

Research Update:

U.K. Social Housing Provider Plymouth Community Homes Ltd. 'A+' Rating Affirmed; Outlook Stable

January 18, 2022

Overview

- We expect Plymouth Community Homes' (PCH) debt service metrics to remain very solid despite its relatively weak profitability, while maintaining an extremely strong liquidity position.
- PCH's focus on social and affordable homes continues to support strong operational performance metrics, and we anticipate that its exposure to sales risks will remain modest.
- We affirmed our 'A+' long-term issuer credit rating on PCH.
- The outlook is stable.

Rating Action

On Jan. 18, 2022, S&P Global Ratings affirmed its 'A+' long-term issuer credit rating on PCH. The outlook is stable.

Outlook

The stable outlook reflects our view that PCH's low debt burden and extremely strong liquidity provide ample headroom, mitigating the group's relatively low profitability.

Downside scenario

We could lower the rating should the spend on its existing assets increase beyond our base-case projections, putting pressure on PCH's financial performance and leading to weaker credit metrics and a significant deterioration of its liquidity position.

Upside scenario

An upgrade would depend on a material strengthening of PCH's financial performance, which would in turn further improve the group's debt service metrics and ensure that the liquidity

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position remains excellent.

Rationale

The affirmation of the ratings reflects our view that PCH's debt service metrics are likely to remain very solid despite its relatively low profitability. We also think PCH is likely to maintain an extremely strong liquidity position.

PCH owns and manages about 16,000 homes in and around Plymouth in the Southwest of England. The group benefits from a solid presence in this area, owning more than 60% of the social rental units, and we see strong demand for its properties, as demonstrated by very solid operational metrics. The group's average social and affordable rents are less than 50% of the average market rent in the area, and vacancy rates are significantly lower than the sector average, at 0.6% on average over the past three years.

PCH continues to generate stable earnings from its social housing activities, representing 80% of the group's turnover. We understand PCH is entering the final phase of a large regeneration project in Plymouth and that expenditure to address fire safety risks on three towers is near completion. The group's spend on the existing assets will remain relatively stable over the next three years, in contrast to many other housing associations, for which such expenditure is increasing. We understand that more than 70% of PCH's homes already meet the Energy Performance Certificate (EPC) C level, and the group is in a good position to reach 100% by 2030 without putting further pressure on its margins.

PCH is looking to increase its development of shared ownership and open market sales units over the next three years. However, we anticipate that sales of these homes, and sales income stemming from sales sold through a joint venture, will gradually increase to about 15% of revenue over the next few years.

Like for other English housing associations, we think there is a moderately high likelihood that PCH would receive extraordinary support from the U.K. government in case of financial distress. This is neutral to the rating because PCH's stand-alone credit profile is at the same level as the issuer credit rating. PCH's primary purpose is to provide affordable homes, supporting important policy objectives of the U.K. government. The Regulator of Social Housing (RSH), a government agency, is tasked with promoting a viable, efficient, and well-governed social housing sector, while maintaining lender confidence and low funding costs. It is therefore our view that the RSH would step in to prevent a default in the sector, based on its record of being willing and able to provide extraordinary support on a timely basis.

We assess the regulatory framework under which registered providers of social housing in England operate as strong, underpinned by their public policy mandate to provide affordable homes. We also consider that the sector benefits from solid ongoing oversight by the RSH. Offsetting these strengths, we consider that providers in England receive relatively low levels of grant funding for the development of affordable homes. We note that providers in England can develop homes for outright sale, using the proceeds as an alternative funding source; however, we think this exposes them to risks and potential volatility compared with providers in other regions. Providers in England are also subjected to negative intervention from the U.K. government in the form of rent-setting constraints or additional spending responsibilities, without adequate additional funding. This weighs on our view of the regulatory framework assessment.

We assess the group's management and governance as solid, reflecting realistic and detailed strategic plans. This assessment also reflects the group's consistent focus on its core activities while very cautiously and gradually moving toward more development of homes for sale. We

consider that PCH is managing a large regeneration scheme in Plymouth without major setbacks or delays, shortly entering the final few stages in the program. We also consider that the group has prudently addressed fire safety risks at three of its towers, covered largely with government grants to offset the related spending.

We expect PCH will spend significantly on the existing homes to maintain the Decent Homes Standards requirement, as well as meeting the EPC C level by 2030. This implies that the group's S&P Global Ratings-adjusted EBITDA margins will remain below 20% through the financial year ending March 31, 2024. The volatility in the group's EBITDA is mostly the result of the cash grants from Homes England and expenditure related to the remediation work to remove cladding on the three towers. We anticipate earnings will be more stable once the group has completed this work in the next few months.

Thanks to the grant funding received for the towers, and PCH's relatively modest increase in development over time, the group's debt is relatively low and its debt service metrics are therefore very strong. We consider that the group's adjusted non-sales EBITDA interest cover will exceed 4x over the next three years, and its adjusted debt to non-sales EBITDA will remain below 10x. These strong debt service metrics, as well as its extremely strong liquidity position, mitigate the weak financial performance.

Liquidity

We assess PCH's liquidity position as extremely strong based on a liquidity ratio of 2.7x and satisfactory access to the capital market for funding.

Sources of liquidity include:

- Cash and liquid investments of about £14 million;
- Cash flow from operations of about £26 million;
- Undrawn committed credit facilities close to £80 million; and
- Grant funding and proceeds from fixed asset of about £7 million.

Uses of liquidity include:

- Capital expenditure, including spend on homes for sale, of close to £45 million; and
- Interest payments of more than £3 million.

Key Statistics

Table 1

Plymouth Community Homes--Key Statistics

Mil. £	--Year ended March 31--				
	2020a	2021e	2022bc	2023bc	2024bc
Number of units owned or managed	16,033	15,960	16,127	16,310	16,573
Adjusted operating revenue	75.5	72.8	75.7	89.3	92.0
Adjusted EBITDA	8.0	14.9	13.7	16.8	18.5
Non-sales adjusted EBITDA	7.6	14.5	13.9	15.7	17.4

Table 1

Plymouth Community Homes--Key Statistics (cont.)

Mil. £	--Year ended March 31--				
	2020a	2021e	2022bc	2023bc	2024bc
Capital expense	19.8	18.1	26.4	34.2	53.5
Debt	127.5	113.5	118.5	118.5	132.5
Interest expense	3.4	3.5	3.4	3.4	3.6
Adjusted EBITDA/Adjusted operating revenue (%)	10.6	20.5	18.2	18.8	20.1
Debt/Non-sales adjusted EBITDA (x)	16.7	7.8	8.5	7.5	7.6
Non-sales adjusted EBITDA/interest coverage(x)	2.3	4.1	4.1	4.6	4.8

a--Actual. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. e--Estimate. N.A.--Not available.

Ratings Score Snapshot

Table 2

Plymouth Community Homes--Ratings Score Snapshot

	Assessment
Enterprise risk profile	2
Industry risk	2
Regulatory framework	3
Market dependencies	1
Management and Governance	3
Financial risk profile	3
Financial performance	5
Debt profile	2
Liquidity	1

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: 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

- Social Housing Outlook 2022: Green Agenda Takes Root In Investment Plans, Nov. 23, 2021
- How U.K. Public Finance Sectors Fare Under Latest Spending Review, Nov. 11, 2021
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 22, 2021
- 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

Ratings List

Ratings Affirmed

Plymouth Community Homes Ltd.

Issuer Credit Rating A+/Stable/--

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/sourceld/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; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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