MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
23 October 2020

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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 (UK)

Update following affirmation of A3 stable

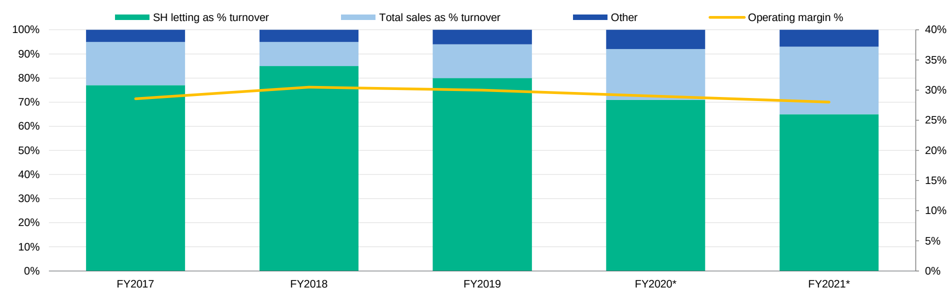
Summary

The credit profile of Great Places Housing Group (Great Places, A3 stable) reflects its ample liquidity, 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 will stabilise to FY2021, as exposure to market sales increases

Great Places' operating margin (%), social housing lettings as a a percentage of turnover, sales as a percentage of turnover



*FY2020-21 are forecasts.
Source: Great Places, Moody's

Credit strengths

» Strong liquidity and simple debt structure

» Stable financial performance

» Supportive institutional framework

Credit challenges

» Moderate, but increasing, exposure to market sales

» Relatively high, but stable, debt levels

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: (1) a structural improvement in its operating margin to at or above 35%, (2) there is a significant reduction in its debt levels, or (3) social housing letting interest coverage structurally exceeds 1.6x.

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-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20 (F)	31-Mar-21 (F)
Units under management (no.)	17,515	18,409	18,908	19,171	19,249	19,373	19,893
Operating margin, before interest (%)	34.2	27.4	28.6	30.5	30.0	29.0	28.0
Net capital expenditure as % turnover	84.8	41.9	24.3	16.2	16.8	33.7	23.8
Social housing letting interest coverage (x times)	1.4	1.3	1.2	1.3	1.1	1.1	1.2
Cash flow volatility interest coverage (x times)	2.1	0.9	1.9	1.9	2.1	1.4	1.4
Debt to revenues (x times)	5.2	4.8	4.9	5.5	5.0	5.0	4.5
Debt to assets at cost (%)	46.2	47.2	47.8	46.6	46.9	46.5	46.3

*FY2020-21 are forecasts.
Source: Great Places, Moody's

Detailed credit considerations

On 21 October 2020, Moody's affirmed Great Places' rating and stable outlook. The affirmation followed Moody's downgrade of the Government of the United Kingdom's rating to Aa3 from Aa2 and the change in outlook to stable from negative on 16 October 2020.

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

Strong liquidity and simple debt structure

Great Places' liquidity position is strong at 2.7x as of FYE2019, higher than the A3 peer median of 1.6x. This level of liquidity is equal to its forecast net cash requirements for the next five to six years. The association's cash and cash equivalents were equal to £52.1 million as of September 30th 2019, and immediately available facilities provided an additional £141.6 million. Great Places also has access to another £10.1 million on longer-term deposits.

Great Places maintains a strong liquidity policy, including four main targets, which have all been met during the year. The targets include holding a minimum of £15 million in cash at all times, liquid funds equal to the forecast net outflow for the next six months, short-term funds equal to the forecast net outflow for the next calendar year and medium-term funds equal to the forecast net cash flow for the next three years.

Great Places expects to fund a significant proportion of its development programme from its net cash flow and market sales receipts — around £199 million out of a total development spend of £526 million between FY2020 and FY2024. The remainder of funding includes capital grant receipts of £98 million and net debt of £183 million.

Great Places has a low level of interest rate risk. Less than 10% of its debt is exposed to variable rates, with the remainder on fixed rates or hedged using standalone swaps. The latest position is in line with Great Places' treasury policy, which requires a minimum of 75% of total debt at fixed rates. The association hedges a sizeable share of its interest-rate risk using standalone swaps. These contracts have a notional value of £127 million and had a negative mark-to-market value of £53 million as of the end of March 2019. It currently has collateral of £30 million posted in cash. Its treasury policy ensures that the group maintains cash balances to a minimum of £15 million. Last year it secured a new, immediately available, £30 million facility from NatWest to act as a standby facility to fully cover their outstanding mark-to-market exposure if a margin call materialised overnight. Although cash posting is more flexible than using property as security, it adds complexity to cash management and requires strict monitoring.

Stable financial performance

Great Places' operating margin is stable at 30% in FY2019 and FY2018. It is expected to remain stable between 28% and 29% until FY2024. The margin is in line with the A3 rated peer median in FY2019. Great Places continues to implement its transformation programme - “Building Greatness” - which intends to mitigate the impact of the 1% rent cut until FY2020. The programme aims to implement £9 million of savings per annum

Great Places' social housing letting interest coverage is slim, but stable. The measure was 1.1x in FY2019 and is expected to be between 1.1x and 1.2x until FY2023. This ratio reflects the stability of its debt metrics and also the relatively high level of debt. It is moderately below the A3 peer median of 1.3x in FY2019 and the expected average peer median of 1.3x until FY2023.

However, its cash flow volatility interest coverage is stronger, with a coverage of 2.1x in FY2019, and is expected to remain solid at an average of 1.6x until FY2023, reflecting the stability of its cash flows and the moderate risk exposure of its development programme.

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

Social housing letting as a percentage of Great Places' turnover was around 80% in FY2019, but is expected to fall to an average of 68% over the next three years. Total sales (first tranche shared ownership and outright sales) accounted for 15% of turnover in FY2019 and will account for around 25% on average over the next five years. This is a high exposure to market sales, however we consider that Great Places has a solid track record in delivering on its sales programme with margins of around 15% achieved over the last few years. We also consider that Great Places' strong liquidity coverage provides a good buffer against worse than expected performance on its development programme.

Great Places' development programme is for 3,900 units over FY2020 to FY2024. The development pipeline has a projected tenure mix that includes 56% affordable housing, 31% shared ownership, 1% market rent and 11% outright sales. Net capital spending was 17% of turnover in FY2019, below the A3 peer median of 21%, indicating that the development programme remains in line with peers. Great Places secured a Homes England Strategic Partnership in July 2018, which runs from 2018 to 2022 and includes 750 additional affordable homes and around £30 million of grant.

Relatively high, but stable, debt levels
Great Places' total debt was £548 million as of FYE2019, around 5.0x revenue and 47% of assets at cost.

According to the business plan, debt will grow to £653 million by FY2023, equivalent to 4.5x the forecast FY2023 revenue and 47% of assets at cost. While Great Places' debt is increasing in quantum, the association's gearing is projected to remain stable and below its A3 peers (FY2019 A3 debt-to-assets median: 51%) although debt to revenues is high compared to the A3 peer median of 4.5x in FY2019. 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.

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. The bond matures in 2042. In FY2019, Great Places replaced its £60 million revolving credit facility with the Royal Bank of Canada (expired in November 2018) with a new £30 million revolving credit facility with Natwest as planned in last year's treasury strategy.

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 2019

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%	19,249	baa
Factor 3: Financial Performance			
Operating Margin	5%	30.0%	a
Social Housing Letting Interest Coverage	10%	1.1x	baa
Cash-Flow Volatility Interest Coverage	10%	2.1x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	5.0x	b
Debt to Assets	10%	46.9%	ba
Liquidity Coverage	10%	2.8x	aa
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

REPORT NUMBER 1249989

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