

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Bromford Flagship's ratings with a stable outlook; withdraws ratings on Flagship Housing Group following merger

06 Mar 2025

London, March 06, 2025 -- Moody's Ratings (Moody's) has today affirmed the a3 Baseline Credit Assessment (BCA) and A2 long-term issuer and backed senior secured ratings of Bromford Flagship Limited (Bromford Flagship; formerly Bromford Housing Group Limited) and maintained the stable outlook. The senior secured rating of Flagship Finance Plc, which is now a subsidiary of Bromford Flagship, was also affirmed at A2 with a stable outlook.

Concurrently, the a3 BCA and A2 long-term issuer rating of Flagship Housing Group Limited (Flagship) have been withdrawn. Prior to withdrawal, the outlook was stable. Please refer to Moody's Ratings' Withdrawal of Credit Ratings Policy, available on our website, <https://ratings.moodys.com>, for more information.

Bromford Housing Group Limited (Bromford) and Flagship Housing Group Limited completed their merger on 28 February. Flagship became a subsidiary of Bromford and Bromford was renamed Bromford Flagship Limited.

The affirmation of the ratings is driven by the limited impact of the merger with the combined entity expected to maintain strong margins, conservative risk management and stable debt metrics. The ratings are constrained by the entity's substantial debt-funded development programme. The stable outlook reflects strong operating performance and stable debt ratios.

RATINGS RATIONALE

RATIONALE FOR THE AFFIRMATION OF THE RATINGS AND BCA

The affirmation of the BCA and ratings is supported by the limited credit impact of the merger given the similarities between the standalone credit profiles of the two entities. We expect Bromford Flagship to retain strong margins and interest cover ratios. However, the absence of geographical overlap in their areas of operations is likely to limit efficiency savings from the merger. As a result, we forecast operating margins

and SHLIC to remain close to their current levels at around 30% and 1.7x respectively over the next three years.

The ratings and BCA affirmation also reflect the combined entity's large size, which will support a higher capacity to absorb shocks and give it robust market position, strong political influence and a competitive edge in development opportunities. Bromford Flagship will manage over 80,000 units across East and West England, making it one of the largest housing associations in the UK. Both organisations have a track record of successfully implementing mergers. However, executing the integration and simplifying the corporate structure will take time as both were large and complex organisations.

We expect Bromford Flagship to retain strong governance, supported by prudent liquidity and treasury policies. This includes a stricter liquidity policy than the sector's best practices, which requires maintaining 1.5x the next 18 months of net cashflows and includes uncommitted spending and a 20% sales slippage. Treasury risks are limited and will be reduced as part of the merger with the refinancing of some short-term variable rate debt with long-dated fixed rate debt.

Finally, the rating affirmation reflects Bromford Flagship's substantial development programme relative to peers, which will drive up debt. The merged organization plans to develop 2,000 units annually, equivalent to 2.5% of current units, making it one of the largest developers of social housing in the UK. The merger will generate additional financial capacity, albeit limited in the first few years, to develop more social housing. High development targets and the need to retrofit 23% of its housing stock to EPC-C by 2030 will maintain its net capital expenditure to turnover at around 40% over the next three years, double the level of rating peers.

As a result, debt levels are expected to rise by £1.2 billion by fiscal 2029 to £3.6 billion. That said, gearing will remain relatively stable at 49% and in line with the A2 median as the investment generates additional assets, turnover and reserves growth.

The A2 rating incorporates a one-notch uplift from the a3 BCA based on our assessment of a strong likelihood of extraordinary support from the Government of the United Kingdom (Aa3 stable).

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects the issuer's capacity to post strong operating metrics while preserving stable debt ratios despite its large development program.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

The impact of ESG considerations on the ratings is limited (CIS-2). Bromford Flagship has material exposure to environmental risks (E-3) related to retrofitting needs to meet the government's requirement to bring social housing stock to EPC-C by 2030.

Bromford Flagship needs to retrofit 23% of its housing stock to meet the required energy efficiency standards. It also has material exposure to social risks (S-3) through sector-wide legislative requirements to improve stock safety and quality. Bromford Flagship has limited governance risks (G-2) given its prudent risk management framework and practices even compared to the sector's best practices.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the rating could result from a material reduction in debt or a significant increase in government support for the sector, especially significantly higher levels of capital grants.

Downward pressure on the rating could result from a prolonged weakening in financial performance including a weakening in operating margins and interest coverage ratios, debt growing more quickly than forecasts, weaker liquidity or increased risk appetite, including higher market sales exposure. Lower government support for the sector or a dilution of the regulatory framework could also lead to downward pressure on the rating.

The methodologies used in these ratings were European Social Housing Providers published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425582>, and Government-Related Issuers methodology published in January 2024 and available at <https://ratings.moodys.com/rmc-documents/406502>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at <https://ratings.moodys.com/rmc-documents/435880>.

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