

## Plymouth Community Homes Ltd.

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**Table Of Contents**

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Key Rating Factors

Outlook

Rationale

Key Statistics

Ratings Score Snapshot

Related Criteria

Related Research

# Plymouth Community Homes Ltd.

## Key Rating Factors

### Enterprise Profile

Low-risk earnings, a strong market position, and low exposure to open-market sales support the strong enterprise profile.

### Issuer Credit Rating

A+/Stable/--

- U.K.-based Plymouth Community Homes Ltd. (PCH) maintains its focus on social and affordable rental homes with limited exposure to market-related activities.
- While operating in a weaker economic market than some of its peers, the robust waitlist should result in solid demand for its properties.
- PCH benefits from a sizable housing stock of nearly 16,000 units with a history of low vacancies below 1%.

### Financial Profile

- Very strong debt profile and liquidity underpin the strong financial profile.
- We expect revenue to increase as more units convert from social to affordable rents and portfolio-wide rent increases are expected throughout 2020, which should help improve margins that are weaker than peers.
- Leverage remains stable, at under 10x, and interest coverage is above 4x but could weaken if PCH accelerates the discretionary spending component of its modernization plan.
- The group's liquidity remains very strong above 4x, following solid funding activity over the past year.

## Outlook

The stable outlook reflects our view that PCH is likely to perform in line with our base-case scenario of solid operational performance, low levels of debt, and robust liquidity, underpinned by adequate government funding secured to address fire safety at high rises.

### Downside scenario

Pressure on the ratings could arise were PCH to largely debt-fund an expansion of a development for sale program or experience significant increases in capital repair requirements substantially beyond our base-case scenario. This would likely affect the group's financial performance, and hence its debt service coverage, as well as our assessment of its financial policies and management.

### Upside scenario

An upgrade would, in our view, mainly depend on PCH's ability to successfully implement its future development and modernization plans. If delivered on time and under budgeted expectations, combined with a material strengthening of the group's profitability, these factors could have a positive impact on our assessment of strategy and management as well as financial policies, all else being equal.

## **Rationale**

PCH's business profile has low risk, given solid demand for social housing assets and ongoing support from the government through the regulatory framework. PCH shows weaker economic fundamentals than some of its peers, such as those in London, with market rent exceeding social rent by 50% in its main area of operation. While this translated into 11% S&P Global Ratings-adjusted EBITDA margins (for fiscal 2019) on its social and affordable housing units, which is below that of peers, expenses per unit continue to improve through operational efficiencies. PCH monitors its carbon footprint in line with the Streamlined Energy and Carbon Reporting framework and has installed solar panels on approximately 2,400 of its homes.

PCH's creditworthiness benefits, in our view, from a moderately high likelihood of extraordinary support from the U.K. government, through the Regulator of Social Housing, in the event of financial distress. The 'A+' rating on the group is therefore one notch higher than the 'a' SACP. Our view of the likelihood of government support is based on PCH's important role for the U.K. government and its public policy mandate. It is also based on the group's strong link with the U.K. government, demonstrated by the government's track record of providing credit support in some circumstances.

Plymouth's population growth is low in the U.K. context, at about 0.46% per year over the next few years (latest Office for National Statistics data), especially compared with areas more closely linked to London (where growth is just below 1.0%). However, we see robust demand for social housing in Plymouth as the social housing waitlist reached 10,000, up 2,000 from the prior year.

PCH was established in 2009 as a large-scale voluntary transfer from Plymouth City Council (PCC). About 15,000 homes were transferred to the group, and since then, it has focused on improving the condition of its stock. PCH has invested significantly in works and repairs, which has boosted the overall satisfactory asset quality and the very low vacancy rates of the properties that has remained below 1% of net rental income, on average, over 2015-2019.

The group is gradually moving its development program toward more market-related activities, but we expect the share of sales revenue to remain below 15% in the next three fiscal years (2020-2022) in line with PCH's "golden rule" set-up. We expect the North Prospect regeneration project, specifically shared ownership first tranches and open-market sales, to be completed by financial year 2024. We understand that land assembly costs are dragging down the surplus upon share ownership first tranche sales but the financial impact is minimal.

We understand PCH is still focusing on social and affordable homes, which we view as less volatile and risky and more predictable, which supports its credit strength. We believe management has the necessary mitigation strategies for recent welfare reforms, enabling it to respond to changes in the sector appropriately.

We view PCH's financial profile as strong, primarily supported by its low leverage, robust interest coverage and very strong liquidity. This is primarily due to the group's limited development program in previous years because it has focused on major refurbishment works related to the stock transferred by PCC. We view PCH's financial performance as adequate but weaker than that of peers; we forecast adjusted EBITDA margins of about 20% in fiscal years (FY)

2020-2022. This is because the group will have to support one-off costs of tower block upgrades and complete the final phase of its North Prospect regeneration scheme. Nevertheless, we expect PCH's margins to increase gradually afterwards and to demonstrate comparatively low leverage in our base-case period. We anticipate debt-to-EBITDA ratios to remain below 10x over the outlook horizon. While we anticipate the increase in development will require more investment, we believe the group has sufficient funding through development grants to complete its five-year strategy and that it will maintain low leverage until 2022.

We consider PCH's debt profile strong, with very low interest costs. The debt profile is 84% fixed, 16% variable, which is in line with its policy. Furthermore, we positively factor in the U.K. central government's funding, secured in 2018 to complete work on tower blocks that carry defective cladding; we expect the final £2.5 million disbursement to occur in FY2021.

### Liquidity

We view PCH's liquidity as very strong and anticipate that sources of funding will cover uses just over 4x in the next 12 months on the back of funding secured to cover tower block upgrades. We consider PCH's access to external liquidity satisfactory.

Principal sources of liquidity include:

- £16 million of cash flow from operations
- £11 million of cash and liquid investments
- £64 million of undrawn committed lines that mature after 12 months
- £8 million of U.K. central government funding
- £3 million of proceeds from asset sales

Principal uses of liquidity include:

- £21 million of capital expenditure
- £4 million of interest payments

## Key Statistics

**Table 1**

Plymouth Community Homes Ltd.--Key Statistics					
	--Year ended March 31--				
(Mil. £)	2018a	2019a	2020bc	2021bc	2022bc
Number of units owned or managed	15,858.0	15,961.0	15,955	15,894	15,916
Revenue§	69.3	75.6	70.9	71.4	75.1
Share of revenue from sales activities (%)	8.7	13.1	8.8	7.1	9.1
EBITDA§†	10.9	15.5	10.1	15.6	18.0
EBITDA/revenue §†(%)	15.7	20.5	14.2	21.9	23.9
Capital expense†	30.6	22.5	18.8	16.7	29.1

**Table 1**

<b>Plymouth Community Homes Ltd.--Key Statistics (cont.)</b>					
<b>(Mil. £)</b>	<b>--Year ended March 31--</b>				
	<b>2018a</b>	<b>2019a</b>	<b>2020bc</b>	<b>2021bc</b>	<b>2022bc</b>
Debt	110.5	112.0	115.2	111.8	120.2
Debt/EBITDA §†(x)	10.1	7.2	11.4	7.1	6.7
Interest expense*	4.3	3.4	3.7	3.7	3.8
EBITDA/interest coverage§†* (x)	2.6	4.5	2.7	4.2	4.8
Cash and liquid assets	15.9	13.4	10.4	12.3	11.1

§Adjusted for grant amortization. †Adjusted for capitalized repairs. \*Including capitalized interest. a--Actual. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

## Ratings Score Snapshot

**Table 2**

<b>Plymouth Community Homes Ltd.--Ratings Score Snapshot</b>	
Industry risk	2
Economic fundamentals and market dependencies	3
Strategy and management	3
Asset quality and operational performance	1
Enterprise profile	3
Financial performance	4
Debt profile	1
Liquidity	2
Financial policies	3
Financial profile	3

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: 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: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Why Most Rated U.K. Social Housing Providers Are At Home In The 'A' Category, Dec. 3, 2019
- Global Social Housing Ratings Score Snapshot: December 2019, Dec. 2, 2019
- Global Social Housing Risk Indicators: December 2019, Dec. 2, 2019
- Outlook 2020: Social Housing Providers Face Pressure From Rising Demand and Maintenance Backlog, Nov. 25, 2019
- Credit FAQ: How S&P Global Ratings Assesses Industry Risk For English Social Housing Providers, Aug. 6, 2018

### Ratings Detail (As Of January 22, 2020)\*

#### **Plymouth Community Homes Ltd**

Issuer Credit Rating A+/Stable/--

#### **Issuer Credit Ratings History**

18-Dec-2019 A+/Stable/--

15-Feb-2019 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.

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