MOODY'S RATINGS

CREDIT OPINION
10 December 2024

Update

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RATINGS

Grand Union Housing Group

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.

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Grand Union Housing Group (UK)

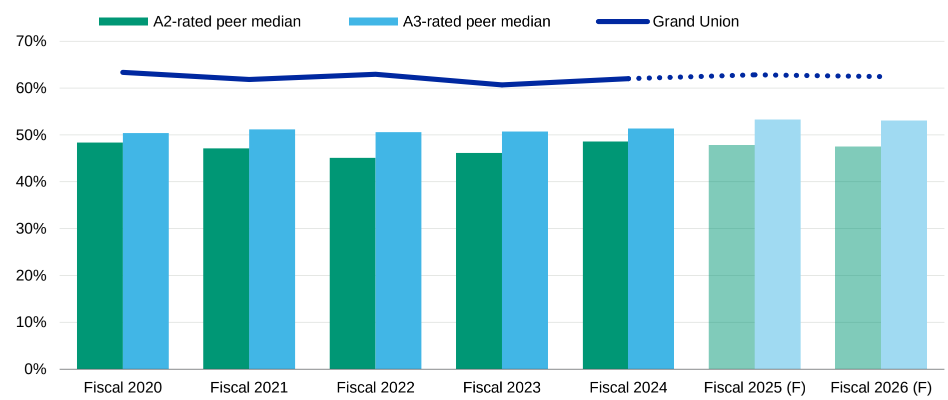
Update following rating affirmation

Summary

The credit profile of Grand Union Housing Group (Grand Union, A3 stable) reflects its decent interest coverage ratios and operating margins, as well as high gearing. Grand Union benefits from the strong regulatory framework governing English housing associations and our assessment that there is a strong likelihood that the government of the United Kingdom (UK, Aa3 stable) would intervene in a timely manner to prevent a default.

Exhibit 1

Grand Union's gearing is weak relative to peers



Note: Fiscals 2025 and 2026 are forecasted numbers.
Source: Grand Union, Moody's Ratings

Credit strengths

» Decent interest coverage and operating margins

» Supportive institutional framework in England

Credit challenges

» High gearing relative to peers, but low treasury risks

» Significant development programme and market sales exposure

Rating outlook

The stable outlook reflects our expectation that Grand Union's operating performance will improve due to better macro-economic conditions, counterbalanced by continued development and increasing debt levels.

Factors that could lead to an upgrade

Upward pressure on the ratings could result from a significant improvement in operating performance, a material reduction in debt or higher government support for the sector.

Factors that could lead to a downgrade

Downward pressure on the ratings could result from a prolonged weakening in operating performance, debt growing more quickly than forecasts, or weaker liquidity. Lower government support for the sector or a dilution of the regulatory framework could also lead to downward pressure on the ratings.

Key Indicators

Exhibit 2
Grand Union Housing Group

Grand Union 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.)	12,182	12,250	12,410	12,699	13,028	13,159	13,467
Operating margin, before interest (%)	29.6	27.7	26.6	25.7	23.4	25.6	26.5
Net capital expenditure as % turnover	25.6	29.6	42.7	20.0	60.5	47.0	39.0
Social housing letting interest coverage (x times)	1.3	1.3	1.0	1.3	1.1	1.0	1.0
Cash flow volatility interest coverage (x times)	1.5	1.7	1.7	2.3	1.9	1.8	1.8
Debt to revenues (x times)	4.2	4.1	3.9	3.8	4.2	4.1	4.1
Debt to assets at cost (%)	63.4	61.8	62.9	60.7	62.0	62.8	62.5

Source: Grand Union, Moody's Ratings

Detailed credit considerations

On 28 November 2024, we affirmed Grand Union's BCA of baa2 and issuer and senior secured ratings of A3 in advance of its planned merger with Longhurst Group (A3 stable) in December 2024. On the merger date, Longhurst and its subsidiaries will transfer into Grand Union.

Baseline Credit Assessment

Decent interest coverage and operating margins

Although Grand Union's operating margin has declined significantly since fiscal 2020 - from 30% to 23% in fiscal 2024, it remains above the A3 peer median of 21%. Grand Union benefits from having mostly low-rise properties which have required limited costly fire safety remediation works, but has been subject to rising demand for responsive repairs as well as increased expenditure on building quality, similarly to the sector as a whole. In addition, its market sale development - primarily shared ownership - has performed well, with margins of around 25% over many years. We expect its operating performance to recover slowly over the medium term, as social rents returned to being inflation-linked in fiscal 2025, and cost inflation has decreased.

At the same time, Grand Union's social housing lettings interest coverage (SHLIC) has weakened from around 1.3x in fiscal 2020 to 1.1x in fiscal 2024, but remains in line with the A3 peer median. As above, this reflects weakened profitability on social housing lettings - the operating margin on these properties has declined from 29% in fiscal 2020 to 23% in fiscal 2024. We expect SHLIC to remain around 1.0x over the medium term, as Grand Union's debt balance will increase to fund its sizeable development programme.

Supportive institutional framework in England

The sector's credit quality will continue to benefit 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 at least fiscal 2031, which would provide more certainty to the sector.

High gearing relative to peers, but low treasury risks

Grand Union has one of the highest gearing levels among rated peers, due to its origin as a Large Scale Voluntary Transfer (LSVT). Its debt to assets metric was 62% in fiscal 2024, compared to the A3 peer median of 51%. However, its debt to revenue metric is similar to the A3 peer median at 4.2x in fiscal 2024.

However, treasury risks are low - 84% of drawn debt is at fixed rates, it has low refinancing risk with around 20% of its drawn debt falling due over the next five years, and its covenant headroom is good - at around 120 basis points above its interest cover covenant (based on EBITDA) as of June 2024.

Grand Union benefits from ample liquidity, as evidenced by its commitment to maintain 21 months of liquidity in line with its liquidity policy. Liquidity coverage was 1.3x (equivalent to around 36 months of net capital expenditure needs) at FYE 2024. Liquidity consists of £118 million of unsecured undrawn facilities available at short notice and £7 million of cash and cash equivalents. It has considerable levels of unencumbered assets, with a stock value of over £500 million in June 2024.

Significant development programme and market sales exposure

Grand Union is planning to build 1,550 units over the next five years, or around 300 units per year, which is consistent with last year's business plan. The development programme is mostly affordable and social rent (53%), shared ownership (36%) and supported housing (6%), with only a very small amount of outright sales. As noted above, its performance on shared ownership has been strong on a consistent basis over the past 5 years and we expect this to continue. Total market sales revenue as a proportion of turnover is expected to be around 13% over the next three years which is around the same as the A3 peer median.

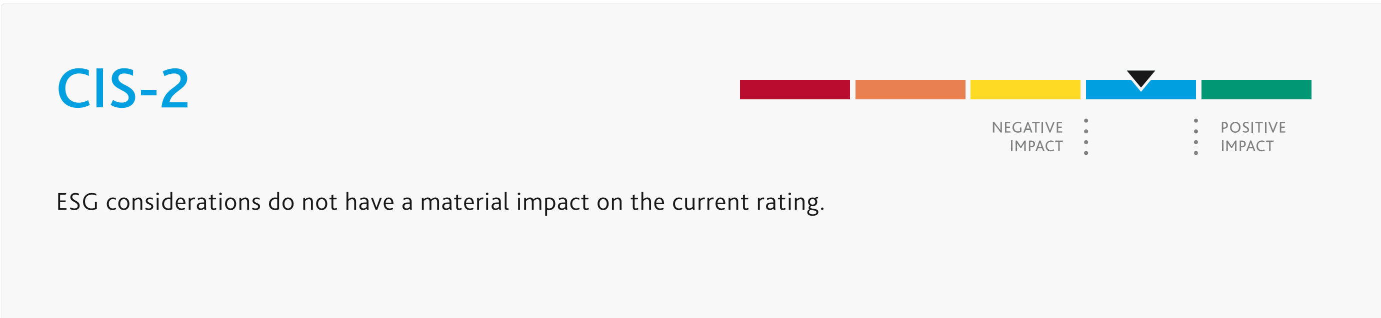
Extraordinary Support Considerations

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 housing associations 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. In addition, our assessment that there is a very high default dependence between Grand Union and the UK government reflects their strong financial and operational linkages.

ESG considerations

Grand Union Housing Group's ESG credit impact score is CIS-2

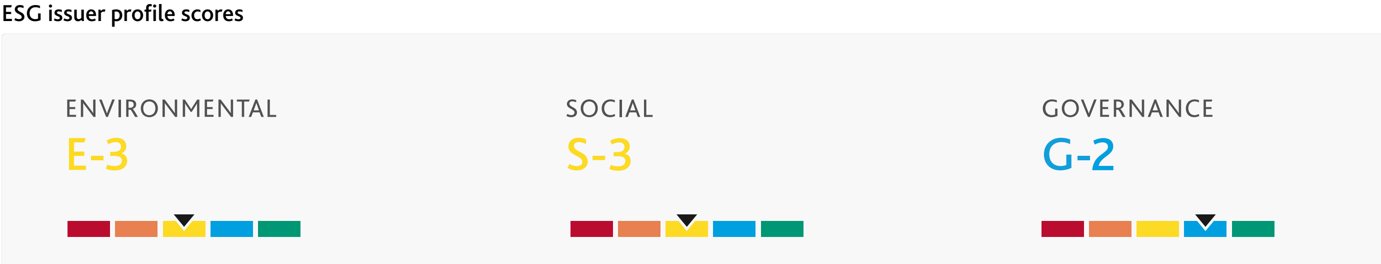
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Grand Union's **CIS-2** indicates that ESG risks have a limited impact on its rating. Although environmental and social risks are prevalent we consider that Grand Union 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

Grand Union 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 2035 (carbon transition risks), leading to increased expenditure.

Social

Grand Union has a material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety of existing housing stock (responsible production risks), which weighs on expenditure and operating margins, and the impacts of 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 will also have a negative impact on margins.

Governance

Grand Union 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 Methodology and Scorecard Factors

The assigned BCA of baa2 is in line with the scorecard-indicated BCA. 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
Fiscal 2024 scorecard

Grand Union 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%	13,028	baa
Factor 3: Financial Performance			
Operating Margin	5%	23.4%	baa
Social Housing Letting Interest Coverage	10%	1.1x	baa
Cash-Flow Volatility Interest Coverage	10%	1.9x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.2x	ba
Debt to Assets	10%	62.0%	b
Liquidity Coverage	10%	1.3x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**baa2**
Assigned BCA			**baa2**

Source: Moody's Ratings, Grand Union Housing Group

Ratings

Exhibit 6

Category	Moody's Rating
GRAND UNION HOUSING GROUP	
Outlook	Stable
Baseline Credit Assessment	baa2
Issuer Rating -Dom Curr	A3
GRAND UNION GROUP FUNDING PLC.	
Outlook	Stable
Senior Secured -Dom Curr	A3

Source: Moody's Ratings

REPORT NUMBER 1427504

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EMEA	44-20-7772-5454