CREDIT OPINION
31 October 2024

Update

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RATINGS

Alliance Homes Group

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.

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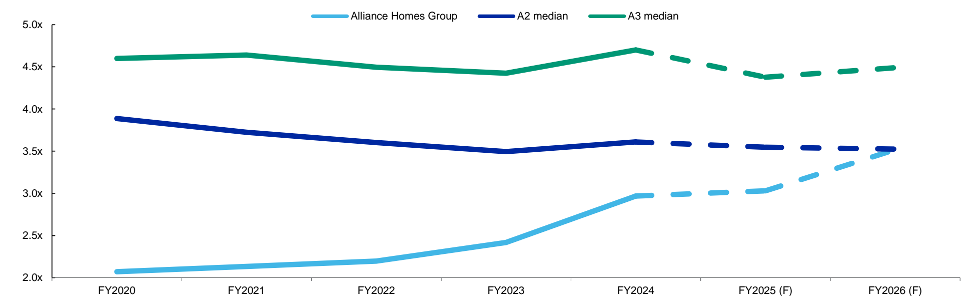
Alliance Homes Group (UK)

Update to credit analysis

Summary

The credit profile of Alliance Homes Group (Alliance, A2 stable) is supported by its focus on social housing lettings, solid liquidity and robust debt management practices. It also reflects its ambitious development plan, which will lead to deteriorating debt and interest cover metrics. Alliance benefits from the strong regulatory framework governing the English housing association sector and our assessment that there is a strong likelihood the government of the UK (Aa3 stable) would intervene in a timely manner to prevent a default.

Exhibit 1
Debt metrics will weaken due to its ambitious development plans
Debt to Revenue (x)



Source: Alliance and Moody's Ratings

Credit strengths

- » Focus on low-risk social housing lettings
- » Solid liquidity with limited treasury risks
- » Supportive institutional framework in England

Credit challenges

- » Ambitious development plan will weaken debt metrics
- » Weaker operating performance than peers

Rating outlook

The stable outlook reflects our expectation that the gradual reduction in inflation and return to inflation-linked rents will support an improvement in Alliance's operating margin and interest cover ratios.

Factors that could lead to an upgrade

Upward pressure on Alliance's rating could result from a significant improvement in operating performance, a material reduction in debt or a significant increase in government support for the sector, especially significantly higher levels of capital grants.

Factors that could lead to a downgrade

Downward pressure on Alliance's rating could result from an increase in debt and interest cover metrics to levels that would no longer be consistent with A2-rated peers. A delayed recovery in operating margin would also put downward pressure on the ratings as would lower government support for the sector or a dilution of the regulatory framework.

Key indicators

Exhibit 2

Alliance Homes 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.)	6,662	6,689	6,915	7,065	7,223	7,395	7,603
Operating margin, before interest (%)	21.5	23.0	21.9	17.6	19.0	21.7	23.6
Net capital expenditure as % turnover	21.0	(2.8)	64.5	47.1	72.5	50.2	47.6
Social housing letting interest coverage (x times)	2.4	2.6	2.4	1.5	1.4	1.8	1.9
Cash flow volatility interest coverage (x times)	4.9	5.3	3.6	4.3	2.5	2.7	2.3
Debt to revenues (x times)	2.1	2.1	2.2	2.4	3.0	3.0	3.5
Debt to assets at cost (%)	40.1	38.2	43.7	46.4	51.3	52.8	54.2

In FY2024, SHLIC and operating margin were affected by a pension exit cost of £0.5 million. Excluding this one-off cost, SHLIC would have been 1.5x and operating margin 20%.
Source: Alliance and Moody's Ratings

Detailed credit considerations

Alliance's A2 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.

Focus on low-risk social housing lettings

Alliance is a small housing association managing around 7,200 units in the West of England. The group has a simple structure comprising the parent entity, a subsidiary providing repairs and maintenance services and a subsidiary managing a solar panel business.

Its focus on low-risk social housing lettings, which accounted for 78% of turnover in fiscal 2024, provides stable and reliable cash flows. This underpins its stronger cashflow volatily interest coverage (CVIC) than peers at 2.5x in fiscal 2024. Market sales account for 8% of turnover in fiscal 2024 and comprise only first-tranche shared ownership, which we consider to be less risky than outright sales due to their relative affordability. Alliance will maintain a moderate exposure to sales with around 30% of its planned development over the next five years for shared ownership. We note that sales have performed well historically with margins of over 30% and the number of unsold units remains low.

Solid liquidity with limited treasury risks

Alliance has strong liquidity and a substantial unencumbered asset base that support additional borrowing capacity of around £250 million as of September 2024, comfortably covering its funding needs for the next five years. It maintains significant liquidity above its golden rule of having at least 18 months of net cashflow requirement. As of end-September 2024, it had sufficient liquidity to cover 1.7x its net cash needs for the next two years, supported by £35 million of cash and cash equivalents and £75 million in undrawn revolving credit facilities.

Its debt structure is simple and refinancing risks are limited with less than 10% of its debt due to mature in the next five years. Alliance has significantly decreased its exposure to interest rate risks with 11% of its debt at variable rates as of September 2024 down from 30% in fiscal 2022 after it gradually refinanced its RCF with a private placement issued in 2022.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Alliance has tight headroom of 0.4x above its EBITDA-MRI covenant of 1.1x as of fiscal 2024. Alliance is planning to renegotiate all interest cover covenants to be calculated on an EBITDA only basis.

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 out to fiscal 2031, which would provide more certainty to the sector.

Ambitious development plans will weaken debt metrics

Alliance has stronger debt-to-revenue than peers at 3.0x in fiscal 2024 compared to 3.5x for the median of A2-rated HAs. Its gearing is slightly weaker at 51% compared to 48% for A2 peers, which in part reflects its history as a large scale voluntary transfer (LSVT).

However, its ambitious development targets will lead to a deterioration in debt metrics. Alliance plans to deliver an average of 180 units annually over the next five years or around 12% of its current stock. It will maintain a strong focus on social housing with 68% of units developed for social and affordable rent. Debt will almost double over that period, reaching £290 million in fiscal 2029 from £160 million in fiscal 2024 such that Alliance will have weaker debt metrics than peers from fiscal 2026. We expect gearing to rise to 54% by fiscal 2029 (A2 peer median: 46%) and debt-to-revenue to 4.0x (A2 peer median: 3.4x).

Weaker operating performance than peers

Alliance's operating margin is weaker than rating peers at 19% in fiscal 2024 compared to a median of 23% for A2-rated HAs. The margin was affected by a £0.5 million payment to exit the local government pension scheme. Excluding this one-off cost, its operating margin would have been 20%. The weaker margins reflect its relatively old stock with higher maintenance costs. Operating margins have weakened in line with the rest of the sector due to inflationary pressures, a higher volume of repairs and maintenance as well as government interventions on rent increases.

We forecast the operating margin to gradually converge towards the median of A2-rated peers and reach 27% by fiscal 2027 supported by ongoing efforts to improve productivity on maintenance and the return to inflation-linked rent increases. In addition, Alliance exited its low-margin care business in fiscal 2022, which had a positive impact on its overall operating margin. Alliance faces more limited expenditure needs than peers on decarbonisation. As of fiscal 2024, 86% of its stock was at EPC-C or above compared with a median of 73% across rated UK HAs.

Alliance's social housing letting interest coverage (SHLIC) is now slightly weaker than peers at 1.4x in fiscal 2024 (1.5x excluding one-off pension costs) compared to a median of 1.6x for A2-rated peers. It has deteriorated very rapidly from 2.6x in fiscal 2021 as a result of the decline in margins on its social housing lettings and a significant increase in interest costs. We expect SHLIC to recover to around 1.8x supported by stronger margins on social housing lettings. Although SHLIC will return above the peer median, it will remain weaker than in the past due to the expected continued ramp up in debt to fund its development programme.

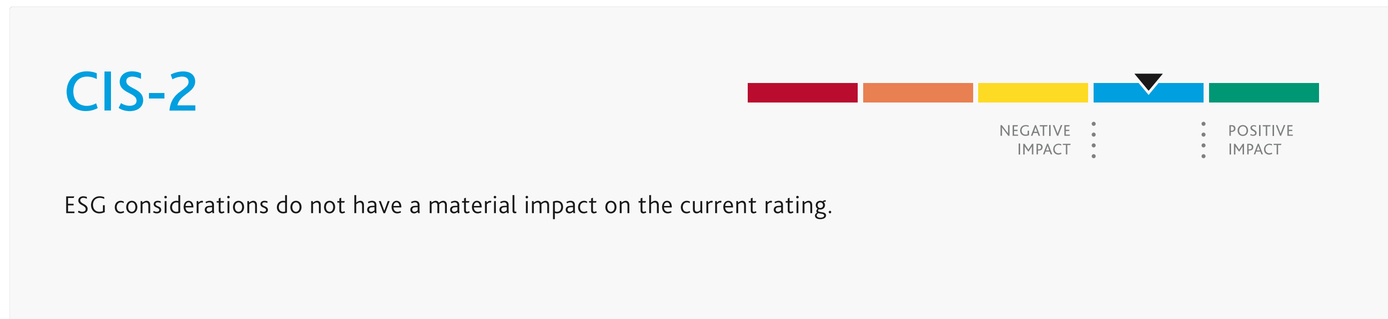
Extraordinary support considerations

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 Alliance and the UK government reflects their strong financial and operational linkages.

ESG considerations

Alliance Homes Group's ESG credit impact score is CIS-2

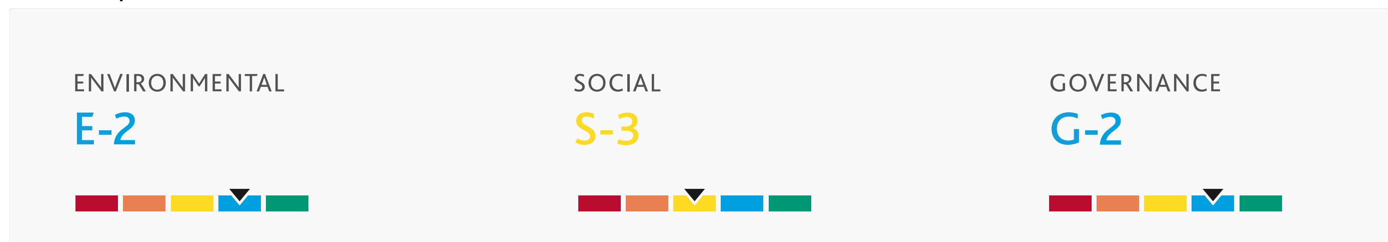
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

ESG considerations have a limited impact on Alliance's rating (**CIS-2**). Alliance has limited exposure to carbon transition risks as the majority of its stock already meets energy efficiency requirements, and although social risks are prevalent we consider that Alliance has the ability to effectively mitigate them through its strong governance and management practices.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Alliance has limited exposure to environmental risks (**E-2**). While English housing associations are required to bring their housing stock to EPC-C by 2030, the vast majority of Alliance's housing stock already meets the required energy efficiency standards.

Social

Alliance 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

Alliance has limited governance risks (**G-2**) given its sound and prudent risk management framework and practices in line with sector best practices including 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 a3 is close to the scorecard-indicated BCA outcome of baa1 for fiscal 2024.

For details about our rating approach, please refer to our European Social Housing Providers rating methodology published in July 2024, and Government Related Issuers rating methodology published in January 2024.

Exhibit 5
Alliance Homes Group
Fiscal 2024

Alliance Homes 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%	7,223	baa
Factor 3: Financial Performance			
Operating Margin	5%	19%	baa
Social Housing Letting Interest Coverage	10%	1.4	baa
Cash-Flow Volatility Interest Coverage	10%	2.5	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.0	a
Debt to Assets	10%	51%	b
Liquidity Coverage	10%	1.7	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	a	a
Scorecard - Indicated BCA Outcome			**baa1**
Assigned BCA			**a3**

Source: Alliance and Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
ALLIANCE HOMES GROUP	
Outlook	Stable
Baseline Credit Assessment	a3
Issuer Rating -Dom Curr	A2

Source: Moody's Ratings

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