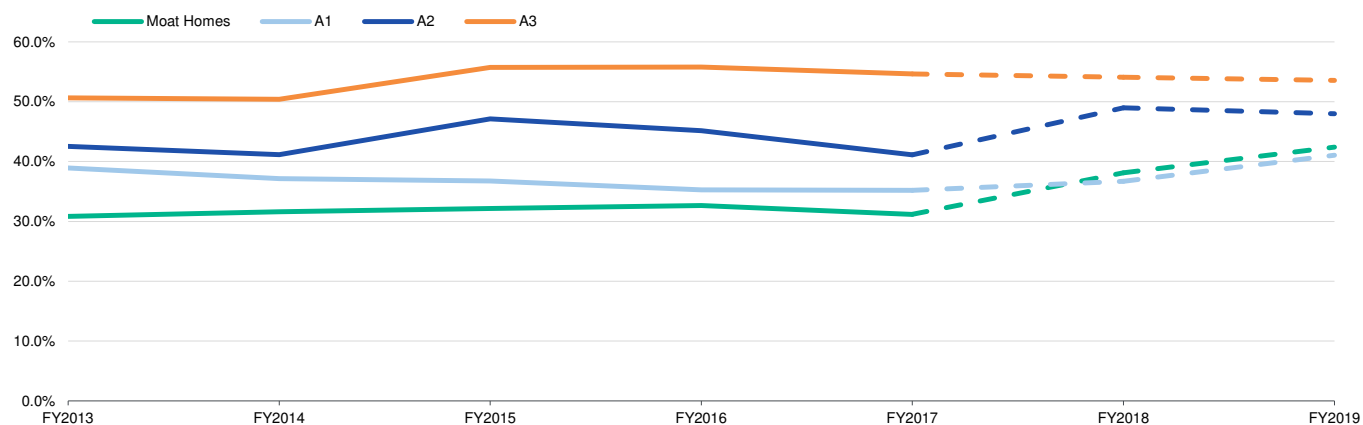
At FY2017, Moat's debt was £428 million, equivalent to 3.5x revenues or 31% of assets at cost, which is in line with their debt position in the previous year. The business plan anticipates that debt will grow by 25% or approximately £110 million in FY2018, which would be equivalent to 4.6x forecast FY2018 revenues or 38% of assets at cost. Moat has historically performed better on debt metrics than A2 rated peers, a credit strength (Exhibit 3), but are forecast to deteriorate going forward, weakening from a strong position. While we expect Moat to take on additional debt over the next five years, with debt-to-assets reaching 44% by FY2020, the organisation will retain sufficient headroom against covenants.

Moat's treasury policy allows for 60-90% debt to be at a fixed rate, and as of end of February 2017 Moat held approximately 80% of its debt at fixed rates. Included in the fixed rate debt is a portfolio of stand-alone swaps with a notional value of £143 million, and a mark-to-market valuation of £75.4 million as of 8th March 2017, which is covered by a combination of security and cash. We consider this as moderately high exposure to interest rate risk, mitigated however by estimated liquidity of close to 140% of projected FY2018 revenues, well above the 97% average of Moody's rated portfolio. Furthermore, total unencumbered assets would allow for more than £410 million of additional borrowing.

Exhibit 3

Moat's debt metrics are forecast to weaken from a historically strong position

Debt-to-assets (%)



* FY2018 and FY2019 are forecasted figures.

Note that FY2015 and onwards are prepared in FRS102 format while prior years were prepared using the old UK GAAP.

Source: Moat and Moody's

STRONG REGULATORY FRAMEWORK

The sector's credit quality will continue to benefit from the strong regulatory framework and oversight by the Homes and Communities Agency (HCA). The HCA maintains strong oversight through quarterly returns, long-term business plans, annual reviews, and

undertaking In-Depth Assessments of entities where deemed necessary. Additionally, the HCA has powers to make board member and manager appointments where there has been a breach of Regulatory Standards. From October 2017, the HCA will charge fees for social housing regulation, as a means of enhancing the independence and maintaining the effectiveness of the regulator.

OPERATING ENVIRONMENT REMAINS CHALLENGING BUT POLICY IS MORE STABLE

Moody's does not expect additional material adverse policy shifts for the sector and considers the operating environment to be stable in the medium term. Adverse policies announced in the last few years will continue to negatively impact revenues, especially the effects of the 1% annual decrease in social rents (until FY2020) and Universal Credit (a pillar of broader welfare reform measures). However, HAs have demonstrated resilience to adverse policies to date and been proactive to mitigate the impact. A reduction of capital grant for new social housing over the last five years has led to increased exposure to market sales activity, which has more than doubled since 2012 to reach 17% of turnover for Moody's rated HAs in FY2016. Credit risk association with exposure to market sales is incorporated in BCAs.

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 (Aa2 stable) 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 (HA) and the UK government reflects their strong financial and operational linkages.

Rating Methodology and Scorecard Factors

[European Social Housing Providers](#), July 2016 (190944)

[Government Related Issuers](#), August 2017 (1047378)

Ratings

Exhibit 4

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

Moody's Public Sector Europe is the trading name of Moody's Investors Service EMEA Limited, a company incorporated in England with registered number 8922701 that operates as part of the Moody's Investors Service division of the Moody's group of companies.

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454