MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes Walsall Housing Group Ltd's outlook to positive from stable, affirms A3 ratings

17 Feb 2022

London, 17 February 2022 -- Moody's Investors Service ("Moody's") has today affirmed the A3 long-term issuer rating of Walsall Housing Group Ltd (whg or the group) and the A3 senior secured debt rating of WHG Treasury plc. Moody's also affirmed the Baseline Credit Assessment (BCA) of whg at baa1. Both entities' outlooks were changed to positive from stable.

RATINGS RATIONALE

RATIONALE FOR CHANGING THE OUTLOOK

Whg's outlook change to positive from stable reflects Moody's expectations that whg's marked improvement of balance sheet strength will continue, while maintaining interest coverage ratios at a level stronger than its peers. We expect that whg will further reduce leverage, with gearing (debt to assets at cost) expected to align with rated peers over the next three years, stabilising at 52%. Whg's strong cash generation from operations combined with its ability to secure grants limited its borrowing needs, resulting in a faster improvement of gearing than we expected to 56% in fiscal 2021 from 79% in fiscal 2017.

Moody's also notes the group's strengthened policies and procedures relating to financial management and a continued focus on low-risk social housing lettings. Whg caps its sales income at 20% of turnover, net of sales, a level we deem as moderate.

RATIONALE FOR AFFIRMING THE BCA AND THE FINAL RATINGS

The affirmation of the A3 issuer rating reflects the entity's solid operating performance, with the operating margin expected to strengthen to around 30% over the next three years, underpinned by whg's commitment to deliver savings, as well as an anticipated increase in turnover, supported by the positive rent settlement policy and the entity's growth. As of December 2021, whg is on track to outperform its saving target for the second year in a row, further strengthening its operating margin.

The continued focus on low-risk activities combined with the strong management of spending, underpins whg's stronger than peers' interest coverage. Whg's cash flow volatility interest coverage (CVIC) consistently remained above rated peers, as exemplified in fiscal 2021, when the group's metric reached 2.2x, compared to the A3 rated peer median of 1.7x. The rating is further supported by the robust regulatory framework governing English social housing providers.

The A3 debt rating of WHG Treasury plc reflects whg's issuer rating, including its simple debt structure and solid liquidity profile. Whg is expected to retain comfortable liquidity over the next two years with immediately available facilities covering 1.6x net cash needs as of fiscal 2021.

As per the application of Moody's Joint Default Analysis for Government-Related Issuers, whg's Baseline Credit Assessment is baa1. The final rating of A3 incorporates the one-notch uplift provided by Moody's assessment of a strong likelihood of support from the United Kingdom, Government of (Aa3 stable) in the event that whg were to experience liquidity distress.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Environmental considerations are material to whg's credit profile. 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. Moody's expects this to require material levels of capital expenditure - which would either divert cash flows away from development programmes or increase debt levels. Whg has included achieving EPC C for all its properties by 2030 in its combined business plan.

Social risks are material to whg'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 Moody's assessment of the operating environment.

Governance considerations are also material to whg's credit profile. Moody's raised the score for financial management, one of two key governance considerations, reflecting whg's stable strategy with moderate development targets and well-defined risk appetite underpinned by established golden rules to limit exposure to risks and to maintain the entity's financial resilience.

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

Positive pressure on the ratings could result from a marked improvement in debt metrics with gearing sustained at levels below 55% and debt to revenues around 3.5x, with maintained good operating performance despite meeting the nationwide retrofitting ambitions.

A downgrade is unlikely given the positive outlook. However, we could stabilize the outlook from one or a combination of the following: (1) a weakening in financial performance metrics, including interest coverage ratios at levels close to or below 1x, (2) a ramp-up in risk appetite, including higher exposure to market sales than the moderate level currently projected (3) an increase in indebtedness, including gearing sustained at levels above 60%. In addition, a weaker regulatory framework or dilution of overall support from the UK government for the sector could also exert negative pressure on the ratings.

The methodologies used in these ratings were European Social Housing Providers published in April 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1113602 , and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

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

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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