

## CREDIT OPINION

7 December 2020

Update

 Rate this Research

### RATINGS

#### ClwydAlyn Housing Limited

Domicile	United Kingdom
Long Term Rating	Baa1
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.

### Contacts

Zoe Jankel +44.20.7772.1031  
 VP-Senior Analyst  
 zoe.jankel@moodys.com

Weronika Migula-Gawron +44.207.772.8673  
 Associate Analyst  
 weronika.migula-gawron@moodys.com

Sebastien Hay +34.91.768.8222  
 Senior Vice President/Manager  
 sebastien.hay@moodys.com

### CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

# ClwydAlyn Housing Limited (UK)

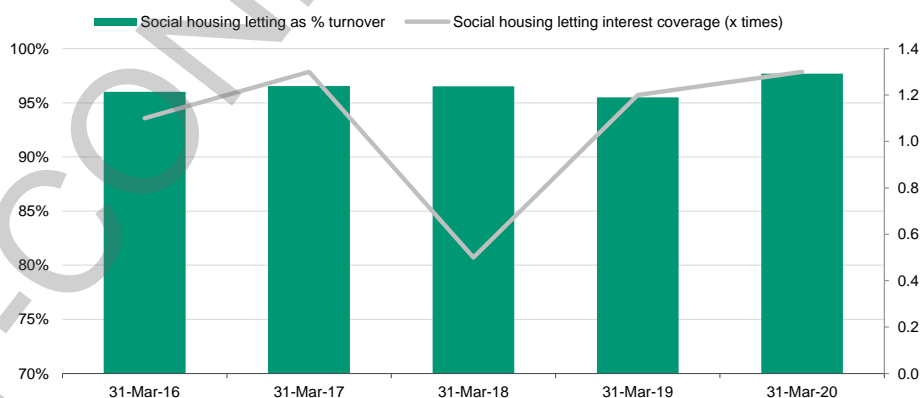
Update following upgrade to A3 stable

## Summary

The credit profile of [ClwydAlyn Housing](#) (ClwydAlyn, A3 stable) reflects its high proportion of revenue derived from low-risk social housing lettings, which enhances revenue stability; its strong market position in North Wales; and its good financial management and governance. In addition, ClwydAlyn benefits from the strong regulatory framework governing Welsh housing associations and our assessment that there is a strong likelihood that the government of the [United Kingdom](#) (UK, Aa3 stable) would intervene in the event that it faced acute liquidity stress.

Exhibit 1

### ClwydAlyn continues to maintain a high proportion of social housing lettings



In FY2018, ClwydAlyn's SHLIC reduced due to one-off breakage costs of debt refinancing

Source: Moody's Investors Service, ClwydAlyn

## Credit strengths

- » Continued focus on low-risk social housing letting supporting cash flow stability
- » Strong management and governance
- » Supportive operating environment and regulatory framework, which supports revenue stability

## Credit challenges

- » Debt to revenues metric is higher than peer median, but stable
- » Low operating margins but on an improving trend

## Rating outlook

The stable outlook reflects our expectation that ClwydAlyn's financial performance will remain in line with A3 peers.

## Factors that could lead to an upgrade

An upgrade of the ratings could result from sustained improvement in financial performance, including social housing lettings interest coverage and cash flow volatility interest coverage above 2.0x and an operating margin above 30%.

## Factors that could lead to a downgrade

A downgrade of the ratings could result from the operating margin falling below 20% on a sustained basis, with social housing lettings interest coverage and cash flow volatility interest coverage below 1.0x and debt to revenues metric increasing above 6.0x. In addition, any weakening of the regulatory framework or dilution of the overall level of support from the UK government could also exert downward pressure on the rating.

## Key indicators

Exhibit 2

ClwydAlyn							
	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21 (F)	31-Mar-22 (F)
Units under management (no.)	5,678	5,706	5,794	5,998	6,048	7,020	7,327
Operating margin, before interest (%)	20.0	26.0	27.0	22.0	23.0	25.0	25.0
Net capital expenditure as % turnover	9.9	14.3	73.3	14.1	33.4	86.2	24.7
Social housing letting interest coverage (x times)	1.1	1.3	0.5	1.2	1.3	1.4	1.5
Cash flow volatility interest coverage (x times)	1.6	1.7	0.5	1.3	1.5	1.6	1.6
Debt to revenues (x times)	4.0	4.6	5.1	4.7	4.4	5.1	4.9
Debt to assets at cost (%)	41.0	41.0	46.0	46.0	46.0	47.0	45.0

In FY2018, the metrics were negatively affected by £15.9 million breakage costs.

Source: Moody's Investors Service, ClwydAlyn

## Detailed credit considerations

On 7 December 2020, Moody's upgraded ClwydAlyn's ratings to A3 from Baa1. The upgrade reflected its strengthened financial management and governance.

ClwydAlyn's rating combines (1) its Baseline Credit Assessment (BCA) of baa1, and (2) a strong likelihood of extraordinary support coming from the UK government in the event that the organisation faced acute liquidity stress.

### Baseline credit assessment

#### Continued focus on low-risk social housing letting supports cash flow stability

ClwydAlyn's total turnover has grown steadily over the last five years, reaching £46.1 million in FY2020 from £35.9 million in FY2016, due to its steady growth of assets through its development programme. ClwydAlyn's total units under management were 6,048 in FY2020, growing from 5,678 in FY2016. Low-risk social housing lettings, including supported and sheltered housing, contributed 98% of the organisation's turnover in FY2020, a level virtually unchanged since FY2014. This compares favourably with our rated portfolio of housing associations in the UK, which, as a whole, derived 74% of their revenue from social housing lettings in FY2020. We do expect ClwydAlyn's proportion of turnover from social housing lettings to reduce marginally to an average of 92% over the next three years due to a small amount of rent to own properties being developed over this period, however the vast majority of its development programme is for social rented properties. Its development programme includes 1,125 units over FY2021 to FY2023, with 60 of these being rent to own and the remainder general needs or supported housing. In addition, over half of the group's income is generated from housing benefits, care home fees funded by local authorities and government contracts to provide supporting living services - this backing of a significant proportion of revenue by government bodies is also credit positive as it reduces the risk of revenue losses.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

ClwydAlyn is one of the largest housing associations in Wales and has the biggest market share in North Wales, a dispersed area with the second-biggest population concentration after the more urbanized south (where cities like Cardiff and Swansea are located). ClwydAlyn's major operations are spread across six local authorities in Wales.

#### **Strong management and governance**

ClwydAlyn has made significant improvements in its management and governance over the last 1-2 years. This includes implementing golden rules to monitor its financial performance, detailed scenario analysis and stress testing, renewal of its Executive Team and Board and improving its liquidity management, including strengthening its liquidity policy. Its liquidity policy is now in line with others in the sector with 12 months of forecast cash outflows held as cash and immediately accessible funding and 24 months of forecast cash outflows held as cash, immediately accessible funding and committed, but uncharged, loan facilities. In 2020, the Executive Team implemented a new resilience plan to respond to the coronavirus pandemic, which included furloughing staff, reducing spend on materials and its development programme and undertaking a range of scenario analysis to model financial impacts on its golden rules and covenants.

#### **Supportive operating environment and regulatory framework, which provides revenue stability**

Welsh housing associations operate under a co-regulated environment with engaged oversight exercised by the sector's regulator, the Housing Regulation Team (HRT). The HRT is a departmental office sitting within the Welsh government and reports to the Welsh Government Housing Division. The sector's regulator is responsible for protecting the public investment in social housing as well as building confidence to support the reputation and financial viability of the sector. The regulator monitors compliance with standards of performance through quarterly returns, long-term business plans, stress tests and regular interaction with senior management, and focuses on governance, financial viability, value for money and rents.

At least annually, the Welsh ministers publish a regulatory judgement for each housing association in Wales. In the latest assessment from September 2019, ClwydAlyn achieved the highest score for both Governance and Service Delivery and for Financial Management.

Social housing rents, which represent the bulk of the revenue for most housing associations, are stable and predictable, but their level is set by the National Assembly for Wales, which overruled the rent reduction policy imposed on English housing associations. As of FY2021, the Welsh Government's rent settlement is for CPI+1%, in line with English housing associations.

#### **Debt to revenues metric is higher than the peer median, but stable**

ClwydAlyn's debt levels are expected to increase to £250 million by FY2024, from £205 million at FYE2020, an increase of £45 million. However debt metrics are not expected to change materially due to new assets and revenues being delivered by the development programme. Debt to revenues are expected to be an average of 4.9x over the next three years, higher than the A3 peer median of 4.3x over the same period. However, despite being higher than the peer median, this level is relatively stable, as the average for this metric is also 4.9x over the previous three years. Its debt to assets metric is expected to be an average of 45% over the next three years, stronger than the expected A3 peer median of 54% over the same period. Its debt growth is relatively modest, which reflects the high levels of grant that Welsh housing associations receive to deliver new social housing, in contrast to much lower levels in England.

ClwydAlyn's liquidity coverage is 1.1x in FY2021. This includes £16 million of cash and £35 million of immediately accessible facilities through its revolving credit facility. ClwydAlyn has access to another £88 million of borrowing capacity through its unencumbered assets portfolio, a decent level. As its peak debt level is already secured we do not expect ClwydAlyn to use a significant amount of its additional borrowing capacity.

#### **Low operating margins but on an improving trend**

ClwydAlyn had an operating margin of 23% in FY2020, which is relatively low compared to the A3 peer median of 29%. Margins in the Welsh Housing Association sector have generally been low relative to the English sector, in addition ClwydAlyn undertaken some supported housing and care activities which typically have low margins. ClwydAlyn plans to improve its margin to 27.5% by FY2024, with a particular emphasis on delivering value for money efficiencies through improved procurement, sharing maintenance activities with other HAs to achieve economies of scale and delivering a new housing management system.

ClwydAlyn's social housing lettings interest coverage (SHLIC) of 1.3x in FY2020 is the same as the A3 peer median and has improved over recent years. This is also expected to continue to improve, in line with its operating margin.

### Extraordinary support considerations

The strong level of extraordinary support reflects the wide-ranging powers of redress available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. Recent history has shown that the UK government is willing to support the sector, as housing remains a politically and economically sensitive issue. The strong support assumption also factors in the increasing exposure to non-core social housing activities in the sector, which add complexity to HA operations, and the weakening of the sovereign's financial resilience, making an extraordinary intervention slightly more challenging. In addition, our assessment that there is a very high default dependence between ClwydAlyn and the UK government reflects their strong financial and operational links.

### ESG Considerations

#### How environmental, social and governance risks inform our credit analysis of ClwydAlyn Housing

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of ClwydAlyn, the materiality of ESG to its credit profile is as follows:

Environmental considerations are not material to HAs' credit profiles. In line with the rest of the UK, the sector's main environmental risk exposures relate to water shortage and flood risk. Flood risk is managed by country and national authorities, and therefore the financial burden of adapting to increased flood risk will not fall on individual housing associations.

Social risks are material to HAs' credit profiles. 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. We view the coronavirus outbreak as a social risk under our ESG framework given its impact on health and safety. Overall, we expect the outbreak to cause ongoing operational disruption for HAs but do not expect a material credit impact as higher arrears and lower market sales receipts will be offset by cash savings from reduced capital spending on development and repairs. HAs are also impacted by customer relations and product quality. The Grenfell fire tragedy in June 2017 has encouraged higher health and safety standards with many HAs planning on increasing spending on the quality of their existing stock.

Governance considerations are also material to HAs' credit profiles and are captured in our assessment of governance and management. In general, housing association governance is strong with multi-year strategies supported by detailed forecasts, conservative liquidity policies, and robust risk management including stress testing.

Further details are provided in the "Baseline credit assessment" section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing ESG Risks](#).

## Rating methodology and scorecard factors

The assigned BCA of baa1 is the same as the scorecard-indicated BCA.

The methodologies used in this rating were [European Social Housing Providers](#), published in April 2018, and [Government Related Issuers](#), published in February 2020.

Exhibit 3

31 March 2020

ClwydAlyn			
Baseline Credit Assessment	Sub-factor Weighting	Value	Score
<b>Factor 1: Institutional Framework</b>			
Operating Environment	10%	a	a
Regulatory Framework	10%	a	a
<b>Factor 2: Market Position</b>			
Units Under Management	10%	6,048	baa
<b>Factor 3: Financial Performance</b>			
Operating Margin	5%	22.6%	baa
Social Housing Letting Interest Coverage	10%	1.3x	baa
Cash-Flow Volatility Interest Coverage	10%	1.5x	baa
<b>Factor 4: Debt and Liquidity</b>			
Debt to Revenue	5%	4.4x	ba
Debt to Assets	10%	45.8%	ba
Liquidity Coverage	10%	1.2x	a
<b>Factor 5: Management and Governance</b>			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
<b>Suggested BCA</b>			<b>baa1</b>

Source: Moody's Investors Service, ClwydAlyn

## Ratings

Exhibit 4

Category	Moody's Rating
<b>CLWYDALYN HOUSING LIMITED</b>	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
<b>PENARIAN HOUSING FINANCE PLC</b>	
Outlook	Stable
Senior Secured -Dom Curr	Baa1

Source: Moody's Investors Service

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJJK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

DRAFT-CONFIDENTIAL