MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
9 December 2020

RATINGS

Great Places Housing Group

Domicile	United Kingdom
Long Term Rating	A3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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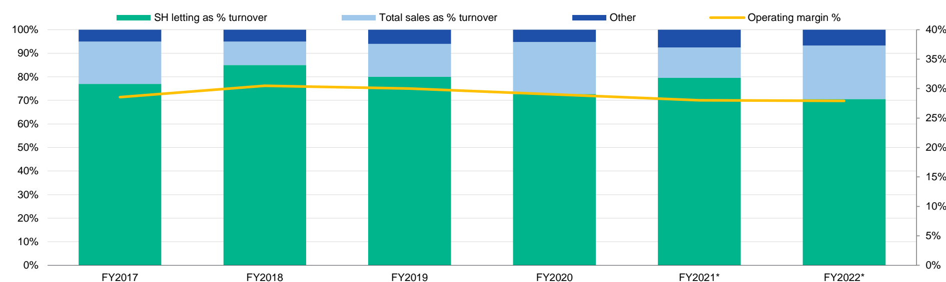
Great Places Housing Group (United Kingdom)

Update to credit analysis

Summary

The credit profile of Great Places Housing Group (Great Places, A3 stable) reflects its good liquidity levels, stable financial performance and debt levels, in addition to increasing exposure to market sales. Great Places' credit profile also benefits from our assessment that there is a strong likelihood that the government of the United Kingdom (Aa3 stable) would intervene in the event that Great Places faces acute liquidity stress.

Exhibit 1
Great Places' operating margin is expected to be stable at around 28% over the next two years, alongside a moderate exposure to market sales at around 18% of turnover over this period
Great Places' operating margin (%), social housing lettings as a percentage of turnover, sales as a percentage of turnover



*FY2021-22 are forecasts.
Source: Great Places, Moody's

Credit strengths

» Good liquidity levels and simple debt structure

» Stable financial performance

» Supportive institutional framework

Credit challenges

» Moderate, but increasing exposure to market sales

» Increasing debt levels to fund development programme, but remaining in line with peers

Rating outlook

The stable outlook on Great Places reflects its stable financial performance and debt metrics.

Factors that could lead to an upgrade

We would consider upgrading Great Places' rating from one or a combination of the following: a material improvement in interest coverage and operating margin; a significant reduction in debt levels, with debt to revenues below 4.0x and gearing at 40%.

Factors that could lead to a downgrade

Negative pressure on the rating could result from one or a combination of the following: (1) a weakening in financial performance, with social housing letting interest coverage falling below 1.0x on a structural basis, (2) a sustained increase in debt to above 5.5x revenue, (3) a significant increase in exposure to market sales beyond what is planned to date. In addition, a weaker regulatory framework or a dilution of the overall level of support from the UK government could also exert downward pressure on the rating.

Key indicators

Great Places Housing Group

	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21 (F)	31-Mar-22 (F)
Units under management (no.)	18,409	18,908	19,171	19,141	19,134	24,043	24,795
Operating margin, before interest (%)	27.4	28.6	30.5	30.0	28.6	28.0	27.9
Net capital expenditure as % turnover	41.9	24.3	16.2	16.0	16.4	39.8	63.8
Social housing letting interest coverage (x times)	1.3	1.2	1.3	1.1	1.2	1.3	1.4
Cash flow volatility interest coverage (x times)	0.9	1.9	1.9	2.1	2.4	1.7	1.6
Debt to revenues (x times)	4.8	4.9	5.5	5.0	4.5	4.6	4.2
Debt to assets at cost (%)	47.2	47.8	46.6	46.9	46.3	43.9	46.0

*FY2021-22 are forecasts.
Source: Great Places, Moody's

Detailed credit considerations

Great Places' A3 rating combines (1) a baseline credit assessment (BCA) for the entity of baa1 and (2) a strong likelihood of extraordinary support coming from the national government in the event that the entity faced acute liquidity stress.

Baseline Credit Assessment

Good liquidity and simple debt structure

Great Places' liquidity position at 1.6x is above the A3 peer median of 1.5x as of FYE2020. The decrease from last year's 2.7x is due to its updated development programme, which increased after its merger with Equity Housing Group as of 1 April 2020. The association's cash and cash equivalents were equal to £39.7 million as of 30 September 2020, and immediately available facilities provided an additional £181.8 million of liquidity.

Great Places' liquidity policy was revised and strengthened in FY2021, partly in reaction to the increased uncertainty in the economic environment due to the coronavirus pandemic. Liquid funds must now equal gross cash outflow plus a contingency amount of £20 million for a rolling three-month period. Short-term funds must equal to its forecast net cash outflow, excluding any forecast proceeds from the sale of assets, for a rolling twelve-month period. The improved liquidity policy is credit positive as it will provide Great Places with more of a buffer over the next two years, when we expect some volatility in the UK housing market.

Great Places has a low level of interest rate risk. Less than 5% of its debt is exposed to variable rates, with the remainder on fixed rates or hedged using standalone swaps - 96.5% of its debt is at fixed rate as of FYE2020. The latest position is in line with Great Places' treasury policy, which requires a minimum of 75% of total debt at fixed rates. Great Places hedges a sizeable share of its interest-rate risk using standalone swaps. After the expiration of a standalone swap of £20 million in August 2020, the total notional value of its swap position was £107 million and had a negative mark-to-market value of £52 million as of the end of September 2020. It currently

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has collateral of £31.5 million in form of property and cash. In addition, its debt maturity profile is also low risk, with 93% of debt maturing after 5 years.

Stable financial performance

Great Places' operating margin was 29% at FYE2020, in line with average performance over the previous three years. Operating performance was driven by a strong increase in outright sales and savings delivered through a range of efficiencies. Great Places merged with Equity Housing Group on 1 April 2020, and expects a projected increase of £20 million (16%) in turnover in 2021 as a result of the merger. Expected costs and savings from the merger have already been built in the business plan, alongside further efficiency savings and increased costs related to major repairs on building safety. Its operating margin is expected to remain stable between 28% and 31%, outperforming expected A3-rated peer medians until FY2024.

Great Places' exposure to market sales is expected to increase from an average of 15% from FY2018 to FY2020, to 20% from FY2021 to FY2023, a moderate level of exposure. Market sales exposure is fairly evenly split between first tranche shared ownership and outright sales. Margins on market sales activity have been decent over the past three years, with an average 15% margin. Great Places expects performance on these tenures to remain strong over the medium term, with an average margin of 12% to FY2023.

Great Places stable cash flows are reflected in its strong cash flow volatility interest coverage metric (CVIC) of 2.4x in FY2020. We expect CVIC to decrease marginally over the next few years as its development programme ramps up, but to stay in line with expected A3 peer medians.

Supportive institutional framework

The sector's credit quality will continue to benefit from the strong regulatory framework governing English HAs. The regulator maintains strong oversight through quarterly returns, long-term business plans, annual reviews, and by undertaking biennial In-Depth Assessments (IDAs) for large and complex HAs. In response to the pandemic, the regulator adapted some aspects of its oversight temporarily, for example, extending its liquidity monitoring, briefly pausing the programme of IDAs and delaying regulatory submissions to reduce the operational burden on HAs. The regulator has a strong track record of intervention in cases of mismanagement or financial stress with powers to provide financial assistance and/or make manager appointments where there has been a breach of regulatory standards.

The operating environment for English HAs has improved under more supportive policies for social rent increases and capital grant. Following four years of social rent reductions, HAs now benefit from a return to inflation-linked rent increases from April 2020 for five years. In addition, the government has committed to increased capital grant on more flexible terms for new social housing.

Counterbalancing the improvements, we expect policy to drive increased borrowing and development risk in the sector as it responds to the government's objective to deliver a significant increase in the construction of new homes.

Increasing exposure to market sales

Great Places' development programme has increased after the merger with Equity Housing Group. It aims to build on the additional borrowing capacity of the merged group and to deliver 11,000 new homes over the next 10 years, with 4,250 units between FY2021 and FY2025. Its previous development programme was for 3,900 units over FY2020 to FY2024. The development pipeline has a projected tenure mix that includes 56% affordable housing, 35% shared ownership, 1% market rent and 8% outright sales. Great Places has achieved strong performance on its market sales development in recent years and, despite the disruption to the housing market caused by the coronavirus pandemic, does not envisage a significant reduction in demand or pricing for these tenures in FY2021 or FY2022.

Net capital spending was 16% of turnover in FY2020, however it is expected to average around 55% in the next 5 years, due to the ramp up in development expenditure over this time and as development catches up with delays due to the coronavirus pandemic.

Increasing debt levels to fund development programme, but remaining in line with peers
Great Places' total debt was £531 million as of FYE2020. Its debt-to-revenue metric was 4.5x, slightly below the A3-rated peer median of 4.6x. Total debt is expected to reach £1bn by FY2025, to fund its development programme. The increase in debt is however offset by the higher revenue generated due to the additional units delivered, meaning that debt to revenues is only expected to increase marginally to 5.0x by FY2025.

Its debt to assets metric was 46% as of FYE2020, well below the peer median of 54%. It is projected to increase to 50% by FY2025. Debt metric stability is contingent on the successful implementation of the group's development programme, in which assets are forecast to grow proportionally with total debt.

Great Places social housing lettings interest coverage (SHLIC) is relatively slim at 1.2x in FY2020, compared to the A3 peer median of 1.3x. However, performance on this metric has been stable for a number of years, and we expect this to continue due to its delivery of stable operating performance on its social housing lettings portfolio, which consistently achieves margins over 30%.

In FY2018, Great Places issued a £145 million tap issue on its bond, taking its total bond facility amount to £345 million. This included a retained element of £70 million, which can be issued at any time. At the end of August 2020, Great Places had additional £161 million committed, undrawn facilities. Its total unencumbered assets position provides additional borrowing capacity of £265 million.

Extraordinary support assumptions
The strong level of extraordinary support factored into the rating reflects the wide-ranging powers of redress available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. Recent history has shown that the UK government is willing to support the sector, as housing remains a politically and economically sensitive issue. The strong support assumption also factors in the increasing exposure to non-core social housing letting activities in the sector that add complexity to housing association operations and the weakening of the sovereign's financial resilience, making an extraordinary intervention slightly more challenging. In addition, our assessment that there is a very high default dependence between Great Places and the UK government reflects their strong financial and operational links.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Great Places
Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Great Places, the materiality of ESG to its credit profile is as follows:

Environmental considerations are not material to HAs' credit profiles. In line with the rest of the UK, the sector's main environmental risk exposures relate to water shortage and flood risk. Flood risk is managed by country and national authorities, and therefore the financial burden of adapting to increased flood risk will not fall on individual housing associations.

Social risks are material to HAs' credit profiles. In particular, the sector is exposed to risks stemming from socially-driven policy agendas affecting social rents, benefits and capital grants in addition to the impact of demographic trends on demand which are captured in our assessment of the operating environment. We view the coronavirus outbreak as a social risk under our ESG framework given its impact on health and safety. Overall, we expect the outbreak to cause ongoing operational disruption for HAs but do not expect a material credit impact as higher arrears and lower market sales receipts will be offset by cash savings from reduced capital spending on development and repairs. HAs are also impacted by customer relations and product quality. The Grenfell fire tragedy in June 2017 has encouraged higher health and safety standards with many HAs planning on increasing spending on the quality of their existing stock.

Governance considerations are also material to HAs' credit profiles and are captured in our assessment of governance and management. In general, housing association governance is strong with multi-year strategies supported by detailed forecasts, conservative liquidity policies, and robust risk management including stress testing.

Further details are provided in the "Baseline credit assessment" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

Rating methodology and scorecard factors

The assigned Baseline Credit Assessment (BCA) of baa1 is the same as the scorecard-indicated BCA.

The methodologies used in this rating were European Social Housing Providers rating methodology, published in April 2018, and Government Related Issuers rating methodology, published in February 2020.

31 March 2020

Great Places Housing Group			
Baseline Credit Assessment	**Sub-factor Weighting**	**Value**	**Score**
Factor 1: Institutional Framework			
Operating Environment	10%	a	a
Regulatory Framework	10%	a	a
Factor 2: Market Position			
Units Under Management	10%	19,134	baa
Factor 3: Financial Performance			
Operating Margin	5%	28.6%	a
Social Housing Letting Interest Coverage	10%	1.2x	baa
Cash-Flow Volatility Interest Coverage	10%	2.4x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.5x	ba
Debt to Assets	10%	46.3%	ba
Liquidity Coverage	10%	1.6x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Suggested BCA			**baa1**

Source: Great Places, Moody's

Ratings

Exhibit 4

Category	Moody's Rating
GREAT PLACES HOUSING GROUP	
Outlook	Stable
Issuer Rating -Dom Curr	A3
Senior Secured -Dom Curr	A3

Source: Moody's Investors Service

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