MOODY'S RATINGS

CREDIT OPINION
28 February 2025

Update

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RATINGS

Moat Homes

Domicile	United Kingdom
Long Term Rating	A3
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

Timothy Doherty +44.20.7772.1114
Ratings Associate
timothy.doherty@moodys.com

Zoe Jankel +44.20.7772.1031
VP-Sr Credit Officer
zoe.jankel@moodys.com

Jeanne Harrison +44.20.7772.1751
Vice President - Senior Credit Officer
jeanne.harrison@moodys.com

Moat Homes (United Kingdom)

Update following downgrade to A3

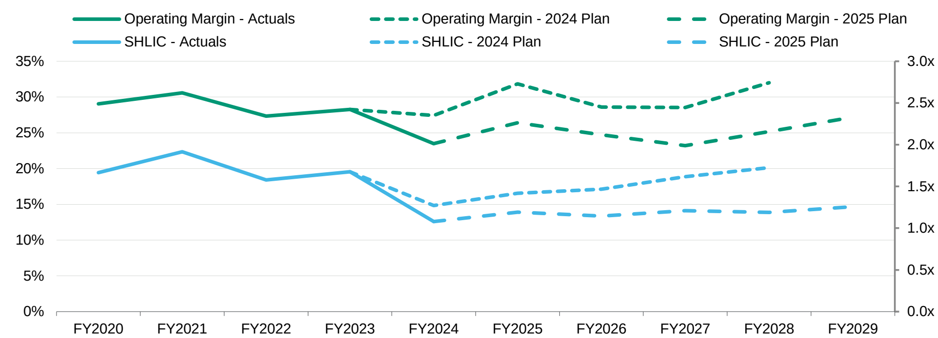
Summary

The credit profile of Moat Homes (Moat, A3 stable) reflects its decent, but weakened, financial performance and strong liquidity as well as its increasing debt levels and weakening debt metrics. Moat's A3 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

Moat's financial performance weakened in FY2024 and is expected to remain lower than previously forecast

Operating margin (%) and social housing lettings interest coverage (SHLIC, x), FY2020-29



Dotted lines denote forecasted values. Please note that the fiscal 2024 social housing lettings interest coverage metric includes a one-off £4.5m of swap breakage fees. Excluding swap breakage fees would make this metrics 1.2x.
Source: Moat Homes and Moody's Ratings

Credit Strengths

» Decent but weakened financial performance, expected to persist

» Good liquidity and conservative liquidity policy

» Supportive institutional framework in England

Credit Challenges

» Some weaknesses in management and governance, highlighted by protracted issues in repairs service

» Increasing debt levels and weakening debt metrics

Rating Outlook

The stable outlook reflects our view that Moat's financial performance will remain in line with A3 peers and that debt will not grow beyond our expectations.

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 financial performance, including its operating margin and interest coverage metrics.

Factors that Could Lead to a Downgrade

The rating could be downgraded if Moat experiences further weakening in financial performance, 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-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25 (F)	31-Mar-26 (F)
Units under management (no.)	20,769	21,063	21,397	21,683	22,559	22,885	23,261
Operating margin, before interest (%)	29.0	30.6	27.3	28.3	23.5	26.4	24.7
Net capital expenditure as % turnover	59.5	26.4	11.3	36.2	99.2	72.9	54.8
Social housing letting interest coverage (x times)	1.7	1.9	1.6	1.7	1.1	1.2	1.1
Cash flow volatility interest coverage (x times)	1.5	2.4	2.5	1.6	1.1	1.6	1.6
Debt to revenues (x times)	3.8	3.7	3.1	3.5	4.4	4.6	4.6
Debt to assets at cost (%)	34.6	34.2	31.5	31.2	35.9	38.7	40.5

Fiscal year ended March 2025 and 2026 are forecasted figures. Please note that the fiscal 2024 social housing lettings interest coverage and cash flow volatility interest coverage metrics include a one-off £4.5m of swap breakage fees. Excluding swap breakage fees would make these metrics 1.2x and 1.2x respectively.
Source: Moat Homes and Moody's Ratings

Detailed Rating Considerations

On 27 February 2025, Moody's downgraded Moat's baseline credit assessment (BCA) to baa1 from a3, and its issuer and senior secured ratings to A3 from A2. The outlook is stable.

The credit profile of Moat, as expressed in an A3 stable rating, combines (1) a baseline credit assessment (BCA) of baa1, and (2) a strong likelihood that the UK government would act in a timely manner to prevent a default.

Baseline credit assessment

Decent but weakened financial performance, expected to persist

Prior to fiscal 2024, Moat had strong financial performance, with operating margins between 27-31% and social housing lettings interest coverage of between 1.6-1.9x. However, Moat has had significant difficulties in managing its repairs backlog post-pandemic, as well as servicing responsive repairs, with its most recent contractor unable to make much progress. As a result, Moat has had to end its contract early, and - as of February 2025 - is in a short-term contract with another contractor, which is expected to be on a variable price model over the next 18 months. In addition, Moat has had to scale up its internal resource to manage its high level of repairs. As a result, we expect financial performance to remain muted compared to previous levels - with its operating margin at around 25% over the next three years, and SHLIC of around 1.1-1.2x.

Moat has moderate exposure to market sales - with turnover from first tranche shared ownership (FTSO) and outright sales expected to average 13% of total turnover over the next three years. Performance on FTSO is decent - with margins averaging 11% from fiscal 2022-2024.

Good liquidity and conservative liquidity policy

Moat has good liquidity levels - with liquidity expected to be 1.75x of two year net cash needs as of fiscal year end 2025. Its liquidity policy is to have sufficient liquidity for the next 18 months net cash flow required excluding sales income, however in practice is has significantly more than this. It has recently negotiated a £100 million bond via the Affordable Homes Guarantee Scheme which offers a low cost of finance compared to market rates. Around 20% of its current debt stock is at variable rates after hedging. It has limited refinancing risk with approximately 24% of drawn debt is due within 5 years as of December 2024.

Moat's unencumbered assets position is strong, and would allow for approximately £600 million of additional borrowing as of February 2025, which is more than sufficient to cover Moat's planned increase in debt over the next five years.

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 weighed on 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.

Some weaknesses in management and governance, highlighted by protracted issues in its repairs service

In recent years Moat has struggled to effectively manage its repairs service. Moat outsources its repairs service and had appointed a new contractor as of April 2022 to make progress on its pandemic-related repairs and maintenance backlog, as well as to improve its responsive and planned repairs performance. However, this contract has not delivered to plan and Moat has exited it as of February 2025 and is now in an 18 month contract with another provider, before procuring a new 10 year contract in fiscal 2027. Moat is now expanding its leadership team to improve oversight and monitoring of its repairs and maintenance services.

At the same time as it faces significant challenges in its repairs service, Moat is also delivering a large development programme with net capex of an average of 53% of turnover over the next three years, and it has not changed its development target of around 550 units per year. We consider that this highlights a higher appetite for risk than many peers - as most facing high volumes of repairs and maintenance have cut development ambitions to better manage cash flows and risk.

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.

Increasing debt levels and weakening debt metrics

Moat's total debt levels have increased substantially in recent years - rising to an expected £766 million in fiscal 2025 from £558 million in fiscal 2023. We expect debt to continue to increase to fund its development programme, rising to around £885 million by fiscal 2027.

The large jump in debt in fiscal 2024 was driven by a purchase of some 600 units from L&Q in this fiscal year. As a result, its debt metrics have deteriorated materially - with debt to revenues rising to an expected 4.6x in fiscal 2025 from 3.5x in fiscal 2023, and debt to assets to an expected 39% in fiscal 2025 from 31% in fiscal 2023. Although debt to assets remains strong compared to peers - the peer median is expected to be 50% in fiscal 2025 - debt to revenues is higher, with the A3 peer median expected to be 4.6x as of fiscal 2025.

Debt will continue to grow, although debt metrics will remain more or less the same from fiscal 2026 due to the increase in turnover and asset base.

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 £12 million over the next ten years. Approximately 74% 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 £5m grants from the UK government's Social Housing Decarbonisation Fund during 2025 and contribute a further £12m to improve the energy performance of existing homes.

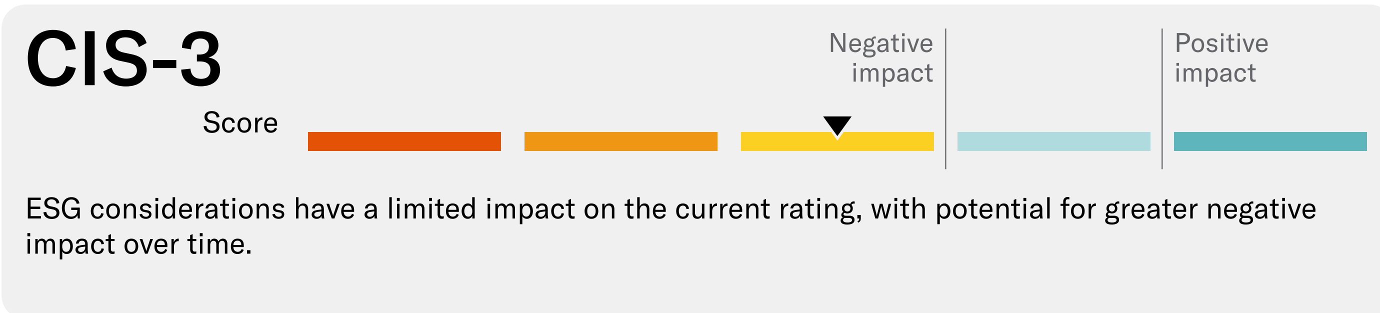
Extraordinary Support Considerations

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-3

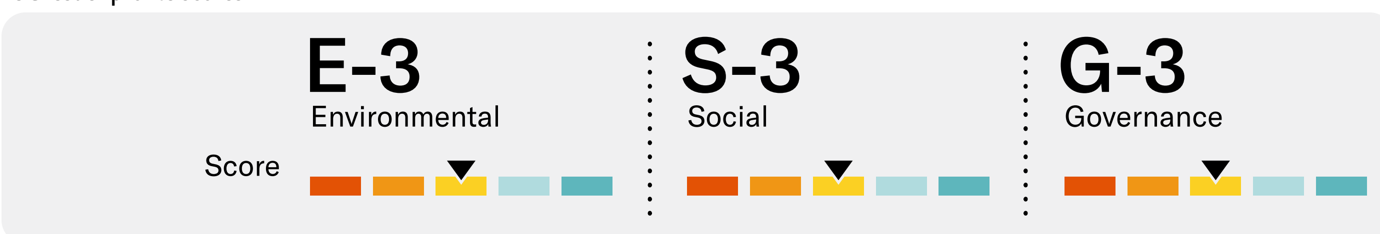
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Moat's **CIS-3** reflects our view that ESG risks have a limited impact on the current rating, but have potential for a greater negative impact over time, particularly if Moat fails to turnaround its repairs and maintenance performance, or to accurately assess and provide for the financial costs involved in compliance with fire safety and decarbonisation regulations.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

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 2030/2035 (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 have also had a negative impact on operating margins.

Governance

Moat has material governance risks (**G-3**) due to some weaknesses in its risk management which has led to poor performance of its repairs service and has had a negative impact on its operating margin and interest coverage metrics.

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 baa1 is the same as the scorecard-indicated BCA outcome.

The methodologies used in this rating were European Social Housing Providers, published in July 2024 and Government Related Issuers, published in January 2024.

Exhibit 5

Scorecard

31 March 2024

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%	22,559	a
Factor 3: Financial Performance			
Operating Margin	5%	23.5%	baa
Social Housing Letting Interest Coverage	10%	1.1x	baa
Cash-Flow Volatility Interest Coverage	10%	1.1x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.4x	ba
Debt to Assets	10%	35.9%	baa
Liquidity Coverage	10%	1.5x	a
Factor 5: Management and Governance			
Financial Management	10%	ba	ba
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**baa1**
Assigned BCA			**baa1**

Please note that the fiscal 2024 social housing lettings interest coverage and cash flow volatility interest coverage metrics include a one-off £4.5m of swap breakage fees. Excluding swap breakage fees would make these metrics 1.2x and 1.2x respectively.

Source: Moat Homes, Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
MOAT HOMES	
Outlook	Stable
Baseline Credit Assessment	baa1
Issuer Rating -Dom Curr	A3
MOAT HOMES FINANCE PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3

Source: Moody's Ratings

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EMEA	44-20-7772-5454