

RATING ACTION COMMENTARY

Fitch Downgrades Places for People Group to 'A-'; Outlook Stable

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Fitch Ratings - London - 16 Oct 2024: Fitch Ratings has downgraded Places for People Group Limited's (PfPG) Long-Term Issuer Default Rating (IDR) to 'A-' from 'A' and Short-Term IDR to 'F1' from 'F1+'. The Outlook on the Long-Term IDR is Stable.

The downgrade reflects PfPG's worsening financial leverage metrics. Fitch expects PfPG's leverage to remain elevated in the medium term due to persistent cost pressures from ongoing investments in existing stock and the development of new units.

Fitch views PfPG as a government-related entity (GRE) of the United Kingdom (AA-/Stable). Fitch has 'Strong expectations' that the state would provide support to PfPG. Combined with a Standalone Credit Profile (SCP) at 'bbb+', (revised down from 'a-') which is four notches below the sovereign, this leads to a one-notch uplift to the IDR. Continuing high demand for social and affordable housing and ongoing cash flow from rented properties continues to support PfPG's credit profile, despite the challenging economic environment.

KEY RATING DRIVERS

Support Score Assessment 'Strong expectations'

We have 'Strong expectations' of extraordinary support for PfPG in case of need, reflecting a support score of 20 (out of a maximum 60) under Fitch's GRE criteria. This reflects a combination of responsibility to support and incentive to support factors assessment as below.

Responsibility to Support

Decision Making and Oversight 'Strong'

As a private, not-for-profit social housing (SH) registered provider (RP) in the UK, PfPG is not owned by the UK government due to its structure and status. In strict terms there is no legal owner, with all surpluses reinvested to provide social housing. We consider the regulatory framework for English SH as having a robust legal basis, and the Regulator of SH as maintaining sound control and tight monitoring of RPs. The regulator's history of oversight and (non-financial) intervention in (rare) cases of distress is a key factor behind the sector's solidity.

Precedents of Support 'Strong'

PfPG receives financial support through grants from Homes England at varying levels for social, affordable and shared ownership development. This is ongoing to support additional subsidised housing, not to finance debt or prevent default.

Fitch takes into account the support mechanisms the issuer can benefit from, or has benefited from, via its sponsor, the UK. Policy influence is supportive of the financial stability of RPs, with very few entering financial difficulties and none reaching a default scenario. Regulatory restrictions on government support are unlikely to prevent timely intervention in exceptional circumstances

Incentives to Support

Preservation of Government Policy Role 'Strong'

SH is a key public service. There would be no immediate impact on the service in case of default, but there would be a medium-term impact on the provision of service as RPs rely on external financing to finance their maintenance capex and new investments. In the unlikely event of financial default, other RPs could act as substitutes, with only temporary disruption to the service and diminished medium-term service provision due to reduced financial resilience and access to finance.

Contagion Risk 'N/A'

Default would have a minimal impact on the availability or cost of domestic financing for the UK. Fitch considers that if a default occurred, it would be treated as an isolated case of mismanagement. Consequently, this should not affect the sector.

Standalone Credit Profile

PfPG's 'bbb+' SCP reflects a combination of a 'Stronger' risk profile and a financial profile assessed at the upper-end of the 'bb' category, with forecast leverage expected to average 14.3x during the five years to the financial year ending March 2029 (FY29) under our rating case (FY24: 18x)

Risk Profile: 'Stronger'

Fitch assesses PfPG's risk profile at 'Stronger', reflecting the combination of assessments:

Revenue Risk: 'Stronger'

Fitch assesses revenue risk, which covers demand and pricing, as 'Stronger'. Demand for SH across the UK remains strong, and any change in the rents that RPs are allowed to charge would be unlikely to materially affect demand. We assess pricing as 'Stronger' despite a lack of flexibility in setting social and affordable rents. The UK government sets the threshold for annual social rent increases, but PfPG has flexibility over pricing from its non-SH lettings activity, which it uses to cross-subsidise the core business. Fitch expects rent increases to return to CPI+1% from FY24, following the 7% cap that was applied in April 2023 for one year.

PfPG has a significant share of revenue from non-SH activity (41%; with leisure facilities management and property management services contributing 27%, development for sale 7%, and the remainder from non-SH lettings and non-SH construction services), allowing more flexibility to collect enough revenue to cover all costs.

Expenditure Risk: 'Stronger'

PfPG has well-identified cost drivers and low potential volatility in major items. Staff costs are the most rigid cost item and accounted for 46% of cash opex in FY24. This is above the sector average, due to a more complex structure and wide geographic area of operations. There are no material supply constraints on labour or resources.

Maintenance and major repairs costs remained high as PfPG continues to focus on reinvesting in existing stock, with a total GBP219 million spent during FY24 (FY23: GBP151 million). This was also to meet regulatory standards, including the requirement for all homes to have an energy performance certificate of C or above by 2030. The Group plans significant investment in new and existing homes to meet energy efficiency and carbon net-zero targets and has budgeted for a total of GBP 2.6 billion is budgeted over 10 years (on both revenue and capital expenditure)

PfPG has material capex in its medium-term development plans but flexibility to scale back committed schemes, defer uncommitted schemes, and to switch tenure from sale to market rent or affordable rent, supported by grant funding.

Liabilities and Liquidity Risk: 'Stronger'

PfPG's debt is similar to sector peers in that it is spread across bonds, a revolving credit facility and term loans with limited near-term maturity. PfPG is one of the few RPs with unsecured debt (around 84% of total debt in FY24). It also holds some foreign-currency debt, although this is fully hedged through swaps. PfPG has limited exposure to interest-rate risk, as 77% of outstanding debt has fixed rates.

The long-term debt repayment profile is smooth, which mitigates repayment pressure. There are some refinancing peaks, especially in FY26, but we do not expect any refinancing risk, as PfPG generates surpluses and has good access to the debt capital markets and high-value assets on its balance sheet. Its treasury policy requires sufficient liquidity for a minimum of 18 months forward commitments, and at 31 March 2024, it had GBP975 million in undrawn facilities, GBP 119.7 million of cash and cash equivalents, and GBP 1.9 million of short-term investments.

Financial Profile

Fitch assesses PfPG's financial profile at 'bb' and views its performance as adequate, but deteriorating due to challenges in recent years, and those expected in the near term, caused by external macroeconomic pressures.

Fitch stresses management's expectations to achieve its rating-case scenario. We expect PfPG's operating revenue to average about GBP1,268 million between FY25 and FY29. We expect performance to be aided by economies of scale, due to PfPG's size and area of operations, supported by recent mergers with other RPs. Under its rating case, Fitch expects EBITDA to increase significantly to GBP430 million in FY29 from GBP290 million in FY25 (FY24: 197 million).

We expect leverage to decrease as costs diminish, although it will remain raised due to development and investment in existing stock. We project net debt to EBITDA to improve from 18x in FY24, averaging around 14.3x over the five years to FY29, and 13.7x over the three years to FY29 under our rating case scenario. PfPG's underlying credit strength is supported by a strong, high-value asset base, and stable EBITDA/gross interest coverage at below 2x throughout the whole rating case. We expect this credit strength to continue over the five-year forecast period, with non-social activity cross-subsidising the core business.

Additional Risk Factors Considerations

We assess asymmetric risk attributes as 'Neutral' due to a strong regulatory framework, transparent reporting of information and a risk averse debt structure. Debt is mostly fixed rate and vanilla in nature (sterling bonds and bank debt). Governance and management are assessed by the regulator and most RPs have compliant ratings of either G1 or G2. They operate under English law, which is considered strong, and their

Country Ceiling is 'AAA' (United Kingdom). Information quality is strong, with external publications internally and externally audited.

Derivation Summary

PfPG's 'bbb+' SCP is driven by a 'Stronger' risk profile and 'bb' financial profile, and comparison with peers in the sector. We view PfPG as a government-related entity in the UK, with a support score of 20 points. This results in a bottom-up approach, with a one-notch uplift from the SCP to the Long-Term IDR of 'A'

Short-Term Ratings

The Short-Term IDR at 'F1' is the higher of two possible outcomes mapping to PfPG's Long-Term IDR of 'A-', reflecting its strong liquidity metrics.

Debt Ratings

PfPG has several special purpose vehicles (SPVs) that Fitch rates, including Places for People Treasury plc and Places for People Finance plc. Along with Places for People Homes Limited, they issue debt on the capital markets and are rated in line with the group, at 'A-', with long-term senior unsecured ratings for all three, and a long-term senior secured rating for Places for People Homes Limited.

Issuer Profile

PfPG owned or managed around 240,000 housing units (including more than 70,000 social and affordable) at end-FY24, which makes it one of the largest RPs in England. PfPG is an investment partner with the Greater London Authority and a strategic partner with Homes England.

KEY ASSUMPTIONS

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on FY20-FY24 historical figures and FY25-FY29 scenario assumptions

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Sustained deterioration of net debt/EBITDA above 18x on a sustained basis, or an adverse change to our assessment of key rating factors.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

A sustained improvement in net debt/EBITDA below 12x in the medium term, could lead to an upgrade.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

References for Substantially Material Source Cited as Key Driver Rating

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

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Places for People Group Limited	LT IDR	A- Rating Outlook Stable		A Rating Outlook Stable
		Downgrade		
	ST IDR	F1	Downgrade	F1+
	LC LT IDR	A- Rating Outlook Stable		A Rating Outlook Stable
		Downgrade		
	LC ST IDR	F1	Downgrade	F1+
Places for People Homes Limited				

senior unsecured	LT	A-	Downgrade	A
senior secured	LT	A-	Downgrade	A
Places for People Treasury plc				
senior unsecured	LT	A-	Downgrade	A

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Public Policy Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

[Government-Related Entities Rating Criteria \(pub. 09 Jul 2024\)](#)

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ENDORSEMENT STATUS

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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