Research Update:

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

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Overview

- We project that continued high investments in existing homes and a large share of low-margin activities will constrain an improvement in Places for People Group Ltd.'s (PfP's) financial performance.
- Furthermore, we expect PfP to continue to ramp up debt-funded development of new homes that, together with a relatively large proportion of variable rate debt, will result in weaker than previously projected debt metrics.
- That said, PfP's metrics should improve somewhat as rents growth is likely to outpace cost increases and levels of investments in existing homes stabilize.
- We therefore affirmed our 'A-' ratings on PfP and the group's debt. The outlook is stable.

Rating Action

On Nov. 24, 2023, 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 finance vehicle that we consider a core subsidiary of the group. The outlook is stable.

We also affirmed our 'A-' issue ratings on the group's senior secured and unsecured debt and the £3 billion senior unsecured medium-term note program issued by Places for People Treasury and Places for People Homes. We consider Places for People Homes to also be a core subsidiary of the group, as an issuer of the group's medium-term note program and the main asset-holding subsidiary.

Outlook

The stable outlook reflects our view that the risks associated with PfP's expansion plans and increasing investments in existing homes are balanced by the large asset base and experienced management.

Downside scenario

We could lower the rating if PfP increased its exposure to riskier activities beyond our current expectations, or if management failed to balance its development ambitions with cost containment. We think these factors could intensify the pressure on the group's EBITDA, as adjusted by S&P Global Ratings, and materially weaken the interest cover.

The rating could also come under pressure if the financial impact of potential mergers weakened the credit metrics further.

Upside scenario

We could consider raising the rating if PfP materially strengthened EBITDA from its core low-risk activities, for example thanks to more effective cost management. We expect such measures would support an improvement of the group's financial metrics.

Rationale

The affirmation reflects our view that, despite reduced headroom on PfP's financial indicators, we anticipate a modest recovery through fiscal the fiscal year ending March 31, 2026 (fiscal 2026). This is supported by our expectation that rent growth will outpace cost increases, alongside benefits from the group's proactive management of increased investments in existing homes. We project that the group will raise debt to fund the development of new homes. This, alongside the combined effect of the current interest rate environment and the fairly large share of the group's variable rate debt, underpin our projection of weaker debt metrics than our previous base case. We therefore revised down to 'bbb' from 'bbb+' our stand-alone credit profile (SACP) on PfP.

The group recently announced it started merger talks with Origin Housing, which owns about 8,000 housing units in London and Hertfordshire. The merger still requires the approval of both boards. Furthermore, England's Regulator of Social Housing (RSH) has put Origin's governance and financial viability gradings under review, suggesting there might be material weaknesses within the group. However, we consider that PfP has a solid track record of absorbing housing associations, including some that were in financial distress. In our base case, PfP's large asset base and operations that are spread over England and Scotland, relative to Origin's size, will help contain negative credit effects from the partnership.

Enterprise profile: Economies of scale from a large asset base spread across England and Scotland support the rating on PfP

PfP is one of the largest housing associations in the U.K., supporting our view of both its financial capacity and operational performance. PfP owns about 70,000 social, affordable, and shared-ownership rental units; Including managed units, the number of units PfP oversees increases to about 240,000, spread over England and Scotland. We consider that the group's social and affordable rent and service charges, compared with average market rent, remains close to 55%, supporting the demand for its services and units. Its average vacancy rates stood at 1.6% over the past three years, and we consider this to be in line with the sector average.

We think the group's large asset base allows for proactive asset management and flexibility around business plans, both on operating costs and decisions on new development spend. PfP has more exposure to non-traditional business segments than the typical U.K.-based housing association, including management of leisure facilities, property management, development, and construction services. Although we think these could bring more volatility to financial results and carry operational challenges, we consider that PfP has adequately managed these risks in the past. Moreover, we anticipate that the group's exposure to market sales, including sales revenues generated through joint ventures, will remain high, yet below one-third of revenues on a sustained basis, as the group responds to challenging market conditions.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published Oct. 23, 2023, on RatingsDirect).

Financial profile: Higher investment in existing homes and debt funding of new homes will weaken PfP's financial metrics

We expect PfP's adjusted EBITDA margins to remain below 20% through fiscal 2026, weaker than its historical performance, however with a modest improvement compared with fiscal 2023. In our view, the weakness in fiscal 2023 reflects the combined impact of cost inflation, regulatory requirements and increased demand for repairs services, while rents increase was well below inflation. We anticipate some of these pressures will persist in the current and next year, before showing slight recovery, as investments in existing homes stabilize and rent increases outpace cost inflation. The group's large share of non-traditional activities, including sales, will constrain further improvement in margins.

We anticipate debt metrics will be weaker than our previous projections, with interest cover averaging just below 1x in our forecast. This is due to a combination of weaker nonsales EBITDA than previously projected and continued debt funding needs for the development of new homes within a higher interest rate environment. Furthermore, the group has about 25% of its debt at variable rate, which puts additional pressure on its interest cover as long as the base interest rate stays high. But we think that interest rate pressure will wind down in the later years of our forecast.

We forecast PfP's liquidity position will remain very strong over the next 12 months, underpinned by a sources to uses ratio of about 1.5x and our view of the group's strong access to external liquidity. Over the coming year, we forecast the group's liquidity sources to stand at about £1.6 billion comprising cash, large amount of undrawn and available revolving credit facilities, asset sales, grant receipts, and cash from operations (adding back the noncash cost of sales), while we forecast liquidity uses to stand at about £1.1 billion (mainly capital expenditure and debt service payments). The group has a diversified pool of lenders and a proven track record of accessing the debt capital markets, which we consider positively in our assessment.

Government-related entity analysis

We believe there is a moderately high likelihood that PfP would receive timely extraordinary government support in case of financial distress. This leads to a two-notch uplift from the SACP. As one of the RSH's key goals is to maintain lender confidence and low funding costs across the sector, it is likely that the RSH would step in to try and prevent a default in the sector, in our opinion. We base this view on previous records of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to PfP.

Selected Indicators

Table 1

Place for People--Financial statistics

	--Year ends March 31--				
Mil. £	**2022a**	**2023a**	**2024bc**	**2025bc**	**2026bc**
Number of units owned or managed	230,793	240,129	240,024	241,486	243,378
Adjusted operating revenue	826	827	822	943	951
Adjusted EBITDA	163	135	151	175	189
Nonsales adjusted EBITDA	145	120	136	149	165
Capital expense	216	385	515	613	589
Debt	3221	3374	3553	3686	3976
Interest expense	144	136	176	175	173
Adjusted EBITDA/adjusted operating revenue (%)	19.8	16.3	18.3	18.5	19.9
Debt/nonsales adjusted EBITDA (x)	22.3	28.2	26.2	24.7	24.1
Nonsales adjusted EBITDA/interest coverage(x)	1.0	0.9	0.8	0.9	1.0

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--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	5
Debt profile	6
Liquidity	2
Stand-alone credit profile	bbb
Issuer credit rating	A-

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "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

Related Research

- Non-U.S. Social Housing Providers Ratings Risk Indicators: November 2023, Nov. 15, 2023
- Non-U.S. Social Housing Providers Ratings Score Snapshot: November 2023, Nov. 15, 2023
- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 20, 2023
- U.K. Social Housing Providers' Credit Headroom Could Tighten If The Operating Environment Deteriorates, Oct. 4, 2023
- European Housing Markets: Sustained Correction Ahead, July 20, 2023
- U.K. Social Housing Borrowing 2023: On Pause, March 28, 2023
- Non-U.S. Social Housing Providers Ratings History: March 2023, March 27, 2023
- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022
- Non-U.S. Social Housing Sector Outlook 2023: The Most Negative Bias Since 2018 Implies Significant Pressure On Ratings, Dec. 1, 2022
- 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
- Launch Of Rent Cap Consultation Adds Uncertainty To Creditworthiness Across English Housing Sector, Sept. 1, 2022

Ratings List

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