

CREDIT OPINION

21 December 2018

✓ Rate this Research

RATINGS

Places for People Homes Limited

Domicile	United Kingdom
Long Term Rating	Baa1
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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Places for People Homes Limited

Update to credit analysis

Summary

The credit profile of [Places for People Homes Limited \(Baa1, Stable\)](#) reflects its large and diverse operations, strong liquidity policy and solid liquidity position. Counterbalancing the strengths of Places for People are weak profitability relative to peers and an opportunistic strategy with operations diversified away from core social housing lettings. The rating further takes into account our assessment that there is a strong likelihood that the [UK government \(Aa2 stable\)](#) would intervene in the event that the association faced acute liquidity stress. Places for People Homes is the key operating subsidiary of and fully owned by Places for People Group Limited. As such, commentary for Places for People Homes relates to consolidated accounts of the entire Places for People Group.

Exhibit 1

Places for People has continued to diversify away from social housing lettings



Source: Places for People and Moody's

Credit Strengths

- » One of the largest providers of social housing in the country with diverse operations
- » Strong liquidity position supported by conservative liquidity management practices
- » Strong regulatory framework

Credit Challenges

- » Opportunistic strategy combined with significant exposure to commercial activities
- » Weak overall profitability and low interest cover ratios
- » Relatively high gearing with some complexity in debt portfolio
- » Operating environment remains challenging but policy is more stable

Rating Outlook

The stable outlook on Places for People reflects the currently stable operating environment for housing associations, which is unlikely to undergo further material change in the medium term, and the stable outlook on the sovereign rating. It also reflects our view that Places for People's strong liquidity policy will continue to mitigate against the risks associated with its opportunistic strategy.

Factors that Could Lead to an Upgrade

Positive pressure on the rating could result from one or a combination of the following: improved profitability with operating margins sustained above 30%, higher interest cover ratios, debt falling below 50% of assets at cost, a less opportunistic strategy, and reduced exposure to commercial activities.

Factors that Could Lead to a Downgrade

Negative pressure could be exerted on the rating by one or a combination of following: further expansion of commercial activities or underperformance in non-social housing activities, interest cover ratios falling below 1.0x, or a material increase in debt beyond what is expected in the business plan. In addition, a weaker regulatory framework, a dilution of support from the UK government or a downgrade of the UK sovereign rating could also exert downward pressure on the rating.

Key Indicators

Exhibit 2

P4P Homes								
	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19*	31-Mar-20*	
Units under management (no.)	142,125	138,884	152,783	181,316	196,904	197,501	198,543	
Operating margin, before interest (%)	23.4	17.9	19.8	19.8	23.8	24.8	23.7	
Net capital expenditure as % turnover	22.2	20.5	11.1	24.4	21.3	35.8	1.0	
Social housing letting interest coverage (x times)	1.0	1.3	1.2	1.3	1.4	1.1	1.1	
Cash flow volatility interest coverage (x times)	1.2	1.9	1.6	1.2	1.2	1.3	1.5	
Debt to revenues (x times)	3.4	3.0	2.7	2.8	3.8	3.5	2.8	
Debt to assets at cost (%)	52.6	56.3	54.4	58.5	61.2	63.0	60.9	

Source: Places for People and Moody's

Detailed Rating Considerations

The credit profile of Places for People, as expressed in the Baa1 stable rating combines (1) a baseline credit assessment (BCA) for the entity of baa3, and (2) a strong likelihood of extraordinary support coming from the federal government in the event that the entity faced acute liquidity stress.

Baseline Credit Assessment

One of the largest providers of social housing in the country with diverse operations

Places for People's scale and track record of acquiring smaller housing associations in difficulty boosts its credit profile and strengthens its political influence. The group is one of the UK's largest social housing landlords and operates nationwide. At year end 2018, Places for People managed nearly 200,000 homes across a wide range of housing tenures across the UK. Places for People employs a variegated strategy across regions, working closely with local governments to meet housing need.

Places for People continued to grow in the last year with the acquisition of Luminus Group (Luminus) in March 2018. Places for People was selected by Luminus to be its merger partner following governance failings at Luminus resulting in a non-compliant governance rating from the Regulator of Social Housing. In FY2017, Places for People acquired Derwent Living (Derwent), which specialises in student housing. Growth through acquisition allows Places for People to expand into new tenures and geographies; the group acquired student housing through the Derwent acquisition, and expanded into Cambridgeshire through its Luminus acquisition.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Strong liquidity position supported by conservative liquidity management practices

Places for People maintains a strong liquidity position underpinned by a conservative policy, a credit strength. Management monitors and forecasts the company's cash requirement on a monthly three-year rolling basis. Places for People's liquidity policy is stronger than the standard seen in the sector and accounts for entity-specific risks. The policy requires immediately available liquidity is in place to cover a minimum 12 months of cash need, including debt repayment, plus a contingency for a maximum of three-month sales slippage and a £30 million buffer to fund opportunistic investments.

As of October 2018, immediately-available liquidity, represented by cash and facilities ready for immediate drawdown, stood at £734 million. Immediately-available liquidity covered 2.2x the forward looking two-year cash need, which exceeds the rated-peer median of 1.5x in FY2017. In addition, Places for People has approximately £400 million of unencumbered assets it could utilise for additional secured borrowing.

Strong regulatory framework

The sector's credit quality will continue to benefit from the strong regulatory framework and oversight by the Regulator for Social Housing. The regulator maintains strong oversight through quarterly returns, long-term business plans, annual reviews and undertaking in-depth assessments of entities, where deemed necessary. Additionally, the regulator has powers to make board member and manager appointments where there has been a breach of regulatory standards. Since October 2017, the regulator has charged fees for social housing regulation as a means of enhancing the independence and maintaining the effectiveness of the regulator.

Opportunistic strategy combined with significant exposure to commercial activities

Places for People have an opportunistic strategy which has led to the organisation engaging in an increasingly diverse range of business streams. Its diversification reflects its strategy not to rely on government grants to fund new social housing developments, but to use surpluses on commercial activities instead. While some of its commercial activities do provide stable cash flows for the group, particularly the long-dated contract-based income from local authorities, overall the strategic unpredictability hinders the credit quality of the association.

Places for People's percentage of turnover from low-risk social housing lettings was only 40% in FY2018, among the lowest of all Moody's-rated housing associations, and is expected to remain low averaging 36% over the next three years. Our view is that the core social housing business remains the least risky and most profitable line of business for HAs.

While development for outright sales and market rent was previously the core of Places for People's commercial activities, more recently the group has expanded its activities by acquiring companies providing: (1) residential property management; (2) leisure facilities management; (3) retirement property management; (4) construction services; (5) development of premium, sustainable homes; (6) green energy solutions; and (7) financial services. In addition, Places for People has registered as a fund manager.

Many of the commercial lines of businesses are located in a subsidiary, Places for People Ventures Limited, which was incorporated in FY2015 with the intent to separate the commercial business from the regulated business with any financing under Ventures arranged on a non-recourse basis. Nevertheless, Ventures was established with a significant investment from Places for People Homes (£185 million) and is ultimately under the control of the Places for People Group board. As such, we consider the group as a whole when assessing credit quality.

Places for People will retain a high (>20% of turnover) exposure to market sales, ranging between 25% and 38% over the next three years. Turnover from market sales reached a five-year high of £148 million, or 17% revenue in FY2017. In 2018, market sales represented 13% of turnover, however, performance on was weak, with a margin of only 9.75%. The group forecasts an improvement in market sales performance, with sales margins expected to average 18% over the next three years.

Weak overall profitability and low interest cover ratios

Places for People's overall profitability for the group has improved but is expected to remain weak relative to peers, despite strong performance on its social housing lettings business. The group's operating margin strengthened to 24% in FY2018 from 20% the year earlier, compared to a rated peer median of median of 30% in FY2018. Profitability will remain low but stable over the next three years, averaging 25%. The relatively lower operating margin is a result of high and continuing diversification of Places for People's activities; profitability on its core social housing lettings business in FY2018 was a very strong 48%.

Social housing letting interest coverage (SHLIC) is an important metric particularly for very diverse organisations like Places for People since it measures the ability of core, low-risk activities to cover interest costs. This measure has been low for Places for People over the last five years, averaging 1.2x compared to rated peers' FY2018 median of 1.6x. SHLIC did improve in FY2018 to a five-year high of 1.4x, but is expected to decline and remain between 1.1x and 1.2x over the next three years.

Places for People's continued expansion into activities with less predictable financial performance than the low-risk social housing lettings business increases the potential for cash flow volatility. Cash flow volatility interest cover (CVIC), which adjusts for volatility in pre-interest cash flow from operations, was 1.2x in FY2018 compared to rated peer median of 1.85x. CVIC is expected to strengthen but remain below that of its rated peers, averaging 1.6x over the next three years.

Relatively high gearing combined with some complexity in debt portfolio

Places for People will retain a relatively high level of indebtedness relative to peers, a credit challenge. The group's debt increased to £3.0 billion in FY2018, up from £2.4 billion a year earlier. The increase was driven by new borrowing as well as the inclusion of £200 million of Luminus debt, the housing association acquired by Places for People in March 2018.

The increase in debt in FY2018 resulted in an increase in Places for People's gearing ratio (debt to assets at cost) to 61%, up from 59% a year earlier and well above the median of 49% for rated peers in FY2018. Debt will continue to grow but at a slow pace, reaching £3.4 billion by FY2021. Gearing will increase further to 63% in FY2019 but then decline and remain stable around 60% for the next three years. Due to its sizeable turnover generation across different business streams, debt to revenues will remain strong compared to peers, averaging 3.1x over the next three years, compared to a rated peer median of 3.9x in FY2018.

Places for People has some complexity in its debt structure including foreign currency-denominated debt, mark-to-market exposure, and unsecured borrowing. In order to mitigate the risk of fluctuations in its foreign currency borrowing (USD, JPY, HKD, AUD and EUR) the group uses standalone currency interest rate swaps, which had a mark-to-market value of £55.8 million at year end 2018. While the debt portfolio is more complex than some of its peers, the diversification of its investor base does widen its access to capital.

Places for People's medium-term objective is to borrow 60% of its debt on an unsecured basis, which is relatively unique for the sector as most peers borrow on a secured basis. At year end 2018, the amount of unsecured debt stood at 53% of total debt. The unsecured debt is subject to an unencumbered assets test of 1.1x.

Operating environment remains challenging but policy is more stable

We do not expect additional material adverse policy shifts for the sector and consider the operating environment to be stable in the medium term. Adverse policies announced in the last few years will continue to strain revenue, especially the effects of the 1% annual decrease in social rents (until FY2020) and Universal Credit (a pillar of broader welfare reform measures). However, housing associations have demonstrated resilience to adverse policies to date and been proactive in mitigating the impact. A reduction in capital grant for new social housing over the last five years has led to increased exposure to market sales activity, which has more than doubled since 2012 to reach 17% of turnover in FY2018 for housing associations that we rate.

Extraordinary Support Considerations

The strong level of extraordinary support factored into the rating reflects the wide-ranging powers of redress available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. Recent history has shown that the UK government (Aa2 stable) is willing to support the sector, as housing remains a politically and economically sensitive issue. The strong support assumption also factors increasing exposure to non-core social housing activities in the sector, that add complexity to HA operations, and the weakening of the sovereign's financial resilience, making an extraordinary intervention slightly more challenging. In addition, our assessment that there is a very high default dependence between Places for People and the UK government reflects their strong financial and operational linkages.

Rating Methodology and Scorecard Factors

The assigned Baseline Credit Assessment (BCA) of baa3 is two notches lower than the scorecard-suggested BCA. The scale and risk profile of its non-social businesses are the main drivers behind the two-notch difference.

The methodologies used in this rating were [European Social Housing Providers](#), published in April 2018, and [Government Related Issuers](#), published in June 2018.

Exhibit 3

Places for People BCA Scorecard - 2018

PfP Homes

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%	196,904	aaa
Factor 3: Financial Performance			
Operating Margin	5%	23.8%	baa
Social Housing Letting Interest Coverage	10%	1.4x	baa
Cash-Flow Volatility Interest Coverage	10%	1.2x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.8x	baa
Debt to Assets	10%	61.2%	b
Liquidity Coverage	10%	2.2x	aa
Factor 5: Management and Governance			
Financial Management	10%	ba	ba
Investment and Debt Management	10%	ba	ba
Suggested BCA			baa1

Source: Moody's Investors Service, Places for People

Ratings

Exhibit 4

Category	Moody's Rating
PLACES FOR PEOPLE HOMES LIMITED	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
Senior Unsecured	Baa1
Bkd Other Short Term -Dom Curr	(P)P-2
PLACES FOR PEOPLE TREASURY PLC	
Outlook	Stable
Bkd Senior Unsecured	Baa1
PLACES FOR PEOPLE CAPITAL MARKETS PLC	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Baa1
Bkd Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

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