CREDIT OPINION
17 December 2024

Update

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RATINGS

Orbit Group Limited

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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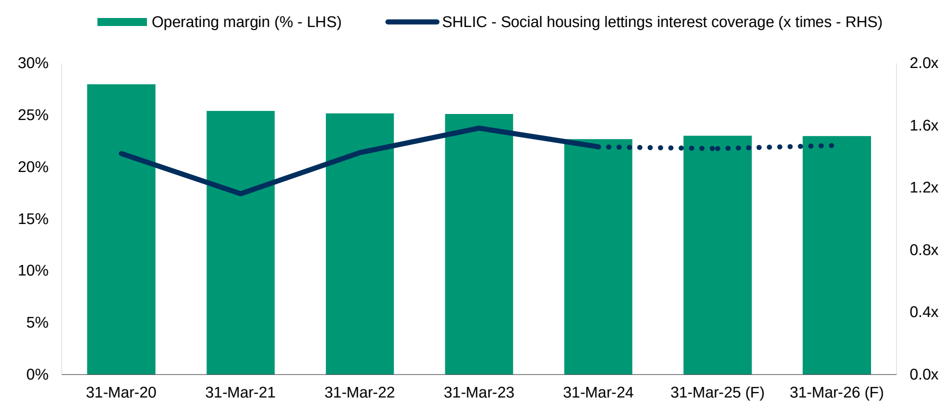
Orbit Group Limited (UK)

Update to credit analysis

Summary

The credit profile of Orbit Group Limited (Orbit, A3 stable) reflects its strong financial performance, improving debt metrics and robust risk management practices. Counterbalancing its strengths are its sizeable development programme and high exposure to market sales. Orbit benefits from the strong regulatory framework governing English housing associations and our assessment that there is a strong likelihood that the government of the UK (Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1
Financial performance will remain solid



Source: Orbit and Moody's Ratings

Credit strengths

» Strong and stable financial performance

» Strengthened debt metrics and robust liquidity

» Adept management and governance alongside robust risk management practices

» Supportive institutional framework in England

Credit challenges

» High market sales exposure, albeit with good performance to date

Rating outlook

The stable outlook reflects our expectation that operating performance will gradually improve, supported by a return to inflation-linked rent and moderating inflation, as well as our expectations that the recent improvement in debt metrics will be sustained.

Factors that could lead to an upgrade

Upward pressure on the rating could result from a significant improvement in operating performance, a continued reduction in debt, a reduction in market sales exposure and/or a significant increase in government support for the sector.

Factors that could lead to a downgrade

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

Key indicators

Exhibit 2

Orbit 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.)	44,753	45,702	46,529	47,429	46,300	43,351	43,475
Operating margin, before interest (%)	28.0	25.4	25.2	25.1	22.7	23.0	23.0
Net capital expenditure as % turnover	47.0	14.6	50.3	10.2	29.2	46.1	18.2
Social housing letting interest coverage (x times)	1.4	1.2	1.4	1.6	1.5	1.5	1.5
Cash flow volatility interest coverage (x times)	0.3	1.4	0.5	2.3	1.5	1.8	2.3
Debt to revenues (x times)	4.6	4.8	4.2	3.8	4.3	4.4	3.9
Debt to assets at cost (%)	50.4	48.6	48.8	47.1	47.5	48.8	47.6

Fiscal 2021 includes one-off loan breakage costs of £15.9 million. Excluding this one-off cost, SHLIC would have been 1.5x.
Source: Orbit and Moody's Ratings

Detailed credit considerations

Orbit's A3 rating combines: (1) a baseline credit assessment (BCA) of baa1 and (2) a strong likelihood that the UK government would act in a timely manner to prevent a default.

Baseline credit assessment

Strong and stable financial performance

While profitability has deteriorated across the sector due to government interventions on rent and increasing demand for repairs and maintenance, Orbit's operating margin has been broadly stable over the last three years at around 25%, demonstrating its strong management and cost control. This compares to a median of 21% for A3-rated peers. Social housing margins are higher at 30% in fiscal 2024 but its high exposure to market sales dilutes its overall margin as sales are less profitable than social housing lettings. Margins weakened slightly in fiscal 2024 to 23%, driven by increased spending on damp and mould. We expect margins to remain stable at current levels over the next three years.

Orbit's interest coverage is stronger than peers, with social housing lettings interest coverage (SHLIC) at 1.5x as of fiscal 2024, above the A3 peer median of 1.0x. Orbit has benefited from its large portfolio of swaps as interest rates have risen. As of fiscal 2024, 92% of its debt is fixed (after swaps) with a low mark-to-market position. We expect its SHLIC to remain around current levels supported by limited debt drawdowns and stable operating performance.

Strengthened debt metrics and robust liquidity

Orbit's debt metrics have strengthened over the last few years as higher receipts from market sales and asset disposals have limited the amount of debt required to fund capital expenditure. As of FYE 2024, its total outstanding debt was £1.7 billion, equivalent to 4.3x revenue (A3 peer median: 4.7x) and 47% of its assets (A3 peer median: 52%). We expect its debt-to-revenue ratio to average 4.0x and gearing at 48% over the next three years. That said, this is contingent on market sales and fixed asset disposals performing as planned, as those will cover more than two thirds of development spending.

Orbit has moderate refinancing risk with 24% of drawn debt due for refinancing within the next five years. In addition, Orbit has sufficient headroom on its interest cover covenants with 60 basis points of headroom over its tightest covenant as of March 2024.

Orbit has strong levels of liquidity in line with its liquidity policy, which includes the need to retain a minimum level of liquidity of 12 months net cash needs in cash and immediately available facilities, and 24 months in cash and committed (but unsecured) facilities. As of March 2024, Orbit held £490 million in cash and immediately available facilities, covering 1.8x its net cash needs for the next two years. It also has significant additional borrowing capacity of another £1.4 billion, based on its unencumbered asset position.

Adept management and governance alongside robust risk management practices

Orbit is a large housing association managing around 46,000 units with a strong presence across the Midlands, East of England and South East regions. Its large balance sheet provide better resilience to financial stress relative to smaller housing associations. Its group structure is simple, consisting of the parent company (Orbit Group Limited), the registered provider, a subsidiary providing design and build services to the group, and two treasury vehicles.

Orbit's financial, debt and investment management is adept in enabling strong oversight and managing financial and operational risk through well articulated policies and practices. Risk management is detailed, with generally conservative golden rules and risk appetite codified and reported against on a frequent basis. Its proactive approach to completing remedial works on fire safety and energy efficiency also demonstrates strong financial management. Orbit started work on energy efficiency in 2017, with 86% of its stock now at EPC-C or above compared with a median of 75% across rated UK HAs.

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.

High exposure to market sales, albeit with good performance to date

Orbit has one of the largest exposure to market sales among rated HAs, highlighting its higher risk appetite than peers. In fiscal 2024, sales accounted for 26% of its turnover, including 16% from outright sales and 10% from first-tranche shared ownership sales. Orbit has a golden rule to limit market sales at 40% of turnover, which we consider to be higher risk appetite than the sector.

Orbit has scaled back its development programme a number of times in response to the deterioration in the macroeconomic environment, including high cost inflation and elevated interest rates, demonstrating its proactive risk management. It plans to develop 4,600 new units over the next five years (10% of its current stock), down from its previous programme of 5,200.

Orbit will maintain a very high exposure to market sales in the next five years, with 65% of new units planned for market sales (shared ownership and outright sales). However, it has shifted its market sales programme towards first-tranche shared ownership (41%), which we consider to be less risky than outright sales as it is typically less affected by macroeconomic factors. In addition, we note that market sales have performed well historically, the number of unsold units remains low and Orbit retains a high level of control over development.

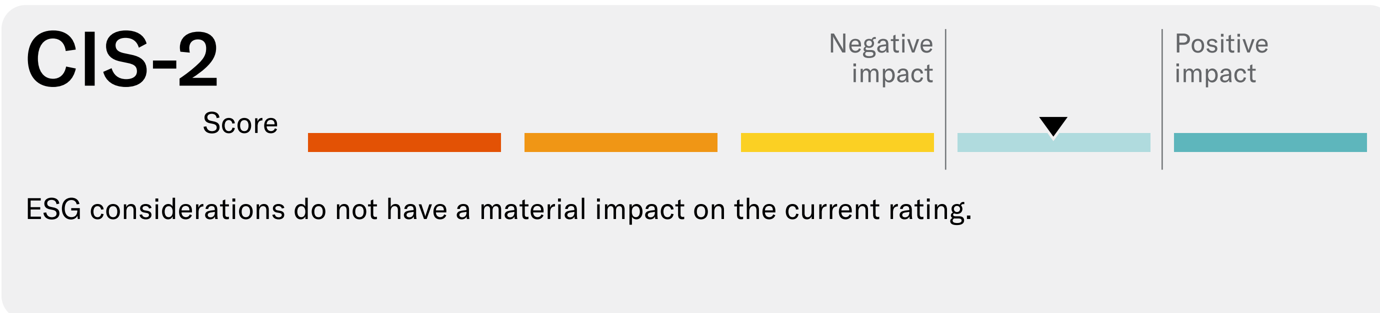
Extraordinary support considerations

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

ESG considerations

Orbit Group Limited's ESG credit impact score is CIS-2

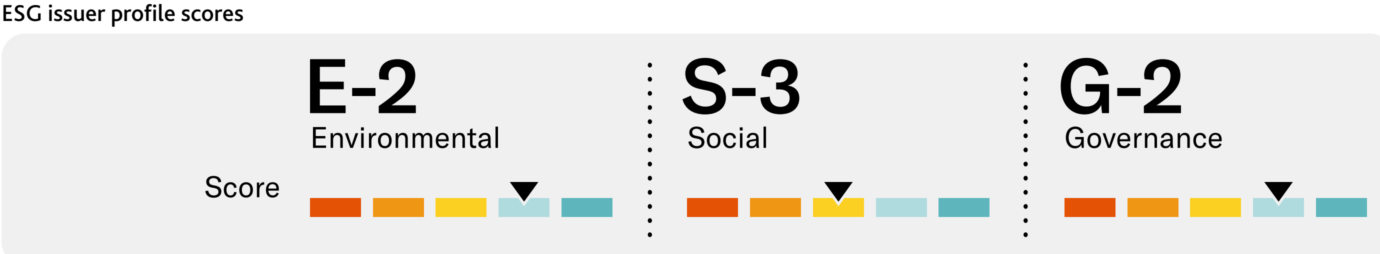
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

ESG risks have a limited impact on Orbit's ratings (**CIS-2**). Orbit faces limited carbon transition risks as the majority of its stock already meets required energy efficiency standards. Its high social risks are mitigated by its strong governance and management. In addition, the supportive regulatory framework for the sector also mitigates ESG risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental
Orbit has limited exposure to environmental risks (**E-2**). While housing associations have to improve the energy efficiency of their existing housing stock, Orbit has a low exposure to this risk as the vast majority of its housing stock already meets the required efficiency standards.

Social
Orbit 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
Orbit 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 baa1 is close to the scorecard-indicated BCA outcome.

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

Exhibit 5

Orbit Group

Fiscal 2024

Orbit 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%	46,300	a
Factor 3: Financial Performance			
Operating Margin	5%	22.7%	baa
Social Housing Letting Interest Coverage	10%	1.5x	baa
Cash-Flow Volatility Interest Coverage	10%	1.5x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.3x	ba
Debt to Assets	10%	47.5%	ba
Liquidity Coverage	10%	1.8x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	a	a
Scorecard - Indicated BCA Outcome			**a3**
Assigned BCA			**baa1**

Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
ORBIT GROUP LIMITED	
Outlook	Stable
Baseline Credit Assessment	baa1
Issuer Rating -Dom Curr	A3
ORBIT CAPITAL PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3

Source: Moody's Ratings

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CLIENT SERVICES

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