MOODY'S INVESTORS SERVICE

CREDIT OPINION
29 February 2024

Update

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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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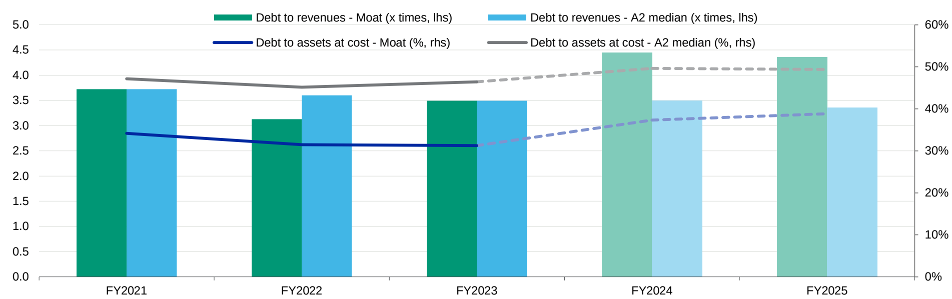
Moat Homes (United Kingdom)

Update following change in outlook to stable from negative

Summary

The credit profile of Moat Homes (Moat, A2 stable) reflects its good financial performance, strong liquidity and a straightforward organisational structure. The rating also takes into account Moat's increasing debt levels and weakening debt metrics. Moat's A2 rating benefits from the 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 act in a timely manner to prevent a default.

Exhibit 1
Debt to revenue and gearing (debt to assets) are expected to weaken due to rising development and asset management expenditure, but gearing will remain much stronger than A2 median



Fiscal years end March 2024 and 2025 (FY2024 and FY2025) are forecasts.
Source: Moat and Moody's Investors Service

Credit Strengths

- Strong financial performance and reducing exposure to market sales
- Simple governance structure which supports effective risk management
- Supportive institutional framework in England

Credit Challenges

- Increasing debt levels and weakening debt metrics driven by development ambitions
- Weakening interest coverage metrics

Rating Outlook

The stable outlook reflects our view that Moat's financial performance will remain strong and, although debt is increasing, the entity has the financial strength to manage debt growth without it substantially weakening its credit profile.

Factors that Could Lead to an Upgrade

The rating could be upgraded if Moat's debt levels decreased substantially and there was a concurrent material improvement in interest coverage metrics.

Factors that Could Lead to a Downgrade

The rating could be downgraded if Moat experiences a sustained weakening in operating margins and interest coverage ratios, material increases in debt levels beyond that anticipated, a significant deterioration in liquidity or a significant scaling up in market sales exposure. A weakening of the regulatory framework or dilution of the overall level of support from the UK government could also lead to downward pressure on the ratings.

Key Indicators

Exhibit 2

Moat Homes

	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.)	20,444	20,769	21,063	21,397	21,683	22,345	22,590
Operating margin, before interest (%)	30.4	29.0	30.6	27.3	28.3	27.4	31.8
Net capital expenditure as % turnover	80.2	59.5	26.4	11.3	36.2	108.0	49.9
Social housing letting interest coverage (x times)	1.8	1.7	1.9	1.6	1.7	1.3	1.4
Cash flow volatility interest coverage (x times)	0.6	1.5	2.4	2.5	1.6	1.4	1.7
Debt to revenues (x times)	3.9	3.8	3.7	3.1	3.5	4.4	4.4
Debt to assets at cost (%)	33.9	34.6	34.2	31.5	31.2	37.3	38.8

Fiscal year ended March 2024 and 2025 (FY2024 and FY2025) are forecast figures.
Source: Moat and Moody's Investors Service

Detailed Rating Considerations

On 23 February 2024, Moody's changed Moat's outlook to stable from negative and affirmed its a3 Baseline Credit Assessment (BCA) and A2 long-term issuer rating.

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 that the UK government would act in a timely manner to prevent a default.

Baseline credit assessment

Decent track record of financial performance and reducing exposure to market tenures

Moat has a history of achieving good operating margins, with an average of 29% over fiscal 2021 to 2023, compared with an A2 peer median of 25%. This is mainly due to very strong margins on social housing lettings of 38% over the same period, as margins on market sales (including first tranche shared ownership) have been weaker - at an average of 12%. Moat projects maintaining strong operating margins over the next few years, considering a significantly decreased projection for fire and building safety expenditures (with around half of this expenditure to be capitalised) and a return to a CPI+1% rent cap in fiscal 2025. Additionally, Moat's reliance on revenues from market tenures will decrease substantially - reducing from 22% of turnover in fiscal 2023 to an average of 11% in the next three years - reducing its exposure to volatile returns. 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 17%, in line with the previous three-year average, driven by strong expected margins on shared ownership.

Simple governance structure which supports effective risk management

Moat is a medium-sized provider of social housing in the south east of England, with over 21,000 units under management. Moat has a very straightforward organisational structure. Moat Homes Limited is a charitable registered provider and the asset holding parent of the group, with two active subsidiaries: 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. There is one group board which determines the risk appetite of the group on an annual basis and controls risk management.

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 very high rates of inflation in 2022, the government introduced a 7% ceiling on social rent increases from April 2023 for one year. The ceiling resulted 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. The UK government has confirmed that English HAs will be able to return to rent increases of consumer price inflation (CPI) plus 1% in fiscal 2025, which will be favourable, considering the recent reduction in inflation.

Increasing debt levels and weakening debt metrics driven by development ambitions

Moat's total debt levels are expected to increase to fund its development commitment to build 550 units per year. In its most recent business plan debt is projected to increase from £558 million as of fiscal year end 2023, to £770 million by fiscal year end 2026 - an increase of 38%. This would result in weakening debt metrics with debt to assets increasing to 39% by fiscal 2026 from 31% in fiscal 2023, and debt to revenues to 3.8x in fiscal 2026 from 3.5x in fiscal 2023.

In addition to development, Moat is also committed to capital expenditures on fire and building safety and decarbonisation. Moat has conducted its fire risk assessments and significantly reduced projected expenditure on fire and building safety to £21 million over the next ten years. Approximately 72% of its housing stock is at EPC-C or above, which is in line with the majority of the rated sector. Moat expects to receive £6.4m grants from the UK government's Social Housing Decarbonisation Fund over the next three years and contribute a further £13.7m to improve the energy performance of existing homes.

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 September 2023, Moat held 70% of its debt at fixed rates, before hedging. Moat has maintained the notional value of £78 million of its stand-alone swap portfolio, which had a mark-to-market valuation of approximately £1 million as of September 2023. Moat's unencumbered assets position is strong, and would allow for approximately £559 million of additional borrowing as of September 2023, which could roughly cover Moat's total debt in fiscal 2023.

Available liquidity, represented by cash and cash equivalents alongside undrawn secured facilities stood at approximately £321 million as of September 2023 and equals around 1.5x of the following two years' net capex. Refinancing risk is minimal, with an RCF already been renegotiated and extended, which will improve Moat's liquidity further. The remainder of Moat's debt portfolio is long-tenored.

Weakening interest coverage

Moat's social housing lettings interest coverage (SHLIC) increased slightly to 1.7x in fiscal 2023 from 1.6x in the prior year driven by reduced interest expense, despite a reduction in the margin achieved on social housing lettings which reduced from 38% to 35% over the same period. We expect its SHLIC to decrease further over the next three years due to rising management and maintenance costs on existing housing stock, the adverse differential between cost inflation and rent increases imposed by the rent cap in fiscal 2024, rising debt levels, as well as increasing financing costs, although Moat's high levels of liquidity and limited refinancing risk will limit their exposure to this trend over the medium term. SHLIC is expected to decrease to around 1.4x over fiscal 2024 to fiscal 2026, compared with an expected A2 peer median of 1.6x over the same period.

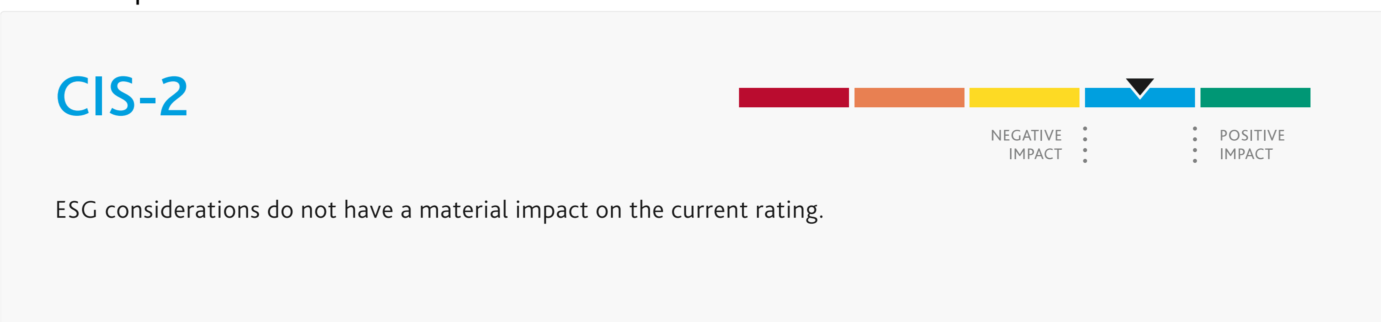
Extraordinary Support Considerations

The strong level of extraordinary support factored into the rating reflects our view of the UK government's support for the housing association sector due to its political, economic and social importance. Extraordinary support for the sector is predominantly exercised through sector regulators whose wide-ranging powers in cases of financial distress include facilitating mergers. However, this process can be protracted and is reliant on HAs agreeing to merge, which is more challenging in a weakened operating environment, with high expenditure pressures and high borrowing costs. 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

Moat Homes' ESG credit impact score is CIS-2

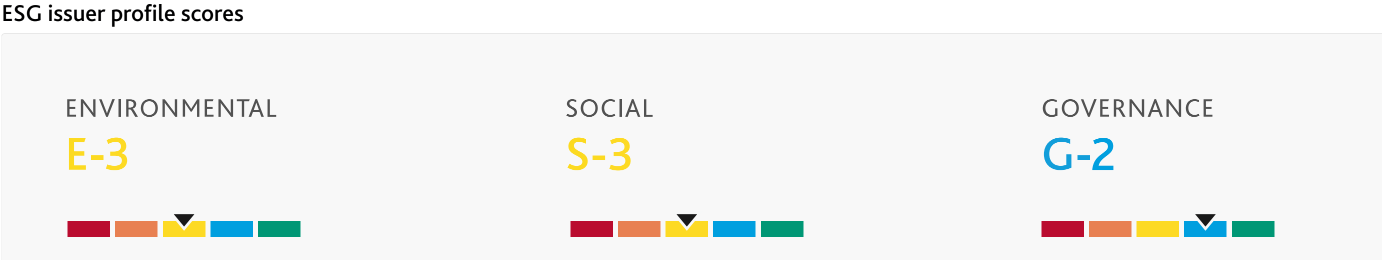
Exhibit 3
ESG credit impact score



Source: Moody's Investors Service

Moat's **CIS-2** reflects our view that ESG risks have a limited impact on its rating. Material expenditure requirements related to the carbon transition and building safety are expected to be offset by Moat's financial strength as well as its strong governance.

Exhibit 4
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Moat has material exposure to environmental risks (**E-3**) relating to a significant proportion of its stock requiring retrofit to meet energy efficiency standards by 2035 (carbon transition risks), leading to increased expenditure.

Social

Moat has material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety of existing housing stock (responsible production risks). Moat is also affected by 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

Moat 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 were European Social Housing Providers, published in April 2018 and Government Related Issuers, published in January 2024.

Exhibit 5

Scorecard

31 March 2023

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%	21,683	a
Factor 3: Financial Performance			
Operating Margin	5%	28.3%	a
Social Housing Letting Interest Coverage	10%	1.7x	a
Cash-Flow Volatility Interest Coverage	10%	1.6x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.5x	baa
Debt to Assets	10%	31.2%	baa
Liquidity Coverage	10%	1.5x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			a3
Assigned BCA			a3

Source: Moat Homes, Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
MOAT HOMES	
Outlook	Stable
Baseline Credit Assessment	a3
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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