

Rating Action: Moody's assigns A1 debt rating to Onward Homes Limited's proposed GBP350 million debt issuance

15 Mar 2021

London, 15 March 2021 -- Moody's Investors Service ("Moody's") has today assigned an A1 debt rating to the proposed GBP350 million senior secured debt issuance of Onward Homes Limited ("Onward"). Concurrently, Moody's has assigned a stable issuer outlook to Onward.

RATINGS RATIONALE

Bond proceeds will be used to refinance existing bank loans in order to simplify the group's debt structure and to fund the development programme. The bond is expected to be a long-dated bond with bullet maturity and issued by Onward Homes Limited, a subsidiary of Onward Group Limited ("the Group"). The bond will include a retained element of GBP100 million to GBP150 million, which can be drawn within five years of the initial issuance.

The bond is expected to be secured by a portfolio of social housing properties owned by Onward Homes Limited. The security will consist of a mix of properties valued at 1.05x Existing Use Value -- Social Housing (EUV-SH) and 1.15x Market Value -- subject to tenancies (MV-STT).

The A1 debt rating assigned to the GBP350 million bond issuance of Onward Homes Limited is derived from the A1 long-term issuer rating of the Group. The issuer rating reflects Onward Group Limited's very strong balance sheet with low debt, high interest cover ratios, strong liquidity, a conservative strategy focusing on low-risk social housing, moderate capital expenditure and effective governance and management. The issuer rating also incorporates the Group's weaker profitability and our assessment that there is a strong likelihood that the UK government (Aa3 stable) would intervene in the event that Onward faced acute liquidity stress.

The issuer outlook for Onward Group Limited is stable, reflecting this increase in debt and weak operating performance with its very strong balance sheet and moderate development ambition. Moody's expectation that interest cover ratios will remain strong and market sales exposure will remain moderate also support the stable outlook.

The rating assigned to the proposed GBP350 million bond is based on documentation received by Moody's as of the rating assignment date. If the structure changes from the documentation submitted to us, we will assess the impact that these differences may have on the ratings.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Environmental considerations are not material to Onward's credit profile. Social risks are material to Onward'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 our assessment of the operating environment. Coronavirus has caused operational disruption for housing associations but limited credit impact given high demand for social housing, strong liquidity and a supportive policy environment. Governance considerations are also material to Onward's credit profile and are captured in our assessment of governance and management.

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

Any change to Onward Group Limited's long-term issuer rating would result in a corresponding change to Onward's debt rating.

Positive pressure on the Group's A1 long-term issuer rating could result from a combination of significantly improved operating margins sustained above 30%, improved liquidity with liquidity cover maintained above 2.0x, and interest cover ratios sustained at about 3.0x.

A strategic shift and higher risk appetite resulting in significantly higher debt, capital expenditure, and market sales compared to forecast would exert negative pressure on the rating. A material erosion in interest cover

ratios would also exert negative pressure. A dilution of the regulatory framework or support for the sector, or a downgrade of the UK's rating would also exert negative pressure on the rating.

The methodologies used in this rating 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.

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

This rating is 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 https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

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

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