

Research Update:

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

January 23, 2024

Overview

- We forecast that U.K. social housing provider Plymouth Community Homes Ltd. (PCH) will maintain very strong debt metrics and liquidity despite increasing its development of new homes.
- In our view, this reflects management's prudent and risk-averse strategy and policies.
- We project PCH's financial performance will improve but remain relatively modest compared with that of many peers.
- We therefore revised our rating outlook to positive from stable on PCH and affirmed our 'A+' long-term issuer credit rating.

Rating Action

On Jan. 23, 2024, S&P Global Ratings revised its rating outlook on U.K. social housing provider PCH to positive from stable. At the same time, we affirmed our 'A+' long-term issuer credit rating on PCH.

Outlook

The positive outlook reflects our view that PCH's credit metrics could remain significantly stronger than peers' over the medium term. We could raise our ratings on PCH over the next two years if the group's financial metrics trajectory improves on a sustained basis and outperforms our base case. This could result from higher revenues from core operations and prudent cost control mitigating the pressure from increased investments in existing and new stock.

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Downside scenario

We could revise the outlook to stable if inflationary cost pressures and investments in existing and new homes result in credit metrics performing in line with or weaker than our current projections.

Rationale

The outlook revision reflects our view that PCH's creditworthiness could strengthen on a sustained basis compared with rated peers'. During a period of economic and regulatory challenges, PCH maintained very strong credit metrics while undertaking significant investments in regeneration schemes and fire and building safety. Over the forecast we project PCH's rent increases will outpace inflation and cost management will contain pressure from continued investments in existing stock. We understand PCH will increase its development of new homes following delays caused by supply constraints, labor shortages, and other external challenges. The group now expects to achieve its annual development ambitions--therefore resulting in increased spend. We anticipate PCH will prudently manage any likely debt increases to mitigate pressure on debt metrics.

Enterprise profile: Supported by strong operational metrics, with limited exposure to sales risk, and sound management

We think PCH benefits from generating most of its earnings in the predictable and countercyclical English social-housing sector. PCH owns and manages roughly 16,100 homes in and around Plymouth in Southwest England. The group retains a solid presence in its area of operations, owning more than 60% of the social rental units. We see strong demand for its properties, evidenced by its solid operational metrics. The group's average social and affordable rents are less than 50% of the average market rent in the area, and the vacancy rate is significantly lower than the sector's--0.6% on average over the past three years. We expect PCH will continue to generate stable revenues from its low-risk social housing activities. Regarding sales risk, we expect sales to grow over the forecast with increased developments, but for exposure to be contained to the sale of first tranche shared ownership and remain limited at less than 10% of the group's adjusted operating revenues. The group had endeavored in a contractual joint venture to engage in outright sales however we understand that due to challenging market conditions, PCH will pause outright sales activity.

Our rating on PCH is supported by our positive view of its management. This is underpinned by the group's realistic and detailed strategic plans and prudent financial policies and risk management. We view management as proactive in adapting to the market environment. We consider that PCH has a track record of managing large regeneration schemes in Plymouth without major setbacks and utilizing grant funding. After wrapping up a decade long scheme by the end of the fiscal year ending March 31, 2024 (fiscal 2024), PCH intends to continue investing in further regeneration projects while tackling maintenance repairs and focusing on energy efficiency. As of March 31, 2023, PCH had about 71% of its stock at Energy Performance Certificate (EPC) C or higher, which is above the sector average of 50%.

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: Exceptional liquidity and very strong debt metrics balance the relatively modest financial performance

We expect PCH's financial performance to remain relatively modest compared to peers, partly driven by the generally low rent in PCH's area of operations. In line with the sector, PCH's investments in existing assets weigh on margins. The group has completed fire and safety investments on three of its tower blocks so we now expect the investment program will focus on enhancing stock quality and energy efficiency. We anticipate related costs to gradually increase over the next two years following delays and reallocation of spend in the current year.

While we project PCH's debt to incrementally increase through new home developments, we expect debt metrics to remain very strong. We project capital expenditure (capex) used for development will increase relative to historical trends--following delays--but to remain contained. We expect debt to nonsales adjusted EBITDA at around 10x over fiscals 2024 and 2025 and for metrics to modestly weaken when more investments in existing homes are anticipated. We view interest rate risk as limited over the next year as PCH reduced its variable-rate exposure by refinancing floating-rate debt with fixed-rate debt in December 2023.

PCH's liquidity position remains a credit strength. We expect liquidity sources to cover uses by about 2.6x over the next 12 months. This is based on our forecast of about £133 million liquidity sources comprising cash, undrawn and available revolving credit facilities, grant receipts, asset sales, and cash from operations (adding back the noncash cost of sales) that will cover liquidity uses of about £51 million (mainly capex, interest, and principal payments). We also assume PCH will continue to have satisfactory access to debt capital markets.

Government-related entity analysis

We think there is a moderately high likelihood that PCH would receive timely extraordinary government related support in case of financial distress. This is neutral to the rating. As one of the key goals of the RSH is to maintain lender confidence and low funding costs across the sector, we think it is likely that the RSH would step in to try and prevent a default in the sector. 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 PCH.

Key Statistics

Table 1

Plymouth Community Homes Ltd.--Key Statistics

Mil. £	--Year ended March 31--				
	2022a	2023a	2024bc	2025bc	2026bc
Number of units owned or managed	16112	16180	16427	16516	16786
Adjusted operating revenue	73.7	76.6	83.3	90.8	96.0
Adjusted EBITDA	10.7	11.0	14.9	15.7	13.0
Non-sales adjusted EBITDA	10.6	10.0	14.0	14.1	11.7
Capital expense	17.5	11.9	47.6	44.8	42.2
Debt	115.5	122.0	130.0	134.3	147.8

Table 1

Plymouth Community Homes Ltd.--Key Statistics (cont.)

Mil. £	--Year ended March 31--				
	2022a	2023a	2024bc	2025bc	2026bc
Interest expense	3.6	4.0	4.8	5.0	5.6
Adjusted EBITDA/Adjusted operating revenue (%)	14.6	14.4	17.8	17.3	13.5
Debt/Non-sales adjusted EBITDA (x)	10.9	12.2	9.3	9.5	12.6
Non-sales adjusted EBITDA/interest coverage(x)	3.0	2.5	2.9	2.8	2.1

a--Actual. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Ratings Score Snapshot

Table 2

Plymouth Community Homes Ltd.--Ratings Score Snapshot

Assessment	Score
Enterprise risk profile	2
Industry risk	2
Regulatory framework	3
Market dependencies	1
Management and Governance	2
Financial risk profile	3
Financial performance	5
Debt profile	2
Liquidity	1
Stand-alone credit profile	a+
Issuer credit rating	A+

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

Related Research

- Non-U.S. Social Housing Sector Outlook 2024: At A Turning Point?, Nov. 29 2023
- 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
- 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; Outlook Action

	To	From
Plymouth Community Homes Ltd.		
Issuer Credit Rating	A+/Positive/--	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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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