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Ratings

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Research Update:

U.K.-Based Places for People Group Ltd. ' A-' Rating Affirmed; Outlook Stable

November 24, 2022

Overview

- We project that U.K.-based housing association Places for People Group Ltd.'s (PfP's) performance will be weaker than we previously anticipated, amid the U.K. government's implemented rent cap and inflationary pressures.
- PfP is set to increase its development spend to deliver new homes, which will be funded through a mix of grants, receipts from fixed asset sales, and debt issuance.
- We expect the additional revenues from new social and affordable units to partly mitigate the group's weakening debt metrics.
- We therefore affirmed our 'A-' long-term issuer credit rating on PfP. The outlook is stable.

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Rating Action

On Nov. 24, 2022, S&P Global Ratings affirmed its 'A-' long-term issuer credit rating on U.K.-based social housing provider Places for People Group Ltd. (PfP). The outlook is stable.

At the same time, we affirmed our 'A-' long-term issuer credit rating on Places for People Treasury PLC, a core subsidiary of the group. The outlook is stable.

We also affirmed our 'A-' issue rating on the senior secured and unsecured debt and the £2 billion senior unsecured medium-term note program issued by Places for People Treasury and Places for People Homes, also considered a core subsidiary of the group.

Outlook

The stable outlook reflects our view that the delivery of new social and affordable units, which generate solid rental revenues, will offset risks associated with PfP's exposure to sales and other less traditional activities. It also assumes that management will use the group's flexibility to respond to adverse external factors, thereby preventing the weakening of its credit metrics.

Downside scenario

We could lower the rating on PfP if the group increased its exposure to riskier activities beyond our current expectations, or if management did not act to contain the effect of inflation and other cost pressures. We think this could pressure the group's adjusted EBITDA and interest cover.

Upside scenario

We could consider raising the rating if PfP's S&P Global Ratings-adjusted EBITDA strengthens significantly, reflecting a better performance from the group's core low-risk activities. We expect this would, in turn, have a positive effect on the group's debt service coverage ratios.

Rationale

The affirmation reflects our view that the group has some headroom in its credit metrics to contain the impact of the U.K. government's rent cap for the social housing sector in England (see "Cap On Rent Increases Is Consistent With Our Base Case For English Social Housing Providers," published Nov. 17, 2022, on RatingsDirect), rising inflationary pressures, and risks associated with a recession. We think the group is well positioned to withstand these challenges, supported by its large asset base and flexibility within its business plans. We expect that financial indicators would remain modest, with adjusted EBITDA margins hovering at roughly 20%, reflecting a widening gap between rent increases and high inflation. Despite grant funding and proceeds from the sale of assets and existing homes, PfP still needs to raise debt to fund part of its capital expenditure (capex). We therefore expect the group's debt to nonsales adjusted EBITDA will remain above 20x through to fiscal year 2025 (ending March 31, 2025), and its nonsales adjusted EBITDA interest cover will remain just above 1x.

PfP is one of the largest housing associations in the U.K., which supports our view of its financial capacity and operational performance. With just over 230,000 homes owned and managed, the group's operations are spread over England and Scotland. We consider that the group's social and affordable rent and service charges, compared with average market rent, remains below 60%, supporting the demand for its services and units. Its average vacancy rates stood at 1.5% over the past three years and, although this has increased compared with pre-pandemic levels, we consider it to be in line with the sector's average.

We think the group's large asset base allows for proactive asset management and flexibility around its business plans, both on operating costs and development decisions. PfP has large exposure to less traditional business segments than the typical U.K.-based housing association, including management of leisure facilities, property management, development, and construction services. While we think these could bring more volatility to financial results and carry operational challenges, we think that PfP has adequately managed these risks in the past. We also anticipate that the group's exposure to market sales, including sales revenues generated through joint ventures, will increase but remain below one-third of revenues.

We project the group's adjusted EBITDA margins to remain at stable but modest levels of about 20% over the coming three years. We forecast that adjusted EBITDA will gradually increase, but consider that inflationary pressures, rising investments in existing homes, and large exposure to low-margins activities, including sales, will restrict improvement in the group's margins overall.

We also forecast that the group's debt metrics will remain elevated, reflecting that debt build-up to fund new developments will grow faster than the improvement in adjusted nonsales EBITDA.

We expect capex to ramp up over the next two to three years, funded through a mix of new debt intake, grant funding from PfP's strategic partnership with Homes England, and proceeds from the disposal of existing properties. While the funding need is higher than we previously anticipated, we think the delivery of new social and affordable units, and additional EBITDA generated from these, will to some extent offset pressure on the group's debt metrics. We also note that PfP has a slightly higher average interest rate compared with U.K. social housing peers, partly due to its more varied funding structure, which includes unsecured and foreign currency debt.

We believe there is a moderately high likelihood that PfP would receive extraordinary support from the government via the Regulator for Social Housing (RSH) in case of financial distress. We reflect this in the one-notch uplift from the stand-alone credit profile. As one of the key goals of the RSH is to maintain lender confidence and low funding costs across the sector, we believe the RSH is likely to step in to try and prevent a default in the sector. The RSH has a record of mediating mergers or arranging liquidity support from other registered providers in cases of financial distress, and we think this would apply to PfP.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (for more information, see "Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers," published June 8, 2021).

Liquidity

We consider PfP's liquidity as very strong. Its sources of liquidity are likely to cover uses by about 1.8x over the next 12 months, but we consider that the ratio is temporarily high due to the large amount of undrawn bank lines. Our assessment of the group's liquidity position continues to be supported by our view that PfP has strong access to the debt capital markets.

Liquidity sources include:

- Cash flow from operations, adding back noncash cost of sales, of roughly £290 million;
- Cash balances of close to £30 million;
- Undrawn and available committed bank facilities or bank lines maturing beyond the next 12 months of £970 million; and
- Proceeds from asset sales, grant funding, and other net inflows of close to £250 million.

Liquidity uses include:

- Expected capex, including development spend on units for sale, of close to £480 million; and
- Interest and maturing debt repayments exceeding £350 million.

Table 1

Places for People Group Ltd.--Key Statistics

	--Year ended March. 31--				
Mil. £	**2021a**	**2022e**	**2023bc**	**2024bc**	**2025bc**
Number of units owned or managed	219,616	230,793	232,624	234,029	236,236
Adjusted operating revenue	792.0	825.7	808.8	879.6	942.5
Adjusted EBITDA	171.5	163.3	160.1	179.5	196.0
Nonsales adjusted EBITDA	148.4	143.9	150.8	168.2	181.6

Table 1

Places for People Group Ltd.--Key Statistics (cont.)

	--Year ended March. 31--				
Mil. £	2021a	2022e	2023bc	2024bc	2025bc
Capital expense	126.4	216.4	481.8	479.6	534.5
Debt	3,114.1	3,221.4	3,349.4	3,413.4	3,632.4
Interest expense	140.3	144.1	150.2	155.9	164.2
Adjusted EBITDA/adjusted operating revenue (%)	21.7	19.8	19.8	20.4	20.8
Debt/nonsales adjusted EBITDA (x)	21.0	22.4	22.2	20.3	20.0
Nonsales adjusted EBITDA/interest coverage(x)	1.1	1.0	1.0	1.1	1.1

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Ratings Score Snapshot

Table 2

Places for People Group Ltd.--Ratings Score Snapshot

	Assessment
Enterprise risk profile	3
Industry risk	2
Regulatory framework	3
Market dependencies	2
Management and Governance	3
Financial risk profile	4
Financial performance	4
Debt profile	5
Liquidity	2

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- 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

- Cap On Rent Increases Is Consistent With Our Base Case For English Social Housing Providers, Nov. 17, 2022
- The U.K. Social Housing Sector Now Displays A More Pronounced Negative Bias In Its Creditworthiness, Oct. 11, 2022
- United Kingdom Outlook Revised To Negative On Rising Fiscal Risks; 'AA/A-1+' Ratings Affirmed, Sept. 30, 2022
- Launch Of Rent Cap Consultation Adds Uncertainty To Creditworthiness Across English Housing Sector, Sept. 1, 2022
- Rated U.K. Social Housing Providers' Creditworthiness Could Suffer If The Gap Between Rent And Cost Increases Persists, Aug. 1, 2022
- Non-U.S. Social Housing Providers Ratings Score Snapshot: July 2022, July 27, 2022
- Non-U.S. Social Housing Providers Ratings Risk Indicators: July 2022, July 27, 2022
- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers, June 8, 2021
- Building Up Debt: U.K. Social Housing Sector Braces Itself For Borrowing, March 16, 2021
- 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

Ratings List

Ratings Affirmed	
Places for People Group Ltd.	
Places For People Treasury PLC	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	A-
Places for People Homes Ltd.	
Senior Secured	A-
Senior Unsecured	A-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914