

Research Update:

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

January 23, 2023

Overview

- We expect the S&P Global Ratings-adjusted debt metrics of Plymouth Community Homes (PCH) to weaken through our forecast period to March 31, 2025, due to the conversion of affordable rental units into social rental units and higher investments in new and existing units.
- That said, we consider that PCH's debt metrics start their decline from a solid position, and remain significantly stronger than the metrics of many of its peers, despite the group's relatively weak financial performance.
- We affirmed our 'A+' long-term issuer credit rating on PCH.
- The outlook is stable.

Rating Action

On Jan. 23, 2023, S&P Global Ratings affirmed its 'A+' long-term issuer credit rating on U.K.-based social housing provider Plymouth Community Homes Ltd. (PCH). The outlook is stable.

Outlook

The stable outlook reflects our view that PCH will maintain a focus on social and affordable rental homes, supporting solid operational performance metrics. The outlook also reflects our forecast that PCH's strong debt metrics and excellent liquidity position will continue to offset its relatively weak financial performance.

Downside scenario

We could lower the rating should PCH's strategy shift toward the development of more new homes, including those for outright sale, or if the investments in its existing homes increased beyond our base-case projections. This could, in our view, lead to a material weakening of the group's debt metrics.

PRIMARY CREDIT ANALYST

Karin Erlander
London
+ 44 20 7176 3584
karin.erlander
@spglobal.com

SECONDARY CONTACT

Natalia Legeeva
London
44 20 7176 0618
natalia.legeeva
@spglobal.com

ADDITIONAL CONTACT

Sovereign and IPF EMEA
SOVIPF
@spglobal.com

Upside scenario

An upgrade would depend on a material strengthening of PCH's S&P Global Ratings-adjusted EBITDA and financial performance, potentially as a result of higher rental revenues or grant funding and prudent cost control. This, in turn, would ensure that the group's debt metrics remain solid, all else being equal.

Rationale

The affirmation of the rating reflects our view that, despite a weakening through the forecast period to March 31, 2025 (fiscal 2025), PCH's debt metrics will remain strong compared to those of peers, offsetting the group's relatively weak financial performance. We also think that PCH will maintain an excellent liquidity position.

PCH owns and manages around 16,100 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 evident from 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, at 0.6% on average over the past three years.

PCH continues to generate stable earnings from its social housing activities, which represent about 85% of its turnover. The group is gradually increasing its development of new homes, including those for outright sale under a contractual joint venture, and shared-ownership units, the sale of the first tranche of which we consider exposes PCH to sales risk. While we forecast that sales income will increase over the next few years, we think that sales will be contained to less than 10% of the group's adjusted operating revenues, thereby limiting its exposure to sales risk.

We project that PCH's conversion of affordable rental homes into social rental homes through fiscal 2024, in combination with continued investments in existing homes, will put pressure on the group's financial performance in fiscal 2024 and 2025. We think that the resulting reduction in rent will mean that PCH's average increase in social and affordable rents will be below inflation in fiscal 2023 and 2024. We also expect that PCH will spend significantly on its existing homes through fiscal 2025 to maintain and enhance the quality of the homes and attain an Energy Performance Certificate C across the whole portfolio by 2030 (up from 71% on March 31, 2022). We understand that works to address fire safety risks on three tower blocks is complete, but that PCH will now focus on completing capital investment works at another block of flats.

We also forecast a weakening of PCH's debt metrics through fiscal 2025, partly due to the lower adjusted EBITDA, but also to an increase in debt, as PCH will fund a bulk acquisition of units next year largely with debt. However, we think that, thanks to the Homes England grant funding that PCH has received for the remediation work on three tower blocks, and to its relatively modest increase in property development over time, the group's debt metrics remain strong. We also consider that PCH's debt metrics start their decline from a solid position, and remain significantly stronger than the metrics of many of its peers.

We assess PCH's management and governance as solid, reflecting the group's realistic and detailed strategic plans, and its financial policies. This assessment also reflects the group's consistent focus on its core activities, while cautiously and gradually moving toward the development of more homes for sale. We consider that PCH is managing a large regeneration scheme in Plymouth without major setbacks or delays, and will shortly enter the final few stages of the scheme.

Like other English housing associations, we believe 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 (for more information see "Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers," published June 8, 2021).

Liquidity

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

Sources of liquidity include:

- Our forecast of cash from continuing operations, adding back the noncash cost of sales, of about £18 million;
- Cash and liquid investments of about £11 million;
- Undrawn and available committed bank facilities expiring beyond the next 12 months of close to £90 million; and
- Grant funding and proceeds from fixed assets of more than £10 million.

Uses of liquidity include:

- Our forecast of capital expenditure, including spending on homes for sale, exceeding £40 million; and
- Interest and maturing debt repayments of about £5 million.

Key Statistics

Table 1

Plymouth Community Homes--Key Statistics

Mil. £	--Year ended March 31--				
	2021a	2022a	2023bc	2024bc	2025bc
Number of units owned or managed	15,960	16,112	16,220	16,379	16,517
Adjusted operating revenue	72.8	73.7	81.6	80.2	83.2
Adjusted EBITDA	14.9	10.7	17.9	10.5	10.3
Nonsales adjusted EBITDA	14.5	10.6	17.5	9.7	9.8
Capital expense	18.1	17.5	21.3	48.4	22.2
Debt	113.5	115.5	114.0	137.5	146.0

Table 1

Plymouth Community Homes--Key Statistics (cont.)

Mil. £	--Year ended March 31--				
	2021a	2022a	2023bc	2024bc	2025bc
Interest expense	3.5	3.2	3.5	4.0	4.8
Adjusted EBITDA/adjusted operating revenue (%)	20.5	14.6	21.9	13.0	12.4
Debt/nonsales adjusted EBITDA (x)	7.8	10.9	6.5	14.1	14.9
Non-sales adjusted EBITDA/interest coverage(x)	4.1	3.3	5.0	2.4	2.0

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

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 nonprofit 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

- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022
- Non-U.S. Social Housing Sector Outlook 2023: The Most Negative Bias Since 2018 Implies Significant Pressure On Ratings, Dec. 1, 2022
- Bulletin: Cap On Rent Increases Is Consistent With Our Base Case For English Social Housing Providers, Nov. 17, 2022
- United Kingdom, Oct. 24, 2022
- The U.K. Social Housing Sector Now Displays A More Pronounced Negative Bias In Its Creditworthiness, Oct. 11, 2022
- United Kingdom Outlook Revised To Negative On Rising Fiscal Risks; 'AA/A-1+' Ratings Affirmed, Sept. 30, 2022
- Launch Of Rent Cap Consultation Adds Uncertainty To Creditworthiness Across English Housing Sector, Sept. 1, 2022
- Rated U.K. Social Housing Providers' Creditworthiness Could Suffer If The Gap Between Rent And Cost Increases Persists, Aug. 1, 2022
- Non-U.S. Social Housing Providers Ratings History: July 2022, July 27, 2022
- Non-U.S. Social Housing Providers Ratings Score Snapshot: July 2022, July 27, 2022
- Non-U.S. Social Housing Providers Ratings Risk Indicators: July 2022, July 27, 2022
- U.K. Social Housing Sector Borrowing Needs To Rise To Fund Investment In New Homes, March 31, 2022
- Global Regulatory Framework Report Card: Public And Nonprofit Social Housing Providers, June 8, 2021
- ESG Industry Report Card: Public And Nonprofit Social Housing Providers Outside The U.S., Aug. 4, 2020

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/sourceId/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; or Stockholm (46) 8-440-5914

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