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CREDIT OPINION
6 February 2024

Update

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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.

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Places for People Homes Limited (UK)

Update to credit analysis

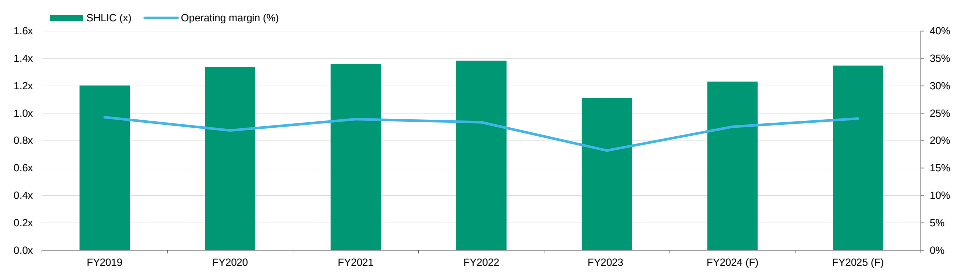
Summary

The credit profile of Places for People Homes Limited (PfP, A3 stable) reflects its large and diverse operations, strong liquidity and expected reduction in non-core activities. This is counterbalanced by its weaker profitability relative to peers and higher proportion of non-social housing income. The rating further takes into account our assessment that there is a strong likelihood that the government of the United Kingdom (UK, Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1

PfP's profitability weakened in FY2023 but is expected to recover

Social housing letting interest cover (x, LHS), operating margin (%, RHS), FY2019-FY2025 (F)



F: Forecast.
Source: PfP, 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

» Weaker profitability underpinned by non-social housing activities

» Relatively high gearing

Rating Outlook

The stable outlook reflects the expected gradual reduction in inflation and associated cost pressures as well as the proactive actions taken by PfP to mitigate the adverse effects of the weaker operating environment, thereby limiting development risk.

Factors that Could Lead to an Upgrade

Upward pressure on the ratings could result from a significant improvement in operating performance, a material reduction in debt or a significant increase in government support for the sector, especially significantly higher levels of capital grants.

Factors that Could Lead to a Downgrade

Downward pressure on the ratings could result from a prolonged weakening in operating performance, debt growing more quickly than forecasts, weaker liquidity or a failure to adapt strategies and risk appetite to mitigate against weaker economic conditions. Lower government support for the sector or a dilution of the regulatory framework could also lead to downward pressure on the ratings.

Key Indicators

Exhibit 2

PfP Homes

	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24 (F)	31-Mar-25 (F)
Units under management (no.)	194,880	206,941	217,297	228,500	237,902	226,161	227,852
Operating margin, before interest (%)	24.3	21.9	23.9	23.4	18.2	22.5	24.0
Net capital expenditure as % turnover	38.9	23.1	12.8	22.9	39.3	43.6	36.3
Social housing letting interest coverage (x times)	1.2	1.3	1.4	1.4	1.1	1.2	1.3
Cash flow volatility interest coverage (x times)	1.0	1.4	1.3	1.6	1.2	1.1	1.4
Debt to revenues (x times)	3.6	3.7	3.8	3.8	4.0	3.9	3.7
Debt to assets at cost (%)	60.0	59.0	58.9	58.6	58.5	57.9	57.9

F: Forecast.
Source: PfP, Moody's Investors Service

Detailed Rating Considerations

PfP's rating combines (1) its Baseline Credit Assessment (BCA) for the entity of baa2 and (2) a strong likelihood that the UK government would act in a timely manner to prevent a default.

Baseline Credit Assessment

One of the largest providers of social housing with diverse operations

PfP, a major UK social housing landlord, manages nearly 240,000 units of varying tenures, with only a third being social housing. It operates over 20 companies and has significant non-housing income, primarily from leisure facilities and outright sales. PfP's operations are far more wide-ranging than most of its rated peers, with only 48% of turnover coming from social housing, as opposed to a median of 75% for rated housing associations.

The group's diversification provides some counterbalance to any weaknesses in particular markets and can strengthen relationships with local authorities. The long-dated contract-based income from local authorities for leisure management, whilst being commercial activities, provide relatively stable cash flows for the group. However, PfP's non social activities are less profitable than traditional social housing and therefore weigh on the group's profitability and interest cover ratios.

PfP intends to refocus on traditional social housing. The group's strategy incorporates continued growth primarily through mergers and new development. PfP'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.

Strong liquidity position and unencumbered assets

PfP maintains a strong liquidity position underpinned by its liquidity policy, in line with peers (requiring sufficient liquidity for a minimum of 18 months forward commitments). As of FY2023, immediately available liquidity stood at almost £790 million, covering 1.3x the forward looking two-year cash need, above the A3-rated peer median of 1.2x.

PfP plans to build 13,600 new units by FY2028, with 48% from socially rented units, 44% market sales (including shared-ownership), 3% supported housing and 4% market rented units. To deliver this development pipeline, PfP's net capex will remain above peers, averaging 41% of turnover over the next three years (A3-rated peer median of 37%).

PfP has approximately £1.8 billion of unencumbered assets it could utilise for additional secured borrowing, which compares well to its funding needs.

Supportive institutional framework in England

The sector's credit quality will continue to benefit from the strong institutional framework governing English housing associations (HAs) reflected in an Operating Environment score of a3 and a Regulatory Framework score of a1. These scores are assigned at a national level and reflect the following credit considerations:

The regulator maintains strong oversight through quarterly returns, long-term business plans, annual reviews, and by undertaking biennial In-Depth Assessments (IDAs) for large and complex HAs. 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 remains supportive. Demand for social housing remains very high and the government has committed to increased capital grant on more flexible terms for new social housing. English HAs retain some expenditure flexibility and have a track record of reducing costs to mitigate lower income.

However, due to high rates of inflation in 2022, the government implemented a 7% ceiling on social rent increases from April 2023 for one year. The ceiling of 7% results in an adverse differential between rental income and cost growth, which we expect will drive lower margins and interest coverage across the sector in FY2024, although PfP is expected to mitigate this through efficiencies. The UK government has confirmed that the English sector will return to rent increases of consumer price inflation (CPI) plus 1% in FY2025, which will be favourable resulting in a rent increase of 7.7% in April 2024, compared to the recent reduction of CPI to 3.9% in November 2023.

Weaker profitability underpinned by non-social housing activities

PfP's profitability is expected to remain weaker than peers due to a focus on non-social housing activities. PfP's operating margin decreased to 18% in FY2023, primarily due to higher management and maintenance costs. The margin was also negatively impacted by increased non social costs, due to one-off provisions.

Social Housing Letting Interest Coverage (SHLIC) decreased to 1.1x in FY2023 but is expected to average 1.3x over the next three years, thanks to rent increases and cost disinflation.

Cash flow volatility interest cover (CVIC) will continue to be contingent on the timely realisation of market sales surpluses, given PfP's high market sales exposure. CVIC was 1.2x in FY2023, and below the A3-rated peer median of 1.6x.

Both interest covers will be negatively impacted by the expected debt increase.

Relatively high gearing combined with some complexity in debt portfolio

PfP will retain a relatively high level of indebtedness relative to peers, a credit challenge. The group's debt stood at £3.4 billion in FY2023, an increase from the previous year. Gearing remains high at 59% in FY2023 compared to A3-rated peer median of 51%, while debt to revenues is at 4.0x below the A3-rated peer median of 4.4x.

Debt is projected to reach £4.2 billion by FY2026 to fund development plan. Nonetheless, growth in reserves will slightly decrease gearing to 58% over the next three years. Due to its sizeable turnover generation across different business streams, debt to revenues will remain strong compared to peers, averaging 3.9x over the next three years, compared to the A3-rated peer median of 4.3x over the same period.

PfP 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 negative mark-to-market value of £3.8 million as of January 2024. While the debt portfolio is more complex than some of its peers, the diversification of its investor base does widen its access to capital.

PfP established a medium-term objective to borrow 60% of its debt on an unsecured basis. As of October 2023, unsecured borrowings constituted 78% of total borrowings. The strategy to borrow unsecured is relatively unique for the sector as most peers borrow on a secured basis.

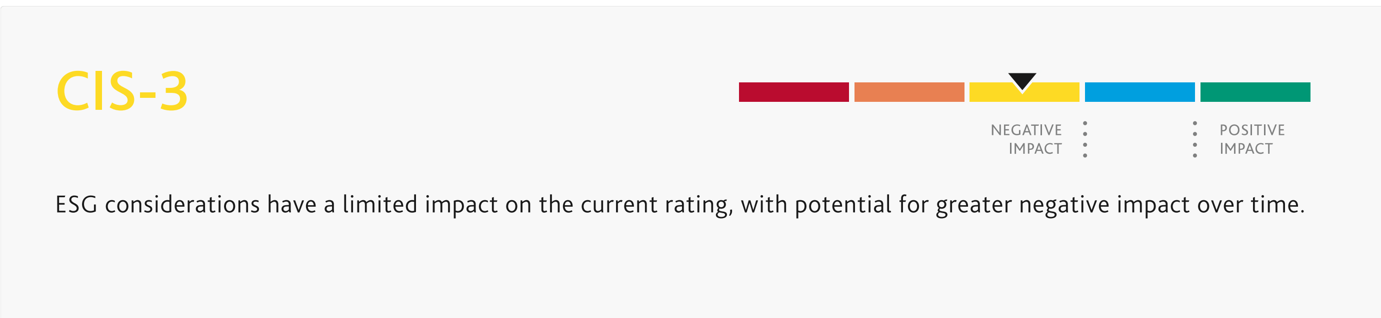
Extraordinary Support Considerations

The strong level of extraordinary support factored into the rating reflects our view of the UK government's support for the housing association sector due to its political, economic and social importance. Extraordinary support for the sector is predominantly exercised through sector regulators whose wide-ranging powers in cases of financial distress include facilitating mergers. However, this process can be protracted and is reliant on HAs agreeing to merge, which is more challenging in a weakened operating environment, with high expenditure pressures and high borrowing costs. In addition, our assessment that there is a very high default dependence between PfP and the UK government reflects their strong financial and operational linkages.

ESG considerations

Places for People Homes Limited's ESG credit impact score is CIS-3

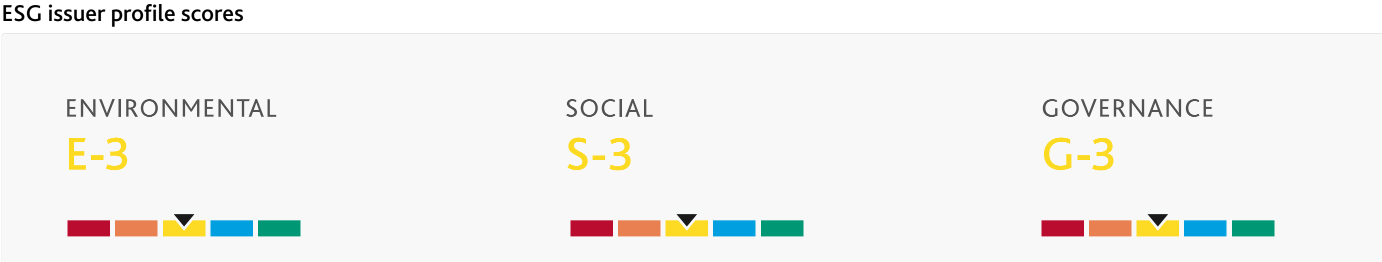
Exhibit 3
ESG credit impact score



Source: Moody's Investors Service

PfP's **CIS-3** reflects our view that ESG risks have a materially negative impact on its rating. In particular, expenditure requirements related to the carbon transition and building safety will weaken margins and increase financing needs, as well as affordability constraints for low-income tenants which have led to government-imposed sub-inflationary rent caps. Higher risk appetite than peers will weaken credit quality.

Exhibit 4
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

PfP has a material exposure to environmental risks (**E-3**) relating to a significant proportion of its stock requiring retrofit to meet energy efficiency standards by 2035 (carbon transition risks), leading to increased expenditure.

Social

PfP has a material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety of existing housing stock (responsible production risks) which weighs on expenditure and operating margins, and the impacts of cost of living or affordability pressures on social tenants (demographic and societal trends) which led to the UK government capping social rent increases below inflation in fiscal 2024 in England, which will also have a negative impact on margins.

Governance

PfP has higher governance risks than most of the sector (**G-3**) due to somewhat weaker management track record than peers, with historically more opportunistic strategies than peers, which has led the organisation to engage in a very diverse range of businesses, a relatively more complex debt structure and more complex organisational structure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating Methodology and Scorecard Factors

The methodologies used in this rating were European Social Housing Providers, published in April 2018, and Government Related Issuers, published in January 2024.

Exhibit 5
PfP's 2023 scorecard

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%	237,902	aaa
Factor 3: Financial Performance			
Operating Margin	5%	18.2%	baa
Social Housing Letting Interest Coverage	10%	1.1x	baa
Cash-Flow Volatility Interest Coverage	10%	1.2x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.0x	baa
Debt to Assets	10%	58.5%	b
Liquidity Coverage	10%	1.3x	a
Factor 5: Management and Governance			
Financial Management	10%	ba	ba
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**baa1**
Assigned BCA			**baa2**

Source: Moody's Investors Service, PfP

Ratings

Exhibit 6

Category	Moody's Rating
PLACES FOR PEOPLE HOMES LIMITED	
Outlook	Stable
Baseline Credit Assessment	baa2
Issuer Rating -Dom Curr	A3
Senior Unsecured	A3
Bkd Other Short Term -Dom Curr	(P)P-2
PLACES FOR PEOPLE TREASURY PLC	
Outlook	Stable
Bkd Senior Unsecured	A3
PLACES FOR PEOPLE CAPITAL MARKETS PLC	
Outlook	Stable
Bkd Sr Unsec MTN -Dom Curr	(P)A3
Bkd Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

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