CREDIT OPINION
27 January 2025

Update

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RATINGS

Saxon Weald

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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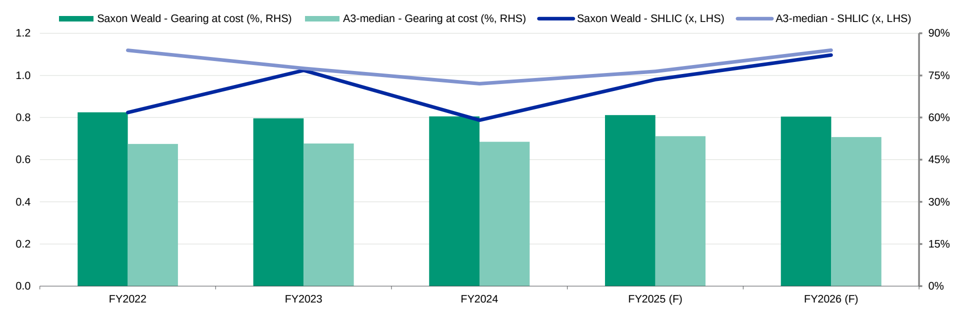
Saxon Weald (UK)

Update to credit analysis

Summary

The credit profile of Saxon Weald (A3 stable) reflects its low risk business model, focused on social housing lettings, its strong liquidity position and robust operating performance balanced against its relatively high level of indebtedness and low interest coverage ratios. Additionally, the credit profile benefits from our assumption of a strong likelihood that the government of the UK (Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1
Debt and interest coverage metrics will remain weaker than rating peers



Source: Saxon Weald and Moody's Ratings.

Credit strengths

» Low risk appetite, including low exposure to market sales

» Simple debt structure and strong liquidity

» Supportive institutional framework in England

Credit challenges

» Weakened margins due to increased spend on existing stock

» Weaker debt metrics than peers

Rating outlook

The stable outlook reflects our expectation that operating performance will gradually recover thanks to a return to inflation-linked rent increases and moderating inflation. The outlook is also supported by our forecast that debt metrics will remain broadly stable.

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 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 the ratings could result from a prolonged weakening in operating performance, debt growing faster than expected, weaker liquidity or a failure to adapt strategies and risk appetite to mitigate weaker economic conditions. 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

Saxon Weald	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.)	6,707	6,669	6,741	6,809	6,934	6,874	6,891
Operating margin, before interest (%)	34.4	33.3	26.5	22.3	23.8	27.1	28.4
Net capital expenditure as % turnover	(0.3)	12.8	39.3	34.0	17.2	19.8	23.3
Social housing letting interest coverage (x times)	1.1	1.0	0.8	1.0	0.8	1.0	1.1
Cash flow volatility interest coverage (x times)	2.0	1.4	1.3	1.6	1.5	1.4	1.8
Debt to revenues (x times)	4.8	5.1	5.4	5.3	4.8	4.8	4.6
Debt to assets at cost (%)	62.2	62.2	61.9	59.7	60.4	60.9	60.4

Fiscal 2023 includes a £4.8 million loan breakage receipt; excluding this one-off revenue, the social housing letting interest coverage would be at 0.7x.
Source: Saxon Weald and Moody's Ratings

Detailed credit considerations

Saxon Weald's A3 rating combines (1) its Baseline Credit Assessment (BCA) of baa2 with a strong likelihood that the UK government would act in a timely manner to prevent a default.

Baseline credit assessment

Low risk appetite, including low exposure to market sales

Saxon Weald has a simple group structure, enabling good oversight and risk controls. The group comprises the registered provider and two fully owned subsidiaries: Saxon Weald Capital plc (A3 stable), a financing special purpose vehicle, and Weald Property Development Limited, which is dormant.

Saxon Weald manages around 6,900 units across the South of England. The group has a low risk appetite and focuses predominantly on low risk social housing lettings. Its exposure to market sales is low, limiting its exposure to housing market fluctuations. As of fiscal 2024, it generated 8% of its turnover from first tranche shared ownership and had no exposure to outright sales. Historical performance on shared ownership is strong, with an average margin of 23% achieved between fiscals 2020 and 2024 and a low number of unsold units.

A high proportion of revenue derived from social housing generates stable and predictable operating cash flows. This stability is highlighted by its solid performance cash flow volatility interest cover (CVIC), which stood at 1.5x in fiscal 2024. Its CVIC will average 1.7x over the next three years, above the median for A3-rated peers.

Simple debt structure and strong liquidity

Saxon Weald has a simple debt structure with no exposure to variable rate debt and no derivatives. It also has no refinancing risk in the next five years. The group has sufficient covenant headroom with 64 basis points of headroom above its tightest interest cover covenant of 1.25x in fiscal 2024.

Saxon Weald's liquidity position is strong with cash and undrawn committed facilities amounting to £104 million as of October 2024. This is sufficient to cover 3.0x projected net cash requirement over the next two years. As such, Saxon Weald has no need for further borrowing for a number of years.

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.

Weakened margin due to increased spending on existing stock

Saxon Weald's margin has deteriorated by 10 percentage points over the past five years, due to increased expenditure on its housing stock, which was exacerbated by inflation and issues with contractors. However, due to its strong starting point, its operating margin remains slightly stronger than peers, standing at 24% in fiscal 2024 compared to the 20% median of A3-rated peers.

We expect that its operating margin will continue to gradually improve, underpinned by a return to CPI-linked rent increases and moderating cost inflation. However, Saxon Weald's small size limits the expenditure flexibility it can exercise. Although it has cut its development programme, significant operating efficiencies will be challenging to achieve.

Margins will also remain constrained by sustained spending on its existing stock. In particular, Saxon Weald faces high retrofitting needs to meet energy efficiency standards. As of October 2024, only 55% of its social housing stock was at EPC-C compared to 78% for the median of rated UK HAs.

Weak debt and interest coverage metrics

Saxon Weald's debt metrics are weaker than peers largely due to its legacy as a large scale voluntary transfer (LSVT) HA. As of FYE 2024, its total outstanding debt was £275 million, equivalent to 4.8x revenue (A3 peer median: 4.7x) and 60% of its assets (A3 peer median: 51%).

Saxon Weald has significantly scaled back its development ambition and now plans to deliver around 340 units over the next five years, mostly for affordable rent (68%) and shared ownership (32%). The majority of the programme will be funded by fixed asset disposals and shared ownership sales receipts. As a result, Saxon Weald does not have any debt funding needs until 2028. However, debt may increase more than currently expected if Saxon Weald were to face delays in planned asset sales or achieve lower value than assumed.

Saxon Weald's interest coverage ratio is weaker than peers due to its high indebtedness and associated high interest costs. Its social housing lettings interest coverage (SHLIC) stood at 0.8x in fiscal 2024, weaker than A3-rated peers at 1.0x. We forecast that SHLIC will remain weaker than peers at around 1.1x on average over the next three years.

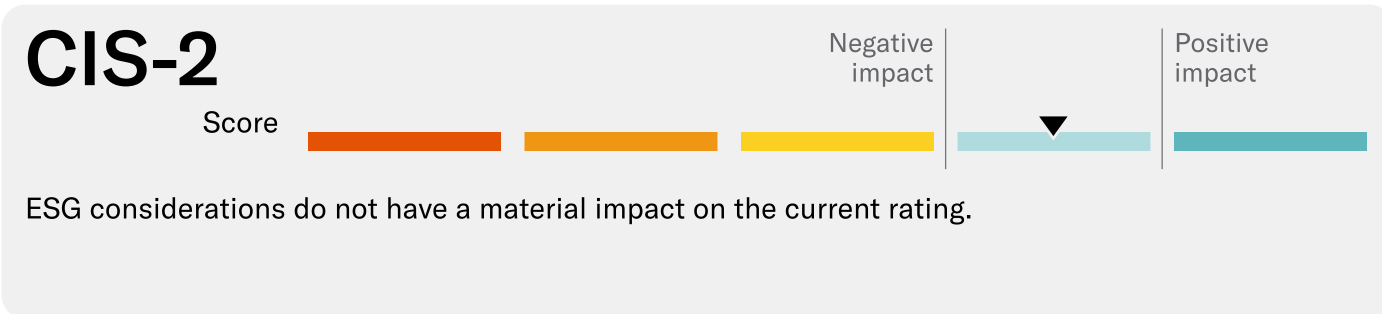
Extraordinary support considerations

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 Saxon Weald and the UK government reflects their strong financial and operational linkages.

ESG considerations

Saxon Weald's ESG credit impact score is CIS-2

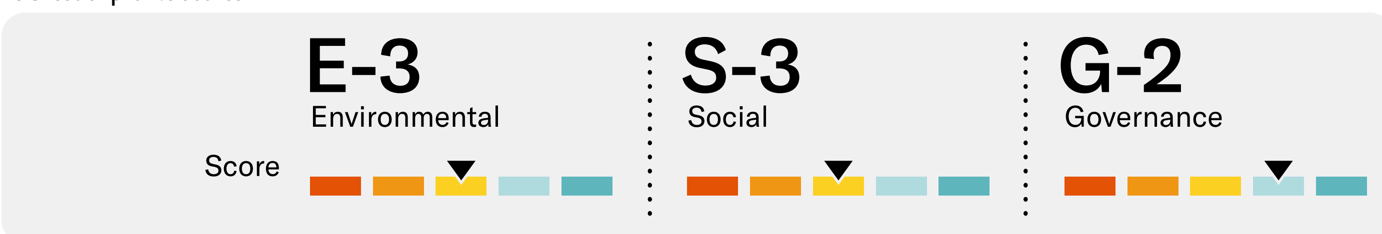
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

ESG risks have a limited impact on Saxon Weald's rating (**CIS-2**). Although Saxon Weald has a material level of carbon transition risk, due to a large proportion of its stock requiring retrofit, as well as significant social risks - in line with the rest of the sector - its governance and management is strong and offsets some of these risks. The supportive regulatory framework for the sector also mitigates ESG risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Saxon Weald has 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

Saxon Weald has 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

Saxon Weald 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 baa2 is in line with the scorecard-indicated outcome in fiscal 2024.

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

Exhibit 5
Saxon Weald
Fiscal 2024

Saxon Weald			
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%	6,934	baa
Factor 3: Financial Performance			
Operating Margin	5%	23.8%	baa
Social Housing Letting Interest Coverage	10%	0.8	b
Cash-Flow Volatility Interest Coverage	10%	1.5	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.8	ba
Debt to Assets	10%	60.4%	b
Liquidity Coverage	10%	3.0	aa
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: Saxon Weald and Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
SAXON WEALD	
Outlook	Stable
Baseline Credit Assessment	baa2
Issuer Rating -Dom Curr	A3
SAXON WEALD CAPITAL PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3

Source: Moody's Ratings

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