

Research Update:

U.K.-Based Social Housing Provider Bromford Flagship Ltd. 'A+' Rating Affirmed; Outlook Stable

March 4, 2025

Overview

- On Feb. 28, 2025, U.K.-based social housing providers Bromford Housing Group Ltd. (Bromford) and Flagship Housing Group Ltd. (Flagship) merged to form Bromford Flagship Ltd., with Flagship becoming an operating subsidiary.
- We believe that short-term pressures arising from integration costs will be mitigated by prudent cost controls and merger synergies.
- We expect that Bromford Flagship will maintain an ambitious development program and high levels of stock investment, although the effect on the debt metrics will be relatively contained.
- We therefore affirmed our 'A+' long-term issuer credit rating on Bromford Flagship and maintained the stable outlook.

Rating Action

On March 4, 2025, S&P Global Ratings affirmed the 'A+' long-term issuer credit rating on Bromford Flagship Ltd. The outlook is stable.

We also affirmed our 'A+' long-term issue ratings on Bromford Flagship's senior secured bonds.

Outlook

The stable outlook reflects our view that near-term pressures on Bromford Flagship's financial indicators due to the merger and related integration costs will be balanced by the group's continued focus on containing costs and prudently managing investments in existing and new homes. This underpins our view that financial metrics will gradually recover through the base-case period closer to Bromford's metrics pre-merger.

Downside scenario

We could lower the rating if the group's management were unable to navigate the merger

PRIMARY CREDIT ANALYST

Matthew R Hyde
London
+44 20 71760456
m.hyde
@spglobal.com

SECONDARY CONTACTS

Mahek Bhojani
London
+44 2071760846
mahek.bhojani
@spglobal.com

Karin Erlander
London
+ 44 20 7176 3584
karin.erlander
@spglobal.com

ADDITIONAL CONTACT

Sovereign and IPF EMEA
SOVIPF
@spglobal.com

integration process as we currently expect, with lower risk thresholds and a failure to control costs. Under this scenario we would expect a material deterioration of the credit metrics.

Upside scenario

An upgrade would depend on Bromford Flagship's financial performance materially strengthening, for instance because of cost synergies beyond our current expectations. Under this scenario, we would also expect the group's debt metrics to structurally improve.

Rationale

We affirmed the rating on Bromford Flagship because we assess that, despite short-term pressures from the integration of Flagship, the group's credit metrics will remain resilient because of controlled costs and potential synergies. We understand that both Bromford and Flagship elected to merge to increase operational and financial capacity, which we believe will result in sustained growth through higher development output. We further expect the group's recovery will be supported by rental increases exceeding inflation, while demand for repairs and maintenance is expected to ease. We view positively that the group's strategy remains consistent, with limited sales exposure and a focus on countercyclical social rent. We continue to assess the group's liquidity as very strong.

Enterprise profile: A consistent strategy, focused on social development and with low sales exposure, should contribute to stable operational metrics

The newly combined group now owns and manages over 80,000 units across the Southwest, Midlands, and East of England. Bromford Flagship benefits from a focus on core social housing revenue that is both countercyclical and predictable. Despite operating in slightly different regions, the operating metrics suggest strong demand for the group's properties. The combined group's average rent for general needs properties is just below 60% of the prevailing market rent when weighted for the region of operations. Similarly, the group's vacancy rate is 1.3% of rent and service charge receivables, which we consider to be on par with the sector average.

Although Flagship has had a slightly higher exposure to open market activities than Bromford, we think that Bromford Flagship will remain committed to developing socially rented housing units. We therefore expect that the sales exposure will remain contained at around 15% of adjusted revenue on average, with the bulk of the sales coming from shared-ownership first-tranche transactions.

We continue to assess the group's management and governance as strong, evidenced by a consistency of strategy following the merger. We expect that Bromford Flagship will remain focused on growth of its core activities, with a particular emphasis on socially rented properties. We believe that the group's track record of delivering on cost-savings programs will contribute to a recovery in financials. We further consider that the newly selected executive team being comprised of members from both Bromford and Flagship will lend to a stable transition.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published Oct. 23, 2023).

Financial profile: Cost controls and potential synergies from the merger should deliver more resilient financial metrics

We expect an initial weakening in the group's adjusted EBITDA metrics following the merger when compared to Bromford on a standalone basis. However, we expect that Bromford Flagship will continue to implement cost-control programs that will deliver a recovery in the adjusted EBITDA margins closer to Bromford's credit metrics pre-merger. We further consider that the merger is likely to generate some operational synergies, which would support our assessment of a recovery. We expect that rents exceeding inflation on a sustained basis will also lend to stronger adjusted EBITDA performance.

Despite an initial weakening in adjusted EBITDA, we expect that the debt metrics will remain resilient owing to the combined group's low cost of debt and minimal exposure to volatile floating rate interest. We expect that Bromford Flagship will remain committed to an ambitious development pipeline. However, we think the available grant and subsequent EBITDA generation of the new units will contain the impact on the group's debt metrics.

We assess Bromford Flagship's liquidity as very strong, driven by high levels of cash and a large amount of undrawn facilities following the merger. We estimate sources will cover uses by about 2x over the next 12 months. This is based on our forecast of liquidity sources of about £1.350 billion (mainly comprising cash and undrawn available facilities, grant receipts, proceeds from fixed asset sales, and cash from operations after adding back the noncash cost of sales) compared with liquidity uses of about £690 million (primarily capital expenditure, interest, and principal repayments). We continue to view Bromford Flagship's access to external liquidity as satisfactory.

Government-related entity analysis

We think there is a moderately high likelihood that Bromford Flagship would receive timely and sufficient extraordinary support from the U.K. government in case of financial distress. This is neutral to the rating, which is at the same level as the stand-alone credit profile. One of the key goals of the Regulator of Social Housing (RSH) is to maintain lender confidence and low funding costs across the sector. As such, we believe it is likely that the RSH would step in to try and prevent a default in the sector. We base this view on previous instances of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to Bromford Flagship.

Selected Indicators

Table 1

Bromford Flagship Ltd.--Financial statistics

Mil. £	--Year ends March 31--				
	2023a	2024a	2025bc	2026bc	2027bc
Number of units owned or managed	79,158	80,676	81,792	83,119	84,432
Adjusted operating revenue	533.0	559.5	590.5	623.2	695.1
Adjusted EBITDA	133.5	149.0	160.4	180.1	211.8
Nonsales adjusted EBITDA	108.2	131.8	146.6	164.0	185.7

Table 1

Bromford Flagship Ltd.--Financial statistics (cont.)

Mil. £	--Year ends March 31--				
	2023a	2024a	2025bc	2026bc	2027bc
Capital expense	342.9	370.6	463.2	520.8	555.8
Debt	2,347.6	2,492.5	2,711.6	2,866.4	3,073.6
Interest expense	79.9	86.8	103.2	119.8	123.6
Adjusted EBITDA/Adjusted operating revenue (%)	25.0	26.6	27.2	28.9	30.5
Debt/Nonsales adjusted EBITDA (x)	21.7	18.9	18.5	17.5	16.6
Nonsales adjusted EBITDA/interest coverage(x)	1.4	1.5	1.4	1.4	1.5

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Ratings Score Snapshot

Table 2

Bromford Flagship Ltd.--Ratings score snapshot

	Assessment
Enterprise risk profile	2
Industry risk	2
Regulatory framework	3
Market dependencies	2
Management and governance	2
Financial risk profile	3
Financial performance	3
Debt profile	4
Liquidity	2
Stand-alone credit profile	a+
Issuer credit rating	A+

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Non-U.S. Social Housing Sector Outlook 2025: Quality Maintenance Constrains Recovery, Jan. 14, 2025
- The Autumn Budget Kicks Off A Funding Regime Revision For U.K. Public Sector Entities, Nov. 5, 2024
- U.K. Social Housing Providers' Financial Capacity Shrinks On Investment Needs, Nov. 4, 2024
- Non-U.S. Social Housing Providers Ratings Risk Indicators: Ratings Pressure Has Eased, Oct. 31, 2024
- Non-U.S. Social Housing Providers Ratings History: October 2024, Oct. 31, 2024
- Cyber Risk Brief: U.K. Public Sector Is Increasingly Under Threat, Oct. 24, 2024
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 18, 2024
- European Housing Markets: Better Days Ahead, July 17, 2024
- U.K. Social Housing Borrowing 2024: Borrowing capacity remains constrained, March 6, 2024
- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023

Ratings List

Ratings Affirmed

Bromford Flagship Ltd.

Issuer Credit Rating A+/Stable/--

Senior Secured A+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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