

# Great Places Housing Group Limited

## Update

### Ratings

#### Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

#### Local Currency

Long-Term IDR	A+
---------------	----

### Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

### Financial Data

#### Great Places Housing Group Limited

	31 Mar 16	31 Mar 15 restated
Total operating revenue (exc. transfers and grants from public sector) (GBPm)	103.9	89.5
Transfers and grants from public sector (GBPm)	0.0	0.0
Operating balance (GBPm)	28.5	30.6
Total risk (GBPm)	499.8	470.8
Total assets (GBPm)	1,119.9	1,078.6
Equity and reserves (GBPm)	39.5	29.8
Fitch-calculated EBITDA gross interest coverage (x)	2.97	1.71
Return on assets (%)	0.88	-0.96
Return on equity & reserves (%)	24.81	-34.90
Total risk/Fitch-calculated EBITDA (%)	7.62	12.72

### Key Rating Drivers

**Stable and Predictable Revenue:** Great Places Housing Group Limited's (GPHG) ratings reflect the high demand for social housing (SH) in Northern England and the Midlands where the group operates, and continued cash flow from rented properties. The ratings also reflect the robust cash flow from public funds and the control and regulation provided through the Homes and Communities Agency. The group now owns and manages about 18,500 properties, and this growth in its portfolio should help it to achieve economies of scale.

**Rating Drivers:** GPHG's financial performance and debt metrics, supported by strong demand for SH, are in line with 'A+' peers. The Stable Outlook reflects Fitch Ratings' view that developments in the SH sector over the past two years, such as a weakened operating environment and increased challenges facing registered providers in England, should not necessarily have a material negative impact on GPHG.

**Continued High Demand:** GPHG operates primarily in Greater Manchester, Lancashire and South Yorkshire, where demand for affordable housing is strong. GPHG reports top-quartile performance on tenancy turnover, void loss and re-letting times, which are good identifiers of demand. Arrears at 3.3% are at their lowest ever. GPHG has had surpluses since 2008, primarily from core SH activities rather than property development, and in the financial year to end-March 2016 (FY16), 80% of total turnover was from SH rents.

**Annual Surpluses:** GPHG recorded turnover of over GBP100m in FY16 and a surplus of over GBP12m. The 1% rent reductions for the next four years will lead to a GBP10m reduction in rental income per year by 2019. This should be compensated for by improving efficiencies and cost reductions. We forecast the mix of GPHG's turnover to change, with a rise in turnover from first-tranche and market sales, although surpluses from these activities are not expected to exceed 25% of total annual surpluses over the next five years.

**New Developments, Growing Debt:** Since 2008, the group has developed between 360 and 730 units a year, with a peak in FY16, and it has contracted to build just over 1,100 units over the next three years. Debt grew to GBP500m at FYE16 from GBP471m at FYE15 as a result of the development programme. In October 2012, the group issued a GBP150m secured bond, and it has since raised the rest of its GBP50m retained bonds. At FYE16, the group had an estimated value of GBP71m of loan supportable properties.

**Financial Covenants:** GPHG's debt repayment profile is long and fairly smooth, and debt is expected to continue rising gradually over the next five years of the business plan (BP). Interest cover and gearing are the key financial covenants. These have been comfortably met in the past and are projected to be met over the next five years of the BP. At FYE16, interest cover was 212%, above the bank covenant of 105%. Gearing was 44% but remained well below the loan covenant requirement of 65%.

### Rating Sensitivities

**Pressure on Covenants, Volatility:** Fitch will continue to monitor challenges to the ratings, such as signs of: greater pressure on headroom on interest cover and gearing covenants; greater reliance on sales receipts than currently expected; increased volatility in operating revenue as a result of higher exposure to development activities; and a significant increase in gearing.

### Related Research

[Great Places Housing Group Limited \(November 2015\)](#)

[Fitch Affirms 3 English Social Housing Registered Providers; Outlooks Stable \(July 2016\)](#)

[English Social Housing: Registered Providers \(February 2015\)](#)

### Analysts

Ines Callahan  
+34 93 467 87 45  
[ines.callahan@fitchratings.com](mailto:ines.callahan@fitchratings.com)

Maurycy Michalski  
+48 22 330 67 01  
[maurycy.michalski@fitchratings.com](mailto:maurycy.michalski@fitchratings.com)

Appendix A

Great Places Housing Group Limited

Year-end 31 March (GBPm)

	2012	2013	2014	2015 Restated (adoption of FRS 102)	2016 (adoption of FRS 102)
<b>Income statement summary and profitability</b>					
Total operating revenue (exc. transfers and grants from public sector)	72.1	79.8	85.0	89.5	103.9
Operating revenue growth (%)	7.77	10.68	6.52	5.29	16.09
Transfers and grants from public sector	0	0	0	0	0
Transfers and grants from public sector/total revenues <sup>a</sup> (%)	0	0	0	0	0
Operating balance	17.7	22.9	25.5	30.6	28.5
Interest expense	11.0	16.2	19.2	20.8	21.8
Profit (loss) after tax <sup>c</sup>	7.3	7.4	9.2	11.3	12.4
Personnel costs/total revenues <sup>a</sup> (%)	21.36	21.68	22.82	21.23	18.67
Fitch-calculated EBITDA margin (%)	38.00	42.36	79.18	41.34	63.14
FFO margin (%)	36.48	38.97	42.24	44.13	37.54
FCF margin (%)	-32.45	-14.91	-11.29	-12.51	-5.97
Return on equity and reserves (%)	14.75	13.05	13.94	37.92	31.39
Return on assets (%)	1.76	1.56	1.78	1.05	1.11
<b>Balance sheet summary</b>					
Total assets <sup>b</sup>	415.7	473.2	516.8	1,078.6	1,119.9
Stock	13.1	14.7	18.6	7.5	15.1
Cash and liquid investments	6.3	18.0	27.3	26.3	31.0
Reserves	49.5	56.7	66.0	29.8	39.5
Equity	0	0	0	0	0
<b>Cash-flow summary</b>					
<b>EBITDA (Fitch-calculated)</b>	<b>27.4</b>	<b>33.8</b>	<b>67.3</b>	<b>37.0</b>	<b>65.6</b>
Cash interest paid	-11.4	-13.7	-20.9	-21.6	-22.1
Other items before FFO	10.3	11.0	-10.5	24.1	-4.5
<b>FFO: funds from operations</b>	<b>26.3</b>	<b>31.1</b>	<b>35.9</b>	<b>39.5</b>	<b>39.0</b>
Changes in working capital	-4.0	9.9	7.9	5.4	3.5
<b>CFO: cash flow from operations</b>	<b>22.3</b>	<b>41.0</b>	<b>43.8</b>	<b>44.9</b>	<b>42.5</b>
Net capital expenditure	-45.7	-52.9	-53.4	-56.1	-48.7
Dividends paid	0	0	0	0	0
<b>FCF: free cash flow</b>	<b>-23.4</b>	<b>-11.9</b>	<b>-9.6</b>	<b>-11.2</b>	<b>-6.2</b>
Equity injection	0	0	0	0	0
Other cash financing	-12.4	-15.1	-21.4	-22.5	-22.7
<b>Cash flow before debt movement</b>	<b>-35.8</b>	<b>-27.0</b>	<b>-31.0</b>	<b>-33.7</b>	<b>-28.9</b>
New borrowing	45.6	176.2	42.9	70.9	62.5
Debt repayment	-4.0	-126.6	-13.2	-14.1	-33.5
<b>Cash flow after net debt movement</b>	<b>5.8</b>	<b>22.6</b>	<b>-1.3</b>	<b>23.1</b>	<b>0.1</b>

<sup>a</sup> Includes revenue from the public sector

<sup>b</sup> Prior to the adoption of FRS 102, social housing grant was classified within fixed assets and netted off. With the adoption of FRS 102, it is now shown as a long-term liability

<sup>c</sup> Since the adoption of FRS102 the Financial Statements now show the total comprehensive income for the year which considers primarily movements in FV of hedged financial instruments. These movements however have not been included in the Appendix above.

Source: Issuer and Fitch calculations

Related Criteria

[Rating of Public-Sector Entities – Outside the United States \(February 2016\)](#)

[Revenue-Supported Rating Criteria \(June 2014\)](#)

Appendix B

Great Places Housing Group Limited

Year-end 31 March (GBPm)

	2012	2013	2014	2015 Restated (adoption of FRS 102)	2016 (adoption of FRS 102)
<b>Debt summary</b>					
Short-term debt	1.7	1.8	1.6	1.5	3.1
Long-term debt	331.8	381.4	409.3	466.0	493.4
<b>Total debt</b>	<b>333.5</b>	<b>383.2</b>	<b>410.9</b>	<b>467.5</b>	<b>496.5</b>
Subordinated debt					
Finance leases	1.1	1.1	3.1	3.3	3.3
Other Fitch-classified debt					
<b>Total risk</b>	<b>334.6</b>	<b>384.3</b>	<b>414.0</b>	<b>470.8</b>	<b>499.8</b>
Unfunded pension liabilities					
Contingent liabilities					
<b>Overall risk</b>	<b>334.6</b>	<b>384.3</b>	<b>414.0</b>	<b>470.8</b>	<b>499.8</b>
Cash, liquid deposits and sinking fund	6.3	18.0	27.3	26.3	31.0
<b>Net overall risk</b>	<b>328.3</b>	<b>366.3</b>	<b>386.7</b>	<b>444.5</b>	<b>468.8</b>
% debt in foreign currency	0	0	0	0	0
% debt at fixed interest rate	63.18	90.24	91.82	95.02	95.27
% issued debt	0	38.49	44.07	43.14	40.62
<b>Coverage and leverage</b>					
Fitch-calculated EBITDA gross interest coverage (x)	2.40	2.47	3.22	1.71	2.97
FFO gross interest coverage (x)	2.31	2.27	1.72	1.83	1.76
FFO debt service coverage (x)	1.71	0.22	1.05	1.11	0.70
FFO/net capital expenditure (%)	57.55	58.79	67.23	70.41	80.08
FFO gross leverage (x)	0.08	0.08	0.09	0.08	0.08
Net debt/(CFO-capex) (x)	-3.50	-11.20	-10.04	-10.79	-15.41
Total debt/Fitch-calculated EBITDA (x)	12.17	11.34	6.11	12.64	7.57
Net debt/Fitch-calculated EBITDA (x)	11.94	10.80	5.70	11.92	7.10
Total risk/Fitch-calculated EBITDA (x)	12.21	11.37	6.15	12.72	7.62
Overall risk/Fitch-calculated EBITDA (x)	12.21	11.37	6.15	12.72	7.62
Total debt/equity and reserves (%)	673.74	675.84	622.58	1,568.79	1,256.96
Total debt/total assets (%) <sup>b</sup>	80.23	80.98	79.51	43.34	44.33
<b>Sector-specific data</b>					
Social housing rent	58.0	64.7	68.6	78.5	82.9
Other social and non-social activity	14.1	15.1	16.4	10.9	21.0
Property sales	0.5	0.2	1.3	0.5	9.1
Management costs	13.1	13.9	14.8	13.9	16.0
Routine maintenance costs	9.3	9.3	9.4	10.3	10.4
Net debt/total assets (%) <sup>b</sup>	78.71	77.18	74.23	40.9	41.57
Total debt per unit	20,654	23,227.1	24,480.2	26,691.4	26,970.5
Accrued housing grant	502.6	506.9	517.8	524.0	527.8
Total social housing stock (units)	16,147	16,498	16,785	17,515	18,409
Void rent loss	1.2	1.3	1.4	1.2	0.9
Management cost per social housing unit (GBP)	811.3	842.5	881.7	793.6	869.1
Routine maintenance cost per social housing unit (GBP)	576.0	563.7	560.0	588.1	564.9
Void rent loss/social housing rent (%)	2.07	2.01	2.04	1.53	1.09
Social housing rent/total revenues <sup>a</sup> (%)	80.44	81.08	80.71	87.71	79.79

<sup>a</sup> Includes revenue from the public sector

<sup>b</sup> Prior to the adoption of FRS 102, social housing grant was classified within fixed assets and netted off. With the adoption of FRS 102, it is now shown as a long-term liability.

Source: Issuer and Fitch calculations

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.