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CREDIT OPINION

27 January 2025

Update

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RATINGS

Walsall Housing Group Ltd

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

Maylis Chapellier +44.20.7772.1429
AVP-Analyst
maylis.chapellier@moodys.com

Sinan Li +44.20.7772.8652
Ratings Associate
sinan.li@moodys.com

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

CLIENT SERVICES

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

Walsall Housing Group Ltd (UK)

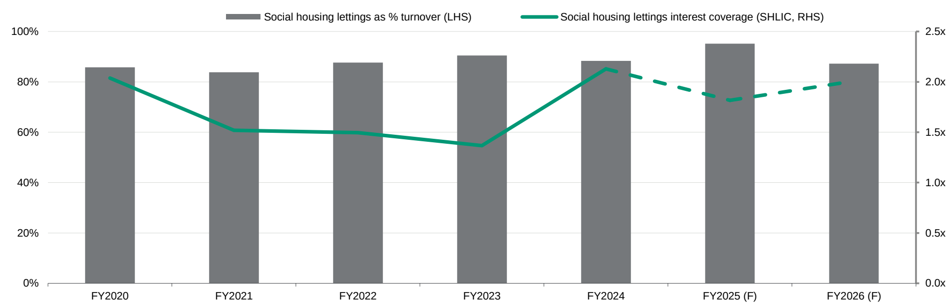
Update to credit analysis

Summary

The credit profile of Walsall Housing Group Ltd (whg, A2 stable) reflects its low-risk business model focused on social housing lettings and strong operating performance, as well as its moderate development ambitions and the high investment required to improve the energy efficiency of its stock. The sector benefits from the strong regulatory framework governing English housing associations and our assessment of 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

Social housing lettings (SHL) remain high as a proportion of revenues, which underpins the strong social housing lettings interest coverage (SHLIC)



F: Forecast.
Source: whg and Moody's Ratings

Credit Strengths

» Solid operating performance and strong interest coverage ratios

» Strong financial management and sustained concentration on low-risk SHL

» Supportive institutional framework in England

Credit Challenges

» Increased capital spending due to moderate development ambitions and required investment in stock

» Increasing debt burden, mitigated by substantial liquidity

Rating Outlook

The stable outlook reflects Moody's expectation that whg will maintain stable debt ratios whilst meeting its retrofitting requirement.

Factors that Could Lead to an Upgrade

Upward pressure on the ratings could result from a marked improvement in debt metrics, coupled with a maintained good operating performance, even while meeting the nationwide retrofitting ambitions.

Factors that Could Lead to a Downgrade

Downward pressure on the ratings could result from a weakening in financial performance metrics, including interest coverage ratios at levels close to or below 1x, a ramp-up in risk appetite, including a higher exposure to market sales than the moderate level currently projected, or an increase in indebtedness, including gearing sustained at levels above 60%. 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

Walsall Housing Group

	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.)	21,364	21,619	21,933	22,076	22,501	23,007	23,520
Operating margin, before interest (%)	25.5	27.4	26.6	24.1	25.2	23.1	26.5
Net capital expenditure as % turnover	34.1	15.5	6.9	27.1	35.9	38.9	28.7
Social housing letting interest coverage (x times)	2.0	1.5	1.5	1.4	2.1	1.8	2.0
Cash flow volatility interest coverage (x times)	2.1	2.0	2.1	2.7	3.7	2.3	3.0
Debt to revenues (x times)	3.9	3.2	3.8	3.3	2.9	3.1	3.0
Debt to assets at cost (%)	61.7	55.2	49.2	45.7	48.6	51.4	51.6

F: Forecast.
Source: whg, Moody's Ratings

Detailed Credit Considerations

The credit profile of whg, 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

Solid operating performance and strong interest coverage ratios

Whg's operating margin is expected to average at 25% of turnover over the next three years, in line with the median of 25% for A2-rated peers. Whg continues to look for efficiencies to maintain its margin. However, the HA decided to maintain its investment in its repairs team given the sustained high volume of jobs, which will drive costs upwards and limit the margin improvement.

Whg's operating margin stood at 25% in fiscal 2024 (slightly above the A2-rated peer median of 24%) a small increase from 24% the year before mainly thanks to the rent increase and efficiency savings, despite continued pressures on repairs and maintenance.

Whg's solid interest cover metrics will remain above A2-rated peers. SHLIC continued to perform strongly at 2.1x in fiscal 2024, above the A2-rated peer median at 1.6x. We expect this metric to average 1.9x over the next three years, outperforming peers thanks to whg's lower interest charges, following refinancing exercises.

Whg's cash flow volatility interest cover (CVIC) is expected to remain strong, averaging 2.6x over the next three years relative to the A2-rated peer median of 2.3x, reflecting its stable operating cash flows (CFO) derived from low-risk social housing lettings (SHL) activities.

Strong financial management and sustained concentration on low-risk SHL

Whg continues to focus on its core business of managing and delivering social and affordable housing. SHL constituted 88% of turnover in fiscal 2024, compared to the A2-rated peer median of 84%.

The strong focus on SHL means that whg is less exposed to more volatile and often less profitable revenue streams such as market sales. Market sales (first-tranche shared ownership and outright sales) will only account for 7% of turnover over the next three years, below the 9% recorded in fiscal 2024. Including the HA's joint venture and associated outright sales activities, the exposure would be higher, 16% of turnover in fiscal 2024, averaging 9% over the next three years. This remains a moderate exposure.

In order to ensure it has sufficient financial resilience, whg established 9 financial Golden Rules. These rules are broader and tend to be more stringent when compared to peers and include: 1) a minimum level of 130% on its interest cover covenant with a trigger at 135% (headroom and trigger we deem as tight), 2) a minimum of £20 million of liquidity held with a trigger at £30 million, 3) headroom of unencumbered assets at 10% of charged security with a trigger of 15%, 4) liquidity to meet net capital commitments (excluding sales proceeds) and debt repayments over the next 18 months, with a review at 24 months, 5) sales turnover capped at 20% of turnover net of sales with a trigger of 15%, 6) open market sales capped at £20 million with a trigger at £17.5 million, 7) net development costs capped at 75% of turnover with a 70% trigger, 8) a rule to maintain gearing at 60% with a trigger at 55% (headroom we deem as tight, trigger as sufficient) and 9) to maintain SHLIC at 1.5x with a trigger at 1.6x.

Whg's management put in place multivariate stress testing to provide assurance of financial viability under a range of adverse scenarios, as well as tolerance testing, which assesses to what extent a variable can change before it causes a covenant breach.

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 regular programmed inspections for HAs with more than 1,000 units. The regulator has a strong track record of intervention in cases of mismanagement or financial stress.

The operating environment for English housing associations remains supportive. Demand for social housing is very high and English housing associations retain some expenditure flexibility, with a track record of controlling costs to mitigate lower income. The UK government confirmed that for fiscal 2026, rent increases within the English sector will be pegged at the September Consumer Price Index (CPI) plus 1%. A consultation is currently ongoing to extend the policy to fiscal 2031, which would provide more certainty to the sector.

Increased capital spending due to moderate development ambitions and required investment in stock

Whg's net capital expenditure (capex) will average 30% of turnover over the next three years from 36% in fiscal 2024, a slight decrease as gross capex is maintained but CFO increases.

Whg plans to build 1,916 units over the next five years (9% of its current units), plus 40 outright sale units through a joint venture. The developed units will mostly be SHL, with only 492 shared ownership units and 33 units for in-house outright sales.

In addition to development, whg is increasing capex to retrofit its social housing units to EPC-C. Retrofitting costs will represent £92 million over fiscal 2025-29. The HA has a relatively low percentage of units at EPC-C or above (67%) compared to peers (rated median of 78%), but just above the sector average (66%). However, the business plan continues to demonstrate capacity to fund retrofitting.

Increasing debt burden, mitigated by substantial liquidity

Whg's debt will increase to £512 million in fiscal 2027, compared to £395 million in fiscal 2024, to fund development and retrofitting projects. However, whg's strategic decision to maintain stringent controls on development approvals may result in slower debt growth, a credit positive.

Gearing will slightly increase to 51% in fiscal 2027, from 49% in fiscal 2024. Whg strengthened its balance sheet over the past five years, with gearing now in line with A2 rated peers in fiscal 2024. Debt to revenues is expected to remain lower than peers, despite the debt increase.

Whg reports a simple debt structure with immediate low risk as all drawn debts are at fixed rates and to be repaid after five years. Besides, whg reports sufficient covenant headroom.

As of September 2024, whg has immediately available liquidity sufficient to cover 2.3x of its two year cash needs. Whg's unencumbered assets position is also strong with £388 million of additional borrowing capacity as of September 2024, which compares positively with its net funding needs. Whg continues to improve its unencumbered asset position by switching to MVS-TT (Market Value Subject to Tenancy) valuation.

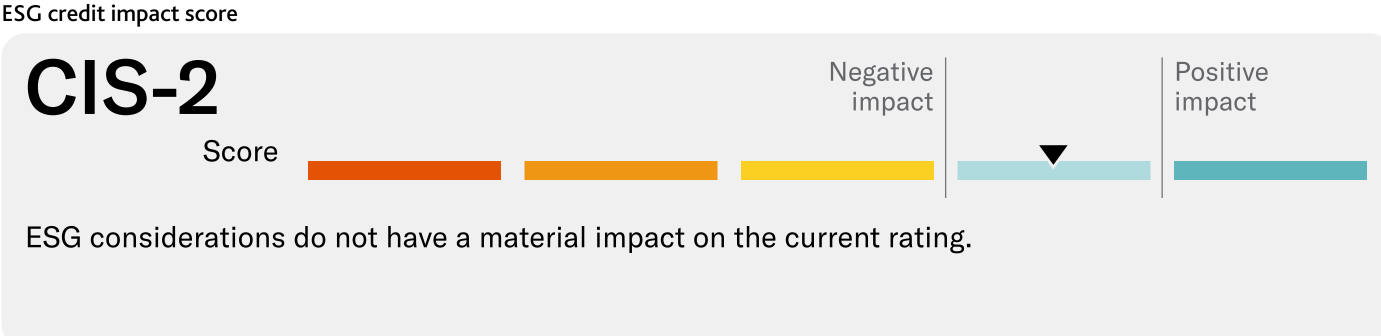
Extraordinary Support Considerations

The strong level of extraordinary support factored into the rating reflects the wide-ranging powers available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. However, the process can be protracted and is reliant on HAs agreeing to merge, which could be more challenging in a weakening operating environment. Recent history has shown that the UK government 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 whg and the UK government reflects their strong financial and operational linkages.

ESG considerations

Walsall Housing Group Ltd's ESG credit impact score is CIS-2

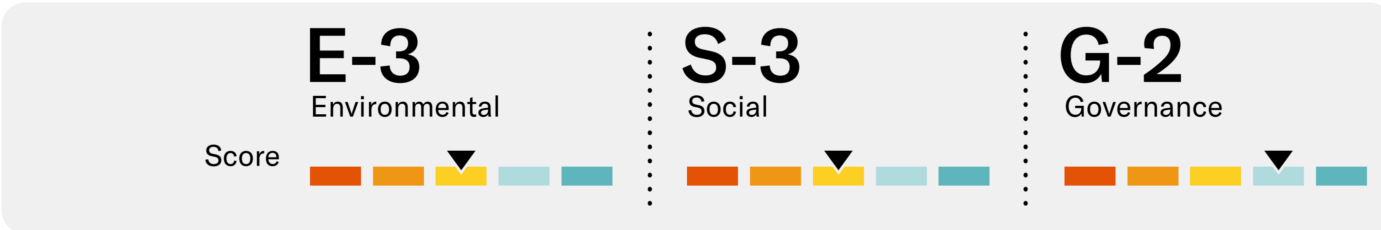
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Whg's **CIS-2** indicates that ESG risks have a limited impact on its rating. Although carbon transition risks and social risks are prevalent we consider that whg has the ability to effectively mitigate them through its strong governance and management practices. We also consider that the supportive regulatory framework for the sector offsets some ESG risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Whg has a material exposure to environmental risks (**E-3**) relating to a significant proportion of its stock requiring retrofit to meet energy efficiency standards by 2030 (carbon transition risks), leading to increased expenditure.

Social

Whg has a material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety and quality of existing stock (responsible production risks) and the vulnerability of the sector to tenant affordability considerations through the government's social rent policy. Those risks can materialise in the form of reduced operating margin and interest cover metrics.

Governance

Whg 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 Methodologies and Scorecard Factors

The assigned BCA of a3 is one notch below the scorecard-indicated BCA of a2 in fiscal 2024.

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

Exhibit 5

Fiscal 2024

Walsall Housing Group			
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%	22,501	a
Factor 3: Financial Performance			
Operating Margin	5%	25.2%	a
Social Housing Letting Interest Coverage	10%	2.1x	aa
Cash-Flow Volatility Interest Coverage	10%	3.7x	aa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	2.9x	a
Debt to Assets	10%	48.6%	ba
Liquidity Coverage	10%	2.3x	aa
Factor 5: Management and Governance			
Financial Management	10%	a	a
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**a2**
Assigned BCA			**a3**

Source: whg, Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
WALSALL HOUSING GROUP LTD	
Outlook	Stable
Baseline Credit Assessment	a3
Issuer Rating -Dom Curr	A2
WHG TREASURY PLC	
Outlook	Stable
Senior Secured -Dom Curr	A2

Source: Moody's Ratings

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