S&P Global
Ratings

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Research Update:

# U.K.-Based Places for People Group Ltd. ' A-' Rating Affirmed; Outlook Stable

**November 23, 2021**

## Overview

- We expect U.K.-based housing association Places for People Group Ltd. (PfP) to see higher costs and investments in its existing asset base over the next three years, leading to a slower growth in S&P Global Ratings-adjusted EBITDA.
- We therefore forecast marginally weaker EBITDA margins than previously expected, but consider that the group's leverage and interest coverage ratios would still strengthen modestly.
- We consider that PfP's continued focus on low-risk activities will ensure that credit metrics do not weaken further.
- We therefore affirmed our 'A-' long-term issuer credit rating on PfP.
- The stable outlook reflects our view that the steady revenues from the social housing business would offset the risks related to PfP's less traditional business lines.

PRIMARY CREDIT ANALYST

**Karin Erlander**
London
+ 44 20 7176 3584
karin.erlander
@spglobal.com

SECONDARY CONTACT

**Noa Fux**
London
+ 44 2071 760730
noa.fux
@spglobal.com

## Rating Action

On Nov. 23, 2021, S&P Global Ratings affirmed its 'A-' long-term issuer credit rating on U.K.-based social housing provider Places for People Group Ltd. (PfP). The outlook is stable.

At the same time, we affirmed our 'A-' long-term issuer credit rating on Places for People Treasury, a core subsidiary of the group. The outlook is stable.

We also affirmed our 'A-' issue rating on the senior secured and unsecured debt and the £2 billion senior unsecured medium-term note program issued by Places for People Treasury and Places for People Homes, also considered a core subsidiary of the group.

## Outlook

The stable outlook reflects our view that the steady revenues from the social housing business would offset the risks related to PfP's less traditional business lines. Supported by the annual increase of CPI+1% in most of its rental income, we see limited risk that PfP's adjusted EBITDA margins, or its debt service coverage, would deteriorate materially over the next two years.

### Downside scenario

We could lower the rating on PfP if we see heightened risks in the group's activities. This could occur if management is unable to respond to external pressures, turns its focus away from the core social housing business, or increases its exposure to riskier market sales activities. A downgrade could also follow if, for instance, cost pressures result in materially weaker adjusted EBITDA, pushing down EBITDA margins and weakening the group's debt metrics persistently.

### Upside scenario

We could consider raising the rating if PfP's profitability strengthens significantly, which in turn would have a positive impact on the group's debt service coverage ratios, while enabling the group to maintain a very strong liquidity position.

## Rationale

The affirmation reflects our view that while PfP's profitability is weaker than we had previously assumed, we do not see a risk that the S&P Global Ratings-adjusted EBITDA margins would fall below 20%. PfP generates relatively stable earnings from its low-risk activities, and we expect most of its rental income to increase at an above-inflation rate. We forecast that the adjusted EBITDA will gradually increase, but consider that higher investments in the existing asset base will restrict such improvement. Despite grant funding and proceeds from the sale of assets, PfP would still need to raise debt to fund part of its capital expenditure program. We therefore forecast that the group's debt service coverage ratios will gradually strengthen through financial year ending March 31, 2024 (FY2024), but at a slower pace compared with our previous expectations.

We assess the regulatory framework under which registered providers of social housing in England operate as strong, underpinned by their public policy mandate to provide affordable homes. We also consider that the sector benefits from solid ongoing oversight by the Regulator for Social Housing (RSH). These strengths are offset, in our view, by the relatively low levels of grant funding that the providers in England receive for the development of affordable homes. We consider that providers in England can develop homes for outright sale, using the proceeds as an alternative funding source; that said, we think that this exposes them to risks and potential volatility compared with providers in other regions. Providers in England are also subject to negative intervention from the U.K. government in the form of constraints on rent setting or additional spending responsibilities, without adequate additional funding. In our view, this weighs on the regulatory framework assessment.

We believe there is a moderately high likelihood that PfP would receive extraordinary support from the government via the RSH in case of financial distress. We reflect this in the one-notch uplift from the stand-alone credit profile (SACP). As one of the key goals of the RSH is to maintain lender confidence and low funding costs across the sector, we believe the RSH is likely to step in to try and prevent a default in the sector. The RSH has a record of mediating mergers or arranging liquidity support from other registered providers in cases of financial distress, and we think this would apply to PfP.

With debt increasing to fund investments in new homes, we think that PfP's debt burden will peak in the financial year to March 31, 2022 (FY2022), mainly because we assume that rental arrears may increase since the government's employment support scheme ended on Sept. 31, 2021. Although this will weigh on the group's profitability and credit metrics in FY2022, we consider that

PfP should remain relatively resilient to the impact of the pandemic given its position as one of the largest housing associations in England, with more than 217,000 units under management.

We note that the closure during COVID-19 of leisure facilities that PfP manages on behalf of local authorities resulted in some losses. These were partially offset by the government employment support scheme that covered a large proportion of the staff, and compensation received from some of the local authorities. We expect PfP to manage the risks associated with this business segment proactively such that profitability improves over the next two years. We also understand that management is taking steps to strengthen the performance of its non-social construction services, which has been loss-making over the last two years.

Despite above-inflation rent increases, PfP's average social and affordable rent would likely remain below 60% of market rent. While PfP's vacancy rates increased to 1.6% in FY2021, from 1.1% the previous year, we consider this to be a temporary effect of the pandemic and note that there is strong demand for PfP's properties. We also note a temporary reduction in the group's revenues from the market rent segment, which we expect will recover in the next few years.

We project that PfP will increase spending on existing homes from FY2022. We understand that about 70% of PfP's properties in England have an Energy Performance Certificate (EPC) rating of at least C and that the group is targeting 100% by 2030. We therefore expect that PfP's adjusted EBITDA would grow at a slower pace, leading to adjusted EBITDA margins averaging 22% over the next three years, compared with 24% forecast previously.

We also consider that while proceeds from the group's sale of fixed assets and grant funding from Homes England would fund part of the development of affordable rent units, debt will continue to be the main source of financing for PfP's development of new affordable homes.

We forecast a gradual increase in the group's debt. Although supported by growing revenue and adjusted non-sales EBITDA, we anticipate that the group's adjusted debt-to-non-sales EBITDA ratio will gradually strengthen by FY2024. PfP has a slightly higher average interest rate compared to its large U.K. social housing peers, partly due to its more varied funding structure, which includes unsecured and foreign currency debt. We anticipate that interest costs will increase as PfP takes on additional debt, but to remain contained overall. We expect non-sales EBIDTA interest cover to improve marginally on the back of modest profitability growth.

## Liquidity

We consider PfP's liquidity as very strong. Its sources of liquidity are likely to cover uses by about 1.8x over the next 12 months. Our views that PfP will maintain large, undrawn committed facilities, and retain strong access to the debt capital markets, support our assessment.

Liquidity sources include:

- Cash flow from operations, adding back noncash cost of sales, of close to £280 million;
- Cash balances of close to £85 million;
- Undrawn and available committed bank facilities or bank lines maturing beyond the next 12 months of £725 million; and
- Proceeds from asset sales and grant funding of more than £100 million.

Liquidity uses include:

- Expected capital expenditure (capex), including development spend on units for sale exceeding £320 million; and

- Interest and maturing debt repayments exceeding £320 million.

## Key Statistics

Table 1

### Places for People Group Ltd--Key Statistics

| | --Year ended March 31-- | | | | |
|---|---|---|---|---|---|
| **Mil. £** | **2020a** | **2021a** | **2022bc** | **2023bc** | **2024bc** |
| Number of units owned or managed | 209,312 | 219,616 | 220,304 | 221,306 | 222,447 |
| Adjusted operating revenue | 849.2 | 792.0 | 759.4 | 793.2 | 832.5 |
| Adjusted EBITDA | 159.1 | 166.5 | 164.8 | 178.4 | 194.0 |
| Non-sales adjusted EBITDA | 139.0 | 143.4 | 148.0 | 165.5 | 181.5 |
| Capital expense | 283.9 | 121.4 | 316.6 | 331.4 | 353.4 |
| Debt | 3,183.1 | 3,114.1 | 3,188.5 | 3,283.8 | 3,365.1 |
| Interest expense | 142.5 | 140.3 | 140.5 | 144.4 | 148.5 |
| Adjusted EBITDA/Adjusted operating revenue (%) | 18.7 | 21.0 | 21.7 | 22.5 | 23.3 |
| Debt/Non-sales adjusted EBITDA (x) | 22.9 | 21.7 | 21.5 | 19.8 | 18.5 |
| Non-sales adjusted EBITDA/interest coverage(x) | 1.0 | 1.0 | 1.1 | 1.1 | 1.2 |

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

## Ratings Score Snapshot

Table 2

### Places for People Group Ltd.--Ratings Score Snapshot

| | Assessment |
|---|---|
| **Enterprise risk profile** | 3 |
| Industry risk | 2 |
| Regulatory framework | 3 |
| Market dependencies | 2 |
| Management and Governance | 3 |
| **Financial risk profile** | 4 |
| Financial performance | 4 |
| Debt profile | 5 |
| Liquidity | 2 |

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

## Related Research

- How U.K. Public Finance Sectors Fare Under Latest Spending Review, Nov. 11, 2021
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 22, 2021
- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers Published, June 8, 2021
- Building Up Debt: U.K. Social Housing Sector Braces Itself For Borrowing, March 16, 2021
- Outlook 2021: Strong Liquidity Should Help Social Housing Providers Remain Resilient, Dec. 8, 2020
- ESG Industry Report Card: Public And Nonprofit Social Housing Providers Outside The U.S., Aug. 4, 2020

## Ratings List

| **Ratings Affirmed** | |
|---|---|
| **Places for People Group Ltd.** | |
| Issuer Credit Rating | A-/Stable/-- |
| **Places For People Treasury PLC** | |
| Issuer Credit Rating | A-/Stable/-- |
| Senior Unsecured | A- |
| **Places for People Homes Ltd.** | |
| Senior Secured | A- |
| Senior Unsecured | A- |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such