FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - London - 28 Oct 2022: 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.

PfPG is a social-housing (SH) registered provider (RP). Fitch rates RPs in England under its Revenue Supported Rating Criteria, and considers such factors as revenue defensibility, operating risk and financial profile. We incorporate public-support factors, notably the strong predictability of the RP's cash flow through direct and indirect government funding. We also apply our Government-Related Entities (GRE) Criteria, whereby we assess RPs in England as non-credit-linked entities and apply a one-notch uplift to their Standalone Credit Profile (SCPs). This reflects the assessment of strength of linkage and incentive to support factors. As a consequence, RPs' ratings do not automatically move in line with those of the UK sovereign.

KEY RATING DRIVERS

Status, Ownership and Control: 'Strong'

As a private, not-for-profit, RP of SH in the UK PfPG is not under the ownership of the UK government due to its structure and status (in strict terms it has no legal owner). We view the regulatory framework for English SH as having a robust legal basis, and the Regulator of Social Housing (RSH) as maintaining sound control and tight monitoring of RPs. The RSH's history of oversight and (non-financial) intervention in (rare) cases of distress is a key factor behind the sector's robustness. In the event of financial distress, we expect a transfer of assets and liabilities to another RP within the sector under the direction of the RSH.

Support Track Record: 'Moderate'

PfPG receives financial support through grants from Homes England (HE) at varying levels for social and affordable development, with GBP250 million provided in total to deliver 4,400 new homes. This is on an ongoing basis to support development, not to finance debt or prevent default. The regulator assesses governance and financial viability every 18-36 months, dependent on an RP's size, to assess the need for intervention. PfPG's current regulatory judgement is G1/V1 (the highest grading), 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. PfPG's development plan may have to be scaled down to adapt to its new financing capacity, which limits its ability to provide housing in general.

Financial Implications of Default: 'Weaker'

Default would have a minimal impact on either the availability or cost of domestic financing of other RPs. Fitch believes that a default would be treated as an isolated case of mismanagement or viability issues and therefore should not affect the sector.

Standalone Credit Profile

Fitch assesses PfPG's SCP at 'a-', reflecting the following rating factors:

Revenue Defensibility:

Fitch assesses revenue defensibility, which covers demand and pricing, overall 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. In September 2021, it was confirmed that PfPG would be a strategic partner of HE for the 2021 programme, receiving GBP250 million in funding to deliver 4,400 homes.

RPs have limited revenue flexibility in their core business, as the UK government determines SH rent rises. Despite the rent agreement in place for increases in line with CPI +1% annually, a cap is expected to be applied to rent increases in April 2023. As we consider this a one-off, it does not impact the overall assessment of revenue defensibility.

PfPG has a significant share of revenue from non-SH activity, allowing more flexibility to collect enough revenue to cover all costs. PfPG generates material revenue through leisure-management activities, which were severely affected by the pandemic, with most forced to close. However, PfPG was supported by local authorities and the government through funding and the furlough scheme, respectively. PfPG anticipates growth to be focused on its core, regulated business.

Operating Risk:

We assess operating risk, which covers operating costs and resource management, as 'Stronger'. PfPG has well-identified and consistent cost drivers, and low potential volatility in major expenses. It has material capex in its development plans in the medium term, but has flexibility to scale back committed schemes, defer uncommitted schemes or switch tenure from sale to market rent, or vice versa. Additionally, in the event of financial stress, PfPG can curtail some discretionary expenditure, or spending on non-essential major works and improvements, or sell some of its commercial assets.

PfPG anticipates spending GBP400 million over the next 10 years to improve energy efficiency, move towards net zero carbon and bring all of its portfolio up to Energy Performance Certificate level C and above. PfPG manages only 50 buildings over 18 metres tall, none with aluminium composite material cladding, limiting the impact of required fire-safety costs to around GBP15 million a year in the medium term.

PfPG has no specific supply constraints on labour or resources in amount, cost or timing. It has flexible expenditure and limited committed operating spending on staff, currently at around 35% of cash outflows. Brexit has had an impact on the sector as a whole, with fewer maintenance workers available, and shortages and price increases of materials. This has also been coupled with a general inflationary environment caused by global events that has affected all sectors. We expect this to lead to higher operating costs across the sector, which we have factored into our financial assessment.

Financial Profile:

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 diversification into non-core business should allow PfPG to maintain sufficient revenue to service debts and cross-subsidise development of new homes.

PfPG maintains 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, with a likely rent cap, 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, supported by recent mergers with other RPs (specifically Chorus and Derwent), which will be collapsed into the group during FY23. 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 750 affordable housing units in the financial year to March 2022 and will develop another 10,000 social or affordable units over the next 10 years through its strategic partnership with HE and as part of the ongoing strategy of PfPG. This will comprise different tenures across the UK.

Fitch's rating case scenario expects PfPG's turnover to increase to about GBP900 million on average between FY23 and FY27, with EBITDA averaging at GBP281 million. Net adjusted debt is expected to increase to about GBP3.3 billion by FYE27, following investments in new and existing stock. However, net adjusted debt/EBIDTA is likely to return to below 11x (FYE22: 14.5x) and in line with the lower end of 'A' category peers. At FYE22, PfPG reported GBP850 million of operating revenue (FYE21: GBP817 million) and EBITDA of GBP214 million. Adjusted debt at FYE22 was GBP3.2 billion (FYE21: GBP3.1 billion).

Derivation Summary

Under Fitch's GRE Criteria, the agency assesses status, ownership and control as 'Strong', support track record and expectations as 'Moderate', the socio-political implications of default as 'Moderate' and the financial implications of default as 'Weak'. This gives a total support score of 12.5, leading to a bottom-up rating approach + one notch under our notching guideline table.

Short-Term Ratings

PfPG's 'F1+' Short-Term IDR is in line with its 'A' IDR and considers the neutral liquidity assessment.

Liquidity and Debt Structure

PfPG's board and management follow a prudent approach to risk and debt. The debt repayment profile is overall long-term and smooth, which mitigates repayment pressure. It faces a peak refinancing need in FY24, but we do not expect any refinancing risk, given that it has the capacity to generate surpluses, as well as good access to the capital markets, with high-value assets on its balance sheet.

PfPG's treasury policy requires minimum 18 months forward-cash commitment, and the company currently has almost GBP900 million in undrawn facilities, and about GBP1 billion in overall available liquidity. PfPG is one of the few SH issuers to follow an unsecured debt approach, with around 70% of its debt unsecured.

In general, PfPG's debt is similar to sector peers, spread across bonds, a revolving credit facility and term loans with limited near-term maturity. It expects to fund a significant amount of development through grant funding, with GBP250 million recently approved by HE.

Issuer Profile

At 31 March 2022, PfPG owned or managed around 230,000 housing units (including around 70,000 social and affordable), which makes it one of the largest RPs in England.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A multi-notch downgrade of the sovereign's ratings, deterioration of net debt/EBITDA to above 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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

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. 01 Sep 2021) (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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