MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
30 January 2020

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RATINGS

Places for People Homes Limited

Domicile	United Kingdom
Long Term Rating	A3
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.

Contacts

Jeanne Harrison +44.20.7772.1751
VP-Senior Analyst
jeanne.harrison@moodys.com

Sebastien Hay +34.91.768.8222
Senior Vice President/Manager
sebastien.hay@moodys.com

Weronika Migula-Gawron +44.207.772.8673
Associate Analyst
weronika.migula-gawron@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
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EMEA	44-20-7772-5454

Places for People Homes Limited (United Kingdom)

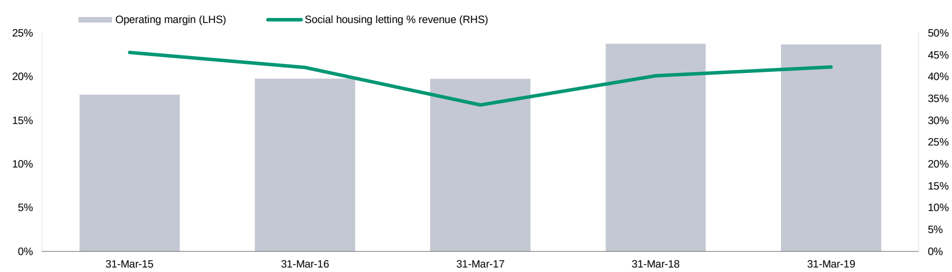
Update following upgrade to A3 stable

Summary

The credit profile of Places for People Homes Limited (A3 stable) reflects its large and diverse operations, strong liquidity, and expected reduction in non-core activities. Counterbalancing the strengths of Places for People are weak profitability relative to peers and an opportunistic strategy with a high proportion on non-social housing income. The rating further takes into account our assessment that there is a strong likelihood that the UK government (Aa2 negative) 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's operating margin has strengthened; revenues will remain diverse



Source: Places for People, Moody's Investors Service

Credit Strengths

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

» Strong liquidity position and unencumbered assets

» Supportive institutional framework in England

Credit Challenges

» Opportunistic strategy combined with significant exposure to commercial activities

» Improved but weak profitability

» Relatively high gearing

Rating Outlook

The stable outlook on Places for People reflects our view that strategic change to focus more on its social housing activities, a strengthening in profitability, and high liquidity are balanced by the group's opportunistic approach and high gearing relative to peers.

Factors that Could Lead to an Upgrade

An upgrade to Places for People's rating could be driven by a material improvement in interest cover ratios, a reduction in gearing to levels near 50%, or a further reduction in the group's exposure to non-core activities.

Factors that Could Lead to a Downgrade

A downgrade could result from material underperformance relative to forecasts for interest cover ratios, a reversal in strategy to incorporate a higher level of non-core activities or development risk, or a material weakening of its liquidity position. In addition, a weaker regulatory framework or a dilution of support from the UK government could also exert downward pressure on the rating.

Key Indicators

Exhibit 2

PfP Homes

	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20 (F)	31-Mar-21 (F)
Units under management (no.)	138,884	152,783	181,316	196,904	194,880	196,675	198,204
Operating margin, before interest (%)	17.9	19.8	19.8	23.8	23.7	24.0	24.3
Net capital expenditure as % turnover	20.5	11.1	24.4	32.4	38.5	32.2	14.1
Social housing letting interest coverage (x times)	1.3	1.2	1.3	1.3	1.2	1.4	1.4
Cash flow volatility interest coverage (x times)	1.9	1.6	1.2	1.1	1.0	1.4	1.4
Debt to revenues (x times)	3.0	2.7	2.8	3.7	3.4	3.5	3.5
Debt to assets at cost (%)	56.3	54.4	58.5	60.6	59.5	60.3	59.8

Source: Places for People, Moody's Investors Service

Detailed Rating Considerations

On 28 January 2020 Moody's upgraded Places for People's rating to A3 from Baa1; outlook stable. The drivers behind the upgrade were a reduction in non-core activities, an improvement in profitability expected to continue, and high liquidity.

The credit profile of Places for People, as expressed in the A3 stable rating combines (1) a baseline credit assessment (BCA) for the entity of baa2, 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 with diverse operations and modest capex

Places for People is one of the UK's largest social housing landlords and operates nationwide. At year end 2019, Places for People managed nearly 200,000 homes across a wide range of housing tenures across the UK. Of these, approximately one-third are social housing, with two-thirds other tenures including market rent and student housing.

Places for People's operations are more wide-ranging than most of its rated peers. The group operates 20 different companies and has a substantial portion of non-housing income; the largest proportion of non-housing income in fiscal 2019 was £158 million for leisure facilities (approximately 19% of turnover). While the group's diversification does insulate it from weaknesses in particular markets and can strengthen relationships with local authorities, some of its activities are less profitable than traditional social housing and therefore weigh on the group's profitability and interest cover ratios.

Places for People's development strategy is focused on placemaking and regeneration with an aim to develop mixed-tenure communities and serve a wide range of tenants and tenant needs. Places for People employs a variegated strategy across regions, working closely with local governments to meet housing need.

The group's strategy incorporates continued growth primarily through new development, but the group is open to additional acquisitions. The five-year development plan includes 11,000 new homes delivered, with more than half (55%) social rented homes, 9% shared ownership, and 32% outright sales. The group has scaled back its market sales compared to the previous business plan due to higher capital grant as part of its Strategic Partnership with Homes England, a credit positive.

Despite a significant development pipeline, Places for People's net capital expenditure (capex) to turnover ratio will remain modest. Net capex to turnover will average 21% over the next three years compared to a rated peer median of 24% (fiscal 2019).

Places for People has successfully acquired two housing associations in the last three years which sought merger partners following non-compliant regulatory scores: Derwent Living in January 2017 and Luminas (since renamed Chorus) in March 2018.

Strong liquidity position and unencumbered assets

Places for People maintains a strong liquidity position which strengthened further in fiscal 2019 due to management's decision to hold higher liquidity to mitigate elevated economic and political risk in the UK. The proactive response of management to increase liquidity was a driver of the upgrade in January 2020.

As of September 2019, immediately-available liquidity, represented by cash and facilities ready for immediate drawdown, stood at a strong £826 million. Immediately-available liquidity covered 1.9x the forward looking two-year cash need, which exceeds the rated-peer median of 1.6x (fiscal 2019). In addition, Places for People has approximately £525 million of unencumbered assets it could utilise for additional secured borrowing (as of September 2019).

Although the group's liquidity position is stronger than peers, its policy requiring liquidity to cover a minimum 12 months of cash need is weaker than most of its peers' policies, which generally require 18 months' liquidity coverage. Although the policy is less conservative than peers, in practice management does incorporate entity-specific risks when determining appropriate liquidity such as the exclusion of debt repayments, inclusion of contingency equal to a three-month sales slippage and a £30 million buffer to fund opportunistic investments. Given the group's modest capex forecasts, we expect liquidity coverage to remain strong over the next three years.

Supportive institutional framework in England

The sector's credit quality will continue to benefit from the strong regulatory framework governing English HAs. The regulator maintains strong oversight through quarterly returns, long-term business plans, annual reviews, and by undertaking biennial In-Depth Assessments for large and complex HAs. Additionally, the regulator has a strong track record of intervention in cases of mismanagement or financial stress with powers to provide financial assistance and/or make manager appointments where there has been a breach of regulatory standards.

The operating environment for English HAs has improved under more supportive policies for social rent increases and capital grant. Following four years of social rent reductions, HAs will benefit from a return to inflation-linked rent increases from April 2020 for five years. In addition, the government has committed to increased capital grant on more flexible terms for new social housing. Counterbalancing the improvements, we expect policy to drive increased borrowing and development risk in the sector as it responds to the government's objective to deliver a significant increase in the construction of new homes.

Opportunistic strategy combined with significant exposure to commercial activities

Places for People have an opportunistic strategy which has led to the organisation engaging in a very diverse range of businesses across six key areas: 1) affordable housing, 2) property management, 3) leisure facilities management; 4) development and construction services, 5) placemaking and regeneration, and 6) fund management. 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 and low profitability of non-core activities hinder the credit quality of the association.

Places for People's percentage of turnover from low-risk social housing lettings was only 42% in fiscal 2019 among the lowest of all Moody's-rated housing associations, and is expected to remain low averaging 42% over the next three years compared to a rated peer median of 78% (fiscal 2019). However, a key driver of the upgrade was an expected increase in social housing income as a share of turnover compared to the previous business plan: this year's business plan has a five-year peak of 48% of compared to the previous year's peak of 41%.

Places for People will retain a high (>20% of turnover) exposure to market sales, ranging between 20% and 28% over the next three years. In 2019, market sales represented 23% of turnover, however, performance on was weak among the weakest of rated peers, with a margin of only 8% compared to a peer median of 22%. The group forecasts an improvement in market sales performance, with sales margins expected to average 18% over the next three years driven by a reduction in low margin legacy sites.

Improved but weak profitability

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 has risen to 24% in fiscal 2019 from a low of 18% in fiscal 2015 and is expected to gradually improve going forward but remain below the rated peer median of 30% (fiscal 2019). 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 fiscal 2019 was a very strong 47%.

Recent improvement in profitability is due to group-wide efforts to reduce costs through digitisation of customer services, lower headcount, procurement savings, and efficiencies from enhanced technologies. The group forecasts a modest improvement in the operating margin going forward, reaching 27% by fiscal 2023. The additional savings are expected to come from further procurement savings in addition to higher margins on its affordable housing.

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' fiscal 2019 median of 1.4x, however, it expected to strengthen going forward. SHLIC will average 1.4x over the next three years as the group delivers planned savings.

Places for People's high market sales exposure 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 1.0x in fiscal 2019 compared to rated peer median of 1.6x. CVIC is expected to strengthen over the next three years averaging 1.6x, but will remain below rated peer medians.

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 (net of cash) stood at £2.8 billion in fiscal 2019, stable from the previous year. Growth in revenue and reserves combined with stable debt led to an improvement in key debt ratios in fiscal 2019: gearing (debt to assets at cost) strengthened to 59% from 61% in fiscal 2018, and debt to revenues improved to 3.4x from 3.7x the year before. Although gearing improved in the year, it is expected to remain well above the rated peer median of 49% (fiscal 2019).

Debt will continue to grow but at a slow pace, reaching £3.3 billion by fiscal 2022. Gearing will 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 3.5x over the next three years, compared to a rated peer median of 4.0x in fiscal 2019.

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, HDK, AUD and EUR) the group uses standalone currency interest rate swaps, which had a manageable mark-to-market value of £8.8 million as of September 2019. 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 established a medium-term objective to borrow 60% of its debt on an unsecured basis which it reached in 2019. The strategy to borrow unsecured is relatively unique for the sector as most peers borrow on a secured basis. The unsecured debt is subject to an unencumbered assets test of 1.1x.

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 negative) 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.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Places for People

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Places for People, the materiality of ESG to its credit profile is as follows:

Environmental risks are not material to Place for People's credit profile. Social rented homes in the UK are generally more energy efficient than privately rented and owner-occupied homes. Additionally, housing associations continue to invest in new stock and improving the energy efficiency of existing stock. In line with the rest of the UK, Places for People's main environmental risk exposures relate to water shortage and flood risk. Flood risk is management by country and national authorities, and therefore the burden of adapting to increased flood risk will not fall on Places for People.

Social considerations are material to Places for People's credit profile, in line with the rest of the English housing association sector. In particular, the sector is exposed to risks from socially-driven policy agendas, and is also affected by the impact of demographic trends and customer relations on demand. Socially-driven policy agendas can be credit positive or credit negative for the sector. The broad political support for social housing in the UK is reflected in our analysis of the operating environment in the main body of this report. On the other hand, central government's policy to increase affordability for low-income social housing tenants led to a sector-wide rent cut initiated in fiscal 2017 which was credit negative for the sector. Customer relations and product quality can also have an impact on housing associations. The Grenfell fire tragedy in June 2017 has encouraged higher health and safety standards and led many housing associations to increase spending on the quality of their existing stock. Places for People are focused on social impact and define their social mission more broadly than many of its peers, with wide-ranging programmes and services for its tenants including running leisure centres, providing employment training and affordable credit.

Governance considerations are material to Places for People's credit profile. Places for People's management and governance has improved, a key driver for the upgrade in January 2020, although strategy can be opportunistic at times and less predictable than peers. English housing associations also benefit from a strong regulatory framework and close oversight by the Regulator of Social Housing, as detailed within the main body of this report.

Further details are provided in the “Detailed credit considerations” section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

Rating Methodology and Scorecard Factors

The assigned Baseline Credit Assessment (BCA) of baa2 is close to the scorecard-suggested BCA for fiscal 2019.

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

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%	194,880	aaa
Factor 3: Financial Performance			
Operating Margin	5%	23.7%	baa
Social Housing Letting Interest Coverage	10%	1.2x	baa
Cash-Flow Volatility Interest Coverage	10%	1.0x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	3.4x	baa
Debt to Assets	10%	59.5%	b
Liquidity Coverage	10%	1.9x	a
Factor 5: Management and Governance			
Financial Management	10%	ba	ba
Investment and Debt Management	10%	baa	baa
Suggested BCA			**baa1**

Source: Places for People, Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
PLACES FOR PEOPLE HOMES LIMITED	
Outlook	Stable
Issuer Rating -Dom Curr	A3
Senior Unsecured	A3
Bkd Other Short Term -Dom Curr	(P)P-1
PLACES FOR PEOPLE TREASURY PLC	
Outlook	Stable
Bkd Senior Unsecured	A3
PLACES FOR PEOPLE CAPITAL MARKETS PLC	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	A3
Bkd Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

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