FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Places for People Group at 'A'; Outlook Stable

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Fitch Ratings - London - 17 Oct 2023: Fitch Ratings has affirmed Places for People Group Limited's (PfPG) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A'. The Outlooks are Stable. A full list of ratings is below.

The affirmation reflects Fitch's expectation that PfPG's credit profile will remain commensurate with the ratings and a single-notch downgrade of the UK sovereign IDR would not automatically result in a downgrade of PfPG's IDRs.

Fitch views PfPG as a government-related entity (GRE) of the UK. Its rating is driven by its 'a-' Standalone Credit Profile (SCP), reflecting Stronger revenue defensibility, operating risk, and financial profile assessments. Under Fitch's GRE Rating Criteria, PfPG has a score of 12.5 points, and is therefore rated on a bottom-up plus-one basis. This leads to the 'A' Long-Term IDR.

KEY RATING DRIVERS

Status, Ownership and Control: 'Strong'

As a private, not-for-profit registered social housing (SH) provider (RP), PfPG is not owned by the UK government. In strict terms it has no legal owner. The SH regulatory framework is robust, and the Regulator of Social Housing (RSH) has broad oversight and control of the sector. The regulator's record of monitoring and intervention in rare cases of distress is a key feature of the sector. In the event of financial distress, we expect a transfer of assets and liabilities to another registered provider under the direction of the RSH.

Support Track Record: 'Moderate'

RPs ensure public assets that were previously co-financed by the government remain in the sector. Policy influence is moderately supportive of their financial stability, and regulatory restrictions on government support are unlikely to prevent timely intervention in exceptional circumstances. The RSH can use its statutory powers to intervene when there are serious concerns about the performance of an RP, but it does not provide a direct guarantee for RP borrowers, and the government does not have any ownership of the entities.

Fitch believes that RPs facing difficulties would be forced to merge with larger or financially stronger entities, as has occurred a few times in the past decade. PfPG's current regulatory judgement is G1/V2, the highest grade for governance, and compliant for financial viability despite a strong development programme.

Socio-Political Implications of Default: 'Moderate'

In the unlikely event of financial default, other RPs can act as substitutes with only minor or temporary disruption to the service offered by PfPG.

Financial Implications of Default: 'Weaker'

Default would have only a minimal impact on the availability and cost of domestic financing for other RPs, given the number of borrowers in the market and their relative size.

Standalone Credit Profile

PfPG's 'a-' SCP reflects 'Stronger' assessments of revenue defensibility and operating risk. It also reflects our forecast of net adjusted debt/EBITDA improving to below 12x after the financial year ending March 2024 (FY24) in our rating case and comparison with peers in the sector. The rating factors are as follows:

Revenue Defensibility 'Stronger'

Fitch assesses revenue defensibility, which covers demand and pricing, as 'Stronger'. Demand for SH remains strong, and any change in the rents that RPs are allowed to charge would be unlikely to materially affect demand. The regulatory regime aims to maintain compensation for services at a level that would consistently support the solvency of not-for-profit RPs of public services. This remains the case with the ongoing rent cap consultation. PfPG has received GBP250 million in funding to deliver 4,400 affordable homes as part of the 2021 strategic partnership with Homes England.

RPs have limited revenue flexibility in their core business, as the UK government determines SH rent rises. The 7% cap introduced by the government has no impact on our pricing assessment and should allow sufficient revenue for PfPG to maintain solvency. As we consider this a one-off, it does not impact the overall assessment of revenue defensibility. The existing regulation allows RPs to increase rents by the consumer price index (CPI) plus 1% for five years from 1 April 2020. We expect this will be re-imposed after the cap lapses. There is a risk that the additional 1% above CPI may not be part of the new rent settlement. Fitch is closely monitoring this for the impact it would have on finances and development plans.

PfPG has a significant share of revenue from non-SH activity (49%; when excluding non-cash items, with a leisure and facility management contributing 27%, development for sale 16%, and the remainder from non-SH lettings and non-SH construction services), allowing more flexibility to collect enough revenue to cover all costs.

PfPG anticipates further growth to be focused on its core, regulated business, shifting weight from development for sale towards grant-led affordable housing (with affordable housing constituting about 70% of delivered homes). This should limit any potential effects from medium-term macroeconomic impact on the housing market.

Operating Risk 'Stronger'

We assess operating risk, which covers operating costs, resource management, and capital planning, as 'Stronger'. PfPG has well-identified cost drivers and low potential volatility in major items. Rigid items such as staff costs, we expect to remain around 40% of cash operating expenditure throughout Fitch's rating case. This is above the sector average, due to more complex structure and wide geographic area of operations.

Maintenance and major repairs costs remained high as PfPG continues to focus on reinvesting in existing stock, with a total GBP151 million spent during FY23 (FY22: 133 million). This spending wase made also to meet regulatory standards, including the requirement for all homes to have an energy performance certificate of C or above by 2030. PfPG expects to spend a further GBP46 million to achieve this for its remaining stock portfolio (less than 20%), in line with government requirements for the sector.

There are no material supply constraints on labour or resources. PfPG has material capex in its medium-term development plans but has flexibility to scale back committed schemes, defer uncommitted schemes, and to switch tenure from sale to market rent or affordable rent, supported by grant funding.

Financial Profile 'Stronger'

Fitch assesses PfPG's financial performance as sound, despite the challenges that have affected the sector over recent years. Continued high demand for social and affordable housing, cost-efficiency measures and diversified revenue streams with a high share of non-core business should allow PfPG to maintain sufficient revenue to service debts and cross-subsidise development of new homes.

PfPG has moderately increasing debt, with stable leverage metrics and strong liquidity, which we expect to remain stable, despite a sizable development plan. The Stable Outlook reflects Fitch's view that PfPG's performance will remain satisfactory, despite a weakened operating environment and increased challenges faced by RPs in England, inflationary pressures and spending increases due to decarbonisation and building safety costs.

Performance will be aided by economies of scale, due to PfPG's size and area of operations. Profits from market-sale units will be re-invested in the RP to continue to build and provide affordable social units.

PfPG developed or acquired around 925 affordable housing units in FY23 and will develop a total of 11,000 social or affordable units by FY27 through its strategic partnership with Homes England and as part of its ongoing strategy. This will comprise different tenures across the UK.

Fitch expects PfPG's net debt/EBITDA to improve and return to below 12x in FY25-FY28, after operating performance has been under pressure during the last few years, with leverage peaking in FY23 at above 14x. Fitch's rating case scenario expects PfPG's turnover to increase to above GBP1 billion on average between FY25 and FY28, with EBITDA averaging at GBP290 million (FY23: GBP227 million). We expect net adjusted debt increase to about GBP3.5 billion by end-FY27 (FY23: GBP3.3 billion), following investments in new and existing stock.

In FY23 PfPG's operating revenue was GBP827 million when excluding asset disposals and an amortising grant.

Additional Risk Factors Assessment

Fitch assesses all asymmetric risk attributes as 'Neutral' due to a strong regulatory framework, transparent reporting of information, and a risk-averse debt structure.

Derivation Summary

Our GRE assessment results in a bottom-up approach, with a one-notch uplift to the SCP to arrive at the 'A' IDR.

Short-Term Ratings

PfPG's Short-Term 'F1+' IDR is the higher of two options mapping to a 'A' Long-Term IDR, reflecting the combination of Stronger revenue defensibility and a strong liquidity cushion and coverage ratios.

Debt Ratings

PfPG has several special purpose vehicles (SPVs) that Fitch rates, including Places for People Treasury plc and Places for People Finance plc. Along with Places for People Homes Limited, they issue debt on the capital markets and are rated in line with the group, at 'A', with long-term senior unsecured ratings for all three, and a long-term senior secured rating for Places for People Homes Limited.

Liquidity and Debt Structure

PfPG's board and management take a prudent approach to managing risk and debt. The debt repayment profile is smooth in the long term, which mitigates repayment pressure. There are some refinancing peaks, especially in FY25 and FY26, but we do not expect any refinancing risk, as PfPG generates surpluses and has good access to the debt capital markets and high-value assets on its balance sheet. Its treasury policy requires sufficient liquidity for a minimum of 18 months forward commitments, and at 31 March 2023 it had over GBP800 million of total available liquidity.

PfPG's debt is similar to sector peers in that it is spread across bonds, a revolving credit facility and term loans with limited near-term maturity. PfPG is one of the few RPs with unsecured debt (around 72% of its total debt). It also holds some foreign-currency debt, although this is fully hedged through swaps. PfPG has limited exposure to interest-rate risk, as 74% of debt outstanding has fixed rates. PfPG expects to fund a significant amount of development through grant funding, having been awarded GBP250 million through its strategic partnership with Homes England.

Issuer Profile

PfPG owned or managed around 240,000 housing units (including more than 70,000 social and affordable) at end-FY23, which makes it one of the largest RPs in England. PfPG is an investment partner with the Greater London Authority and a strategic partner with Homes England, with plans for the development of 11,000 homes by 2027.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A multi-notch downgrade of the sovereign's ratings, inability to maintain net debt/EBITDA below 12x on a sustained basis, or an adverse change to our assessment of key rating factors.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

A sustained improvement in net debt/EBITDA towards 10x in the medium term.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Places for People Group Limited	LT IDR	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable
	LC ST IDR	F1+	Affirmed	F1+
Places for People Finance plc				

senior unsecured	LT	A	Affirmed	A
Places for People Homes Limited				
senior unsecured	LT	A	Affirmed	A
senior secured	LT	A	Affirmed	A
Places for People Treasury plc				

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Apr 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Places for People Finance plc	UK Issued, EU Endorsed
Places for People Group Limited	UK Issued, EU Endorsed
Places for People Homes Limited	UK Issued, EU Endorsed
Places for People Treasury plc	UK Issued, EU Endorsed

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