FitchRatings

Fitch Affirms 2 English Social Housing Registered Providers; Outlooks Stable

Fitch Ratings-Barcelona/London-15 May 2018: Fitch Ratings has affirmed Great Places Housing Group's Long-Term Issuer Default Ratings (IDR) at 'A+' and Origin Housing Limited's Long-Term IDR at 'A'. The Outlooks are Stable. A full list of rating actions is below.

Fitch believes the two registered providers (RPs) are still showing strong performance despite the challenges that have affected the sector over the last few years. Continued high demand for social and affordable housing, implemented cost-efficiency measures and diversification into non-core business, should allow the RPs to maintain revenues sufficient for debt servicing, as well as cross-subsidising the core business. Additionally, the reduced development plans are likely to limit debt growth pressure.

The Stable Outlooks reflect Fitch's view that developments will not have a material negative impact on the sector despite the weakened operating environment and increased challenges faced by RPs in England. The impact of Brexit on the sector, although still uncertain, appears less evident than on other public finance sectors, such as higher education or healthcare, although the possible consequences have already been factored into in RPs' stress tests. At the same time, the Regulator for Social Housing continues its strong oversight.

KEY RATING DRIVERS
Fitch rates social housing RPs in England under its Revenue Supported Rating Criteria and takes into account factors such as revenue defensibility, operating risk and the RPs' financial profile assessment. We also incorporate public support factors, notably the strong predictability of the RPs' cash flow through direct and indirect government funding. Fitch also applies the Government Related Entity Criteria whereby we assess RPs in England as non-credit linked entities and apply a one-notch uplift to the standalone ratings. This reflects the assessment of strength of linkage and incentive to support factors. As a consequence of this approach, RPs' ratings do not automatically move in line with those of the UK sovereign.

Revenue Defensibility: Strong
Demand for social housing remains strong across the country and any change in

the rents that RPs are able to charge would be unlikely to materially affect demand. Nevertheless, the assessment of revenue is somewhat constrained by the lack of control RPs have on rents. The supportive regulatory regime aims to maintain compensation for services at a level consistently supporting solvency for not-for-profit of an essential public service. However, Fitch expects the revenue from housing benefits as a percentage of total revenues to eventually fall, due to the increased revenues from non-social housing activity in order to finance development plans to compensate for rent cuts and reduced grants. Regarding this aspect of their portfolios, RPs have the independent ability and full flexibility to collect revenues sufficient to cover all costs.

Operating Risk: Strong
The sector has well-identified cost drivers and low potential volatility in major items. The RPs have material capex in their development plans in the medium term but have opportunities to slow down committed schemes, defer uncommitted schemes as well as switch tenure from sale to market rent.

Regarding resource management risk, there are unlikely to be supply constraints for labour or resources. The RPs have factored the Brexit vote and its potential impact on the UK economy, public finances and political continuity into their stress testing. The implications for the sector will primarily be continued uncertainty and short- to medium-term turbulence in the financial and housing markets, which may lead RPs to further delay any planned bond issuances, and put pressure on refinancing. Nevertheless, in March 2018 Great Places issued GBP75 million bonds with a further GBP70 million retained at 3.34% and a 2042 maturity. In June 2017, Origin took advantage of the low interest rate environment to obtain GBP30 million new funding at 3.07% for 15 years through a private placement.

The RPs have already stress tested and ran multi-variable scenarios for their business plans (BPs). Critical variants include loan portfolios being repriced at higher lending margins, sales prices falling, delays in sales, inflation and increasing arrears and bad debt and political factors including further rent reductions. To mitigate these effects and to be able to comfortably meet covenants, the RPs have put forward corrective measures, including pre-emptive and responsive actions. Fitch will continue to monitor the resilience of the RPs and assess their ability to overcome possible further turmoil. We will also closely review the robustness of the stress testing of the RPs relative to their ratings, including the impact of the Brexit vote on their BPs, and we will assess the RPs' flexibility to adapt to new market conditions.

Financial Profile: Strong
Both RPs have maintained a strong performance, which we expect will improve, aided by continued but conservative development plans. Profits from the sale of

private sale units will be re-invested in the RPs to continue to build and provide affordable social units. Over half and up to 80% of total turnover continues to come from social housing lettings, despite increases in sale and other non-social housing activity. Debt will continue to increase to fund capital expenditure on development programmes.

Great Places manages just under 19,000 units in northern England and the Midlands. The group reported turnover of GBP110 million in FY17 and an operating surplus of GBP34 million. Debt rose to GBP535 million at FYE17 and is forecast to peak at GBP653 million in FY22 over the next five years. Total turnover is forecast to rise to GBP136 million in FY22 and operating surplus to GBP43 million in the same year. The operating margin is expected to range between 30%-32%, interest cover is expected to remain well above the golden rule level of 140% and gearing is not expected to approach the golden rule limit of 55%. Great Places has developed about 5,500 units over the last decade and intends/plans to develop at a similar scale.

Origin manages just under 6,650 properties in North London and Hertfordshire. The group reported turnover of GBP59 million in FY17 and an operating surplus of GBP19 million. Debt rose to GBP310 million at FYE17 and according to its 2017 Business Plan is forecast to peak at GBP425 million in FY19. The operating surplus is forecast to peak at GBP37 million in FY22. Origin has golden rules in place so that for gearing, it will have at least GBP10 million headroom over the tightest gearing covenant for the next year and GBP20 million thereafter. For interest cover it will have headroom at least to the tightest interest cover plus 10%. The group developed just under 600 units over the four years to FY17 and aims to develop just over 1,000 new homes by 2022 with an expected tenure split of 38% for social rent, 37% for shared ownership, 5% for market rent, 10% for private sale and 10% though JVs. Given the uncertainty in the London property market, Origin is seeking to limit exposure by reducing the overall development programme and size of development schemes.

RATING SENSITIVITIES
The standalone ratings may be downgraded if there is further pressure on the sector or on individual RPs as a result of the negative operating environment in the UK.

The ratings may also be downgraded in the event of:
- Greater pressure on headroom on existing interest cover and gearing covenants.
- Further reliance on sales receipts than those currently expected.
- Increased volatility in operating revenue as a result of higher exposure to development activities and a significant increase in gearing and net debt/EBITDA ratios.

- Further changes passed by government negatively affecting the revenues of RPs.

The Outlook on the UK sovereign is Negative and in the event of further downgrade Fitch may re-assess the impact that the sovereign credit metrics weakening would have on the RPs' standalone credit profiles, notching uplift and ratings relativity.

The rating actions are as follows:

Great Places Housing Group Limited:
Long-Term Foreign- and Local-Currency IDRs affirmed at 'A+'; Outlooks Stable
Short-Term IDR affirmed at 'F1'
Long-term local currency secured bonds affirmed at 'A+'

Origin Housing Limited:
Long-Term Foreign- and Local-Currency IDRs affirmed at 'A'; Outlooks Stable
Short-Term IDR affirmed at 'F1'

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Additional information is available on www.fitchratings.com

Applicable Criteria

Government-Related Entities Rating Criteria (pub. 07 Feb 2018)

(https://www.fitchratings.com/site/re/10019302)
Rating Criteria for Public-Sector, Revenue-Supported Debt (pub. 26 Feb 2018)
(https://www.fitchratings.com/site/re/10020113)

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