Rating Action: Moody's assigns Aa3 rating to Great Places Housing Group; outlook negative

Global Credit Research - 23 Apr 2012

London, 23 April 2012 -- Moody's Investors Service has today assigned an Aa3 issuer rating to English housing association, Great Places Housing Group. The outlook on the rating is negative.

RATINGS RATIONALE

Today's rating assignment reflects the strong cash flows that Great Places Housing Group (GPH) generates from a stable and growing foundation of low-risk social housing letting. However, the rating is constrained by the anticipated growth in GPH's ambitious development strategy, with substantial new affordable-rental housing driving planned strong rental growth, some increasing exposure to sales, and some continuing exposure to higher interest rates from floating rate debt.

The rating also incorporates Moody's assessment of a strong regulatory framework for English housing associations, and the high proportion of GPH's revenues derived from government subsidies, which adds to its revenue stability.

As per the application of Moody's Joint Default Analysis methodology for government-related issuers, GPH's baseline credit assessment (BCA) has been set at 9, equivalent to a Baa2 rating. The final Aa3 rating reflects the uplift provided by Moody's assessment of a very high likelihood of support from the UK government (Aaa negative) in the unlikely event of GPH defaulting on its obligations.

Moody's notes that low-risk social housing letting contributed the bulk of GPH's revenue and surplus in 2011. Operating surplus from this form of letting has remained within a narrow range over the past five years and has provided interest coverage of 1.1x in 2011. Plans to maintain this ratio going forward require total surplus to double over the next five years, which will depend on timely delivery of a large programme, continuing cost savings and only modest increases in short-term rates.

Current projections forecast sales growing to 11% of revenues in 2016 from 3% in 2011. Most of these sales are shared-ownership homes in-and-around the Manchester area. Whilst this level is not particularly high relative to GPH's rated peers, sales add risks from cash flow management during construction and marketing, particularly in a weak economy.

GPH's debt levels are moderate compared with most of its peers. At FYE 2011, debt was equivalent to around 4.3x revenue and 35% of assets (at cost). The development programme, with peak capital investments at 89% of revenues in 2012, is expected to push debt to around 5x revenues and 45% of assets in 2016. Proceeds from fixed-asset disposals are expected to remain significant, averaging 12% of revenues in 2012-16, and help limit the increase in debt.

The negative outlook mirrors the outlook on the UK's Aaa sovereign ratings, given GPH's strong financial, operational and economic linkages with the central government.

WHAT COULD CHANGE THE RATING -- UP / DOWN

Whilst unlikely in the near term given its planned expansion and the uncertainties in the economy, a stronger operating performance and more robust interest coverage, particularly from low-risk social housing letting, along with a reduction in debt would be considered credit positive. An ability to deliver in full its development targets while generating the strong rental growth as per its current forecasts would be essential for any rating upgrade. A reduced tolerance to interest rate risk and an increased margin on minimum liquidity, given an expectation of continuing developments, could also support future consideration for a rating upgrade.

Weaker results in social housing letting, higher-than-projected debt and/or sustained lower coverage ratios, particularly from its social-housing-letting activities, could prove negative for the rating. Negative pressure could also develop from cash-flow instability resulting from (i) interest rates rising faster than current projections, (ii) margin calls on its stand-alone swap portfolio, and (iii) the direct payment of welfare benefits, including housing benefits, to tenants. Additionally, any weakening of the regulatory framework, any dilution of the overall level of support from the UK government or a downgrade of the UK sovereign ratings would also exert downward pressure on the rating.

The methodologies used in this rating were English Housing Associations published in September 2010, and Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

With operations across the north of England, GPH is a medium-sized provider of social housing, with around 16,000 homes under management.

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Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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