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CREDIT OPINION

28 November 2025

Update

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RATINGS

Midland Heart

Domicile	United Kingdom
Long Term Rating	A1
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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Midland Heart (United Kingdom)

Update to credit analysis

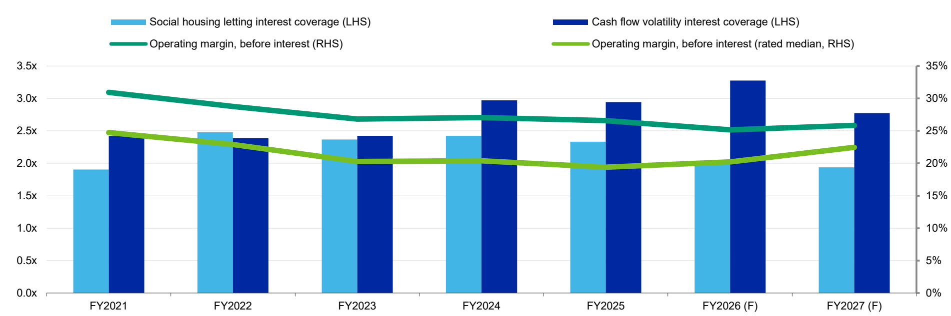
Summary

The credit profile of Midland Heart (A1 stable) reflects its strong financial management and performance and low debt levels. Midland Heart benefits from the strong regulatory framework governing English housing associations and our assessment that there is a strong likelihood that the government of the United Kingdom (UK, Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1

Midland Heart's margin and social housing lettings interest coverage are expected to weaken over the medium term, but remain stronger than most peers

Social housing lettings interest cover (x, LHS), cash flow volatility interest cover (x, LHS), operating margin before interest (%, RHS, Midland Heart and rated median)



F: Forecast

Source: Midland Heart and Moody's Ratings

Credit strengths

» Strong financial management

» Healthy financial performance although expected to weaken over the medium term

» Low debt metrics

» Supportive institutional framework in England

Credit challenges

» Reduced but material swap portfolio

Rating outlook

The stable outlook reflects Midland Heart's robust financial performance compared to peers, particularly its strong interest coverage metrics, as well as its low debt metrics. Although we expect its debt to grow over the medium term to fund new housing development, it will remain moderate compared to rated peer medians - a result of its conservative financial management.

Factors that could lead to an upgrade

Upward pressure on the ratings could result from a significant improvement in operating performance beyond current expectations, a material reduction in debt or a significant increase in government support for the sector.

Factors that could lead to a downgrade

Downward pressure on the ratings could result from a prolonged weakening in operating performance, debt growing more quickly than forecasts, and weaker liquidity. A downgrade of the UK sovereign's rating, 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

Midland Heart

	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26 (F)	31-Mar-27 (F)
Units under management (no.)	33,324	33,877	34,362	34,966	33,743	33,784	34,228
Operating margin, before interest (%)	30.9	28.8	26.8	27.0	26.6	25.2	25.9
Net capital expenditure as % turnover	25.1	45.9	32.7	40.1	20.3	34.0	36.7
Social housing letting interest coverage (x times)	1.9	2.5	2.4	2.4	2.3	2.0	1.9
Cash flow volatility interest coverage (x times)	2.4	2.4	2.4	3.0	2.9	3.3	2.8
Debt to revenues (x times)	2.9	3.1	2.9	2.7	2.5	2.9	3.3
Debt to assets at cost (%)	29.8	29.7	29.6	30.9	27.5	28.6	30.7

F: Forecast
Source: Midland Heart and Moody's Ratings

Profile

Midland Heart is a medium-sized housing association operating in the Midlands. It manages approximately 33,700 units. It focuses predominantly on low-risk social housing lettings with a moderate exposure to market sales.

Detailed credit considerations

Midland Heart's credit profile, as expressed in an A1 stable rating combines (1) its baseline credit assessment (BCA) of a2, and (2) a strong likelihood that the UK government would act in a timely manner to prevent a default.

Baseline credit assessment

Strong financial management

Midland Heart exhibits strong financial management, with a modest risk appetite and a focus on low-risk social housing lettings (SHL) which accounted for 89% of turnover in fiscal 2025 compared to a rated peer median of 82%. The focus on traditional social housing will continue with an average of 92% of income from SHL expected over the next three years. In fiscal 2025, other income sources included a small percentage of first-tranche shared ownership (FTSO) sales at 8% of turnover, and a small amount of income from market rent.

Midland Heart's development programme is also focused on social housing. The group intends to develop around 2,250 units over the next five years, with a tenure mix of: general needs (56%), affordable rent (24%) and supported housing (20%).

Financial management is governed by three golden rules, which have been unchanged and consistently adhered to for many years, underpinning a clear risk framework for the group. Golden rules include (1) gearing maintained below 70%, (2) interest cover above

150%, and (3) a minimum of 18 months of forecast cash requirements, net of development sales. In March 2025, Midland Heart retained its G1/V1 rating by the regulator and received its first grading against consumer standards at C1.

Healthy financial performance although expected to weaken moderately over the medium term

We expect Midland Heart to maintain strong financial performance over the medium term. The group's operating margin was 27% in fiscal 2025, well above the rated peer median of 19%. Although margins have moderated from 31% in fiscal 2021, we anticipate they will remain robust at 25%-26% through fiscal 2027, supported by management's focus on efficiency and prudent planning. This compares favourably with a sharper decline among peers, underscoring Midland Heart's relative resilience.

Social housing letting (SHL) margins have also declined in recent years, primarily due to higher repairs and maintenance costs, but remain strong. SHL operating margin was 28% in fiscal 2025 versus a peer median of 21%, down from 33% in fiscal 2021. We expect SHL margins to stabilise at around 26% over the next three years, providing a solid foundation for overall profitability.

Interest cover ratios are expected to stay healthy despite some weakening. SHLIC stood at 2.3x and CVIC at 2.9x in fiscal 2024. As interest costs rise with higher debt, SHLIC is projected to average 1.9x over the next three years, still comfortably above the peer median of 1.2x.

Low debt metrics

Midland Heart's moderate development programme combined with its track record of high profitability has resulted in strong debt metrics. We expect its debt level to rise over the next five years. Its development programme has grown - rising from around a planned level of 1,750 units over fiscal 2026 to fiscal 2030 in its previous business plan to 2,250 units over the same period in its current plan. This will increase its gearing from 28% in fiscal 2025, to around 33% by fiscal 2028 but will remain low compared to rated peers. Debt to revenues will also remain robust, averaging 3.2x over the next three years compared with a rated peer median of 4.3x.

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 a2 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 is 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. We recently upgraded the score to a2, reflecting recent credit-positive policy announcements that will provide greater revenue certainty and expenditure flexibility to the sector, including a 10-year rent settlement at CPI+1% and more generous funding for new and existing assets.

Reduced but material standalone swap portfolio, mitigated by the strength of its treasury policy

Midland Heart's interest rate risk is aligned with peers but it has a material exposure to standalone swaps, exposing it to liquidity risks associated with collateral posting. The group has security pledged against its swap positions, which covered a negative mark to market position of £8.5 million in July 2025. The association's treasury policy requires Midland Heart to have sufficient security charges to cover a 100 basis point decline in interest rates, reflecting strong debt management.

We see Midland Heart's liquidity policy as a strength of the organisation and a supporting factor in its high investment and debt management score. The policy outlines that cash flow should be managed such that sufficient liquidity is always available to cover 18 months' cash flow, including all committed developments but excluding any development sales income. This policy effectively eliminates the entity's dependence on sales proceeds in managing liquidity, a credit positive.

As of July 2025, immediately available liquidity totaled about £421 million, consisting of immediately available undrawn facilities of £365 million and £56 million of cash and cash equivalents. At fiscal year end 2025, Midland Heart's liquidity coverage was a strong 2.5x of the HA's net cash requirements over the next two years. Moreover, the group will retain a strong level of unencumbered assets which stood at £589 million at July 2025.

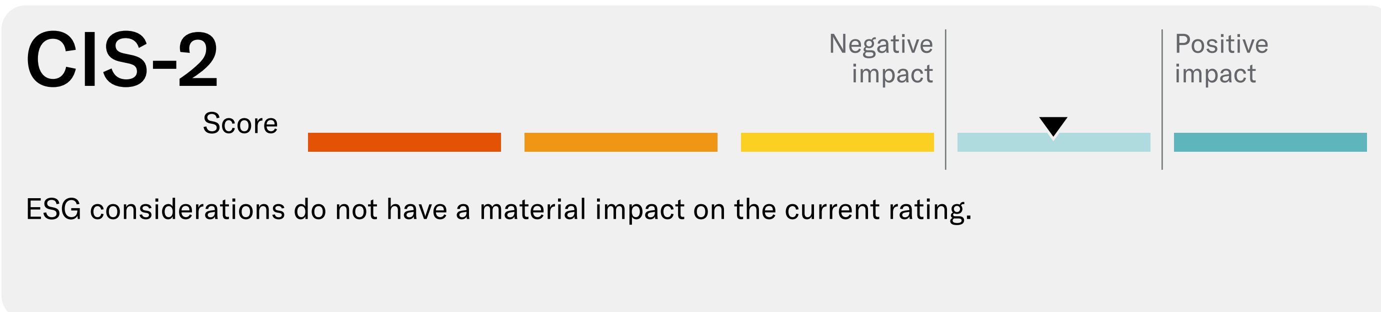
Extraordinary support considerations

The strong level of extraordinary support factored into the ratings 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 housing associations 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 Midland Heart and the UK government reflects their strong financial and operational linkages.

ESG considerations

Midland Heart's ESG credit impact score is CIS-2

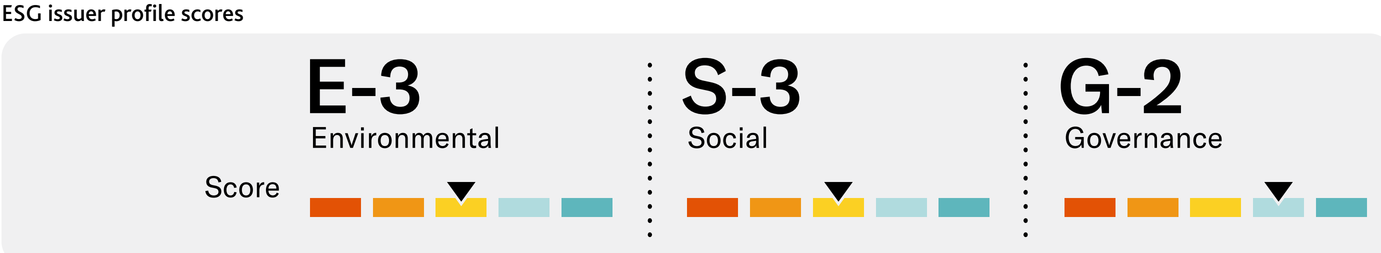
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Midland Heart's **CIS-2** indicates that ESG risks have a limited impact on its rating. Midland Heart 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 it has the ability to effectively mitigate them through its strong governance and management practices. We also consider that the supportive regulatory framework for the sector offsets some ESG risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Midland Heart's exposure to environmental risks (**E-3**) relates to its material exposure to carbon transition risks as a relatively high proportion of its stock requires retrofit to meet EPC-C standards by 2035. This will increase capital expenditure over this time period, although we expect that this will be manageable due to its strong financial management practices.

Social

Midland Heart has material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety of existing housing stock (responsible production risks) which weighs on expenditure and operating margins, and the impacts of cost of living or affordability pressures on social tenants (demographic and societal trends).

Governance

Midland Heart has limited governance risks (**G-2**). Its governance is fit for purpose with strong financial management policies and processes, 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.

For more detail on our approach to incorporating environmental, social and governance factors in credit analysis, please see our cross-sector rating methodology.

Rating methodology and scorecard factors

The assigned BCA of a2 is one-notch lower than the scorecard-indicated BCA outcome of a1 for fiscal 2025.

The methodologies used in this rating are the European Social Housing Providers, published in July 2024, and Government-Related Issuers, published in May 2025.

Exhibit 5
Midland Heart's 2025 scorecard

Midland Heart			
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%	33,743	a
Factor 3: Financial Performance			
Operating Margin	5%	26.6%	a
Social Housing Letting Interest Coverage	10%	2.3x	aa
Cash-Flow Volatility Interest Coverage	10%	2.9x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	2.5x	a
Debt to Assets	10%	27.5%	a
Liquidity Coverage	10%	2.5x	aa
Factor 5: Management and Governance			
Financial Management	10%	a	a
Investment and Debt Management	10%	a	a
Scorecard - Indicated BCA Outcome			**a1**
Assigned BCA			**a2**

Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
MIDLAND HEART	
Outlook	Stable
Baseline Credit Assessment	a2
Issuer Rating -Dom Curr	A1
MIDLAND HEART CAPITAL PLC	

Outlook	Stable
Senior Secured -Dom Curr	A1

Source: Moody's Ratings

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