S&P Global
Ratings

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Places for People Group Ltd.

Primary Credit Analyst:
Karin Erlander, London + 44 20 7176 3584; karin.erlander@spglobal.com

Secondary Contact:
Abril A Canizares, London + 44 20 7176 0161; abril.canizares@spglobal.com

Table Of Contents

Places for People Group Ltd.

Key Rating Factors

Issuer Credit Rating
A-/Stable/--

Enterprise profile	Financial profile
Low-risk earnings and moderate exposure to open-market sales support the strong enterprise profile. • U.K.-based housing association Places for People Group Ltd. (PfP) maintains its focus on low-risk activities and continues to reduce its exposure to more volatile open-market sales activities. • Although a significant proportion of its revenue comes from nonsocial housing rent and leisure facility management, S&P Global Ratings does not anticipate material losses beyond those provisioned in response to the COVID-19 pandemic. • The group's asset quality remains very strong.	Low-margin activities and relatively high debt underpin the adequate financial profile. • Revenue will continue to decrease this year as PfP is reducing its development for sale activities, which we project will result in marginally stronger profitability going forward. • Having repaid funding obtained as the COVID-19 pandemic started over a year ago, we forecast relatively stable debt levels over the next two years, which in combination with steadily improving EBITDA should result in stronger credit metrics through fiscal 2024 (ending March 31, 2024). • The group's liquidity remains very strong, supported by PfP's strong access to the capital markets for funding.

Outlook

The stable outlook reflects our view that the steady revenue from the social housing business will continue to cover PfP's interest expenditure. It also reflects that under our base case, PfP's debt service coverage ratios will gradually strengthen over the next two years.

Downside scenario

We could lower the rating on PfP if we believe that the risk in its core business has heightened. This could occur if management is unable to respond to external pressure, turns its focus away from the core social housing business, or increases its exposure to riskier sales activities. A downgrade could also follow if, for instance, cost pressures result in weaker adjusted EBITDA and EBITDA margins, also leading to the group's debt burden increasing on a sustained basis.

We could also lower the rating if we believe that the likelihood of support from the U.K. government will not extend to the whole group in a timely manner, particularly considering the large nonsocial housing business revenue streams at

PfP.

Upside scenario

We could consider raising the rating if we assess that PfP's sales exposure has fallen below 15% of revenue on a sustained basis. An upgrade could also follow if the group's profitability strengthens significantly, such that debt service coverage and the loan-to-value (LTV) ratio improve.

Rationale

We think that PfP will remain resilient to challenges posed by the COVID-19 pandemic thanks to its focus on low-risk activities. Although a significant proportion of its revenue originates from nonsocial housing rent and leisure facility management, we do not anticipate material losses beyond those the group provisioned in fiscal 2020. We also consider that any losses in these activities would be mitigated by stronger earnings from its affordable rental segments due to favorable rent settlement.

The group continues to reduce its exposure to open-market sales activities to contain the associated risks. Because these activities typically operate at lower margins, we think a reduction will also contribute to the group's stronger profitability going forward. Nonetheless, the large share of revenue coming from low-risk activities results in weak profitability, with S&P Global Ratings-adjusted EBITDA margins lower than those of peers focused solely on social housing.

PfP drew down some of its credit facilities toward the end of fiscal 2020 and obtained £150 million of additional funding from the Covid Corporate Financing Facility (CCFF) in anticipation of setbacks from the pandemic-related lockdown. As we expected, part of the drawn facilities have been repaid and we therefore project that debt levels decreased to less than £3.1 billion by March 31, 2021, from close to £3.2 billion at year-end 2020. We therefore continue to forecast that PfP's debt service credit metrics will strengthen through the forecast period to March 31, 2024, as uncertainties subside.

As for other English housing associations, we believe there is a moderately high likelihood that PfP would receive extraordinary support in case of financial distress. This provides a one-notch uplift from the stand-alone credit profile. PfP's primary purpose is to provide affordable homes, supporting important policy objectives of the U.K. government. We consider that the Regulator of Social Housing (RSH), a government agency, regulates PfP to promote a viable, efficient, and well-governed social housing sector, and maintain lender confidence and low funding costs across the sector. It is therefore our view that the RSH would step in to prevent a default in the sector, based on its record of being willing and able to provide extraordinary support on a timely basis.

As a national registered provider of social housing, PfP owns and manages over 200,000 homes across the U.K. This includes affordable and private rental properties, retirement and care homes, and shared ownership dwellings. The population in England continues to expand, although at a slower pace than previously anticipated, with the Office for National Statistics now estimating average growth of 0.4% annually over the next decade. This growth, combined with our assessment that PfP's social rent is just under 60% of prevailing market rent, supports our view that demand for PfP's properties will remain solid. Our assessment is also supported by PfP's very low vacancy rates, averaging about

1% over the past three years.

We believe that PfP's core social housing and shared ownership rents will continue showing healthy margins. That said, PfP's nonsocial-housing activities--such as management of leisure facilities, property management, development, and construction--operate at much thinner margins, which weighs on the group's consolidated financial metrics. For example, the leisure business typically contributes about 15%-20% to total turnover, but less than 5% to the operating surplus. This results in weaker financial performance, with projected S&P Global Ratings-adjusted EBITDA margins of about 22%-25% through fiscal 2024, below those of peers. However, we consider this part of the group's business as low risk, with minimal capital investment or debt needs.

We forecast a steady but gradual strengthening of PfP's adjusted EBITDA margins over time thanks to higher rents, since the new social rent settlement began on April 1, 2020, and a reduced proportion of low-margins sales activities. We anticipate that higher rents will mitigate the effect of higher investment in rental units, with PfP increasing spending in support of fire safety and enhanced building standards, as well as its environmental sustainability strategy. We understand that PfP aims to reach 100% compliance with the energy performance certificate (EPC) C assessment across its asset base by 2030, and consider that the group is relatively well placed to reach this target with about 70% of homes already compliant.

PfP has a higher debt burden than peers, with interest-bearing liabilities exceeding £3 billion through our forecast period. Although the adjusted debt-to-EBITDA ratio was close to 20x in fiscal 2020, we consider this to be the peak. Looking ahead, following the recent repayment of the drawdown on facilities, we think that PfP's absolute debt will be largely contained at present levels, and that earnings will increase faster than debt, such that the ratio marginally improves over the next three years to less than 17x in fiscal 2024. We apply a stress to rental revenue across our portfolio of housing associations, including PfP, to reflect potential rent losses when the government's furlough scheme ends. This results in higher debt to EBITDA this year, even though the absolute level of debt remains largely unchanged. We also incorporate PfP's high LTV ratio (at cost) of 75% into our debt assessment.

The group's adjusted EBITDA interest coverage is fairly stable, at 1.2x on average over the five-year period covering fiscals 2020-2024, with a marginal strengthening over the next two years. The coverage of interest payments from the social rent and other low-risk businesses is similar.

We consider that PfP has a very strong liquidity position thanks to its high cash levels, substantial amount of undrawn bank lines, and strong access to capital markets. In our base case over the next 12 months, we estimate that sources of cash of more than £1.1 billion will cover uses by about 1.8x.

Liquidity sources include:

- Close to £280 million generated from continuing operations;
- Cash and liquid investments of more than £85 million;
- Undrawn committed bank facilities of £475 million, maturing beyond 12 months; and
- Proceeds from fixed asset disposal and grant funding of about £40 million.

Liquidity uses include:

- Expected capital expenditure of about £225 million; and
- Debt service obligations of about £275 million, after repaying £125 million drawn under the CCFF in mid-March 2021.

Environmental, social, and governance (ESG)

PfP's performance on ESG indicators is broadly in line with that of peers in the social housing sector.

As a provider of social housing, PfP retains a strong focus on its core business of low-income social housing activities and other low-risk activities. This supports our view that volatility should be limited for PfP, while visibility and predictability of future earnings should be solid.

We think that environmental factors could affect the asset quality of providers of social housing, given governments', and in turn regulatory authorities', increasing focus on ongoing and sustainable energy efficiency and carbon neutral key performance targets. In the near to medium term, these efforts could impact group profitability, since investments in the asset base would typically need to increase. Over time, however, we forecast a strengthening of asset quality and ultimately lower costs as homes become more sustainable and energy efficient.

We have a neutral view on PfP's governance and consider it in line with that of most of its peers. We consider PfP's financial policies as more aggressive, reflecting its board's risk tolerance that is slightly above peers'.

Key Statistics

Table 1

Places for People Group--Key Statistics

(Mil. £)	2020a	2021e	2022bc	2023bc	2024bc
Number of units owned or managed	206,293.0	206,893.0	207,770.0	208,462.0	209,365.0
Revenue§	849.2	763.1	717.7	720.9	745.5
Share of revenue from sales activities (%)	26.3	23.6	18.9	15.1	15.2
EBITDA§†	159.1	170.4	155.4	181.9	190.8
EBITDA/revenue §†(%)	18.7	22.3	21.7	25.2	25.6
Capital expense†	283.9	224.3	225.6	206.3	170.3
Debt	3,168.8	3,046.5	3,099.7	3,127.9	3,106.1
Debt/EBITDA §†(x)	19.9	17.9	19.9	17.2	16.3
Interest expense*	142.5	143.9	142.1	143.8	143.7
EBITDA/interest coverage§†* (x)	1.1	1.2	1.1	1.3	1.3
Cash and liquid assets	207.9	106.4	108.4	106.1	103.7

§Adjusted for grant amortization. †Adjusted for capitalized repairs. *Including capitalized interest. 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 Ratings Score Snapshot	
Industry Risk	2
Economic fundamentals and market dependencies	4
Strategy and management	3
Asset quality and operational performance	1
Enterprise profile	3
Financial performance	5
Debt profile	4
Liquidity	2
Financial policies	4
Financial profile	4

S&P Global Ratings bases its ratings on non-profit social housing providers on the eight main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on Dec. 17, 2014, summarizes how the eight factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating. For social housing providers generating more than a third of its consolidated revenues from open market sales, we also refer to the "Key Credit Factors For The Homebuilder And Real Estate Developer Industry."

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, Dec. 17, 2014
- 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

- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 23, 2021
- Building Up Debt: U.K. Social Housing Sector Braces Itself For Borrowing, March 16, 2021
- Global Social Housing Ratings Score Snapshot: December 2020, Dec. 10, 2020
- Global Social Housing Ratings Risk Indicators: December 2020, Dec. 10, 2020
- 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
- U.K. Social Housing Providers Should Remain Largely Resilient To Short-Term Economic Difficulties From COVID-19, April 23, 2020

- COVID-19: Emerging Market Local Governments And Non-Profit Public-Sector Entities Face Rising Financial Strains, April 6, 2020

Ratings Detail (As Of May 26, 2021)*	
Places for People Group Ltd.	
Issuer Credit Rating	A-/Stable/--
Issuer Credit Ratings History	
20-Jun-2018	A-/Stable/--
24-Oct-2016	A/Negative/--
04-Jul-2016	A+/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
EMEA Sovereign and IPF; SovereignIPF@spglobal.com