FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - London - 01 Nov 2021: 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 provided below.

KEY RATING DRIVERS

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. Fitch also applies its 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.

PfPG's SCP is assessed at 'a-', reflecting the following rating factors:

Revenue Defensibility: 'Stronger'

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 public-service services at a level that consistently supports the solvency of not-for-profit RPs. In September 2021 it was confirmed that PfPG would be a strategic partner of Housing England (HE) for the 2021 programme, receiving GBP250 million in funding to deliver 4,400 homes.

On their core business, RPs have limited revenue flexibility, as the UK government determines SH rent rises. Between April 2016 and April 2020 rents were reduced by 1% a year, and then returned to consumer price index (CPI) plus 1% for five years from 1 April 2020.

However, due to the increasing share of revenue from non-SH activity, RPs have been gaining 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 being forced to close. PfPG was, however, supported by local authorities and the government through funding and the furlough scheme, respectively.

Operating Risk: 'Stronger'

Operating risk, which covers operating costs and resource management, is assessed 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 has identified that 70% of existing stock meets EPC C requirements and anticipates spending GBP400 million over the next 10 years to bring the remainder of the portfolio to comply with the requirement. PfPG only manages 50 buildings over 18 metres tall, limiting the impact of required fire- safety costs to around GBP15 million a year for the medium term.

Regarding resource-management risk, due to its size and geography of operations, Fitch believes that PfPG is capable of mitigating supply constraints for labour or resources. Brexit has caused initial short- to medium-term turbulence in the financial and housing markets, as well as possible supply restrictions and price increases in some areas of labour and resources. This could lead to increased costs over the long term. PfPG has undertaken significant work to assess Brexit's potential impact on the UK economy, public finances, political continuity and its supply chain and factored this into its stress testing. Fitch therefore expects PfPG to be sufficiently prepared for this risk.

PfPG has stress-tested and run multi-variable scenarios for its business plan. In general, throughout the stress-tested business plan, interest cover and gearing covenants are met, albeit with decreased headroom. In some scenarios, where multiple risks materialise at once, interest cover could be breached, but only when no corrective measures are taken, which is unlikely. Fitch will continue to monitor PfPG's resilience and assess the company's ability to overcome possible further turmoil.

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 increased diversification into non-core business should allow PfPG to maintain sufficient revenue to service debts and cross-subsidise its core business.

The ratings also reflect PfPG's moderate debt, with stable debt metrics and strong liquidity, which we expect to remain stable, despite a sizable development plan. The Stable Outlook reflects Fitch's view that PfPG will continue to show satisfactory performance, despite a weakened operating environment and increased challenges faced by RPs in England, with likely spending increases due to decarbonisation and compliance with Decent Homes 2.

Performance will also 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). 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 more than 2,180 units in financial year to March 2021 and will develop another 4,400 social units over the next five years through their strategic partnership with HE. This will comprise different tenures, across the UK.

Fitch's rating case scenario expects PfPG's turnover to increase to about GBP840 million on average between FY22 and FY26, with EBITDA averaging at GBP260 million. Direct risk (debt and financial leases) is expected to increase to about GBP3.2 billion by FYE26, following investments. However, net direct risk to Fitch-calculated EBIDTA is likely to return to below 12x (FYE21: 12.4x) and in line with the lower end of 'A' category peers. At FYE21, PfPG reported GBP817 million of operating revenue (FYE20: GBP867 million) and

EBITDA of GBP241 million. Direct risk at FYE21 was GBP3.1 billion (FYE20: GBP3.2 billion).

DERIVATION SUMMARY

Under Fitch's GRE Criteria, we assess 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.

RATING SENSITIVITIES

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.

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

-A multi-notch downgrade to 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.

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.

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. PfPG is one of the few issuers in the SH to follow an unsecured debt approach, with around 60% 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 future development through grant funding, with GBP250million recently approved by HE.

ISSUER PROFILE

At 31 March 2021, PfPG owned or managed around 220,000 housing units (including around 70,000 social and affordable), which makes it one of the largest RPs in England.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

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

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Places for People Capital Markets plc		

ENTITY/DEBT	RATING			PRIOR
• senior unsecured	LT	A	Affirmed	A
Places for People Group Limited	LT IDR	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable
	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

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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 Capital Markets plc	UK Issued, EU Endorsed
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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International Public Finance   Supranationals, Subnationals, and Agencies   Europe

United Kingdom
